



MAJOR ELECTRICITY USERS' GROUP

25 August 2006

Hon David Parker
Minister of Energy
Parliament
Parliament Buildings
WELLINGTON

Dear Minister

Comments on draft Government Policy Statement changes

1. The Major Electricity Users' Group (MEUG) has a number of concerns about both the process and the content of the Government Policy Statement on Electricity Governance (the "GPS"). The Executive Committee of MEUG met this week and requested that their concerns as set out below be conveyed to you. MEUG does acknowledge that most of the intended changes help clarify the expected outputs and respective roles of the Commission and Transpower. However certain aspects of the GPS need attention.

Process

2. From a process point of view MEUG members are disappointed government decided not to consult on proposed changes before tabling those with the Commission. The prerogative to consult on changes to the GPS is always at the discretion of the government; but in an industry with a history of special interest pleading, there are always questions about who had influence in establishing there was a need for and drafting of proposed changes.
3. Transparency and consultation on important policy changes as they are being developed helps minimise the risk of capture by special interest groups, can reveal new factors policy makers had not considered and most importantly facilitates buy-in by the industry.
4. It is possible that further changes to the GPS will become necessary after the New Zealand Energy Strategy process and perhaps that would have been a consistent time to consider changes to the GPS.

Content

5. Five specific items of concern to MEUG follow:
 - a) New paragraph 34A considers Renewable Energy. As noted beforehand MEUG is concerned that with both the New Zealand Energy Strategy and Climate Change policies currently being considered it is premature to anticipate the outcome of those policy reviews with specific directions in the GPS potentially favouring one type of generation over others.

The first two bullet points in new paragraph 34A are reasonable and indeed we would have expected the Commission and other government agencies to already be actively trying to identify barriers to entry for both renewable and non-renewable generation.

The last bullet point reads,

“The national transmission grid should be planned in such a way as to facilitate the potential contribution of renewables to the electricity system and in a manner that is consistent with the Government’s climate change and renewables policy.”

This sentence could be read by some that Transpower must plan the grid to facilitate renewables consistent only with the Government’s climate change and renewables policy regardless of the economic costs and consequences. MEUG presume in planning the grid Transpower will take into account the various requirements of Part F as well as Government’s climate change and renewables policy. Indeed the proposed new paragraph 87B has added those two factors to the existing requirement that Grid Upgrade Plans be consistent with the statement of opportunity forecasts.

MEUG also suggest that if the manner in which grid planning is being undertaken creates undue barriers to renewables, then that is a matter that the Commission and Transpower need to address. Removal of undue barriers is already proposed in the first new bullet point of paragraph 34A.

In conclusion MEUG suggest the last bullet point of paragraph 34A could be misconstrued. MEUG recommend that bullet point is not needed because the point about recognising climate change and renewables policy is already proposed in new paragraph 87B and if there are any undue barriers in grid planning, then that is covered in the first bullet point of new paragraph 34A.

- b) The opening two sentences of new paragraph 87A are helpful because they emphasis Transpower must look at all possible solutions in the context of a broader vision for transmission services. However the last sentence of the paragraph states,

“It will also enable consideration and approval of proposed expenditure for the grid as a whole over an appropriate timeframe (for example, five years) within a longer term framework.”

This could be read as requiring the Commission to consider a request from Transpower for a 5 year bulk funding proposal for investment in the grid as a whole. Such a proposal is a significant departure from the Part F processes specifying a process for consideration and consultation on specific investments through the Grid Upgrade Plans process. MEUG opposes this change if indeed this is the intended purpose of the draft text. However if this isn’t the intended purpose than MEUG suggest the sentence either be rewritten or removed. The latter may be a simple solution as the preceding two sentences of the paragraph appear to be sufficient.

- c) Some MEUG members have expressed concern about the requirement in paragraph 87C that Transpower must explicitly consider wider Government energy policy requirements in preparing grid upgrade plans. Transpower already has a significant number of issues to consider, without now requiring it to expressly consider the entire contents of the yet-to-be-drafted New Zealand Energy Strategy.
- d) Paragraph 87E contains a requirement for the Electricity Commission to make available criteria to Transpower about how any specific grid upgrade plan is to be evaluated. MEUG members consider that this requirement is far too specific and involves the Commission considering too much detail too early in the grid upgrade process. In assessing how a specific plan will be evaluated, the Commission must necessarily obtain a detailed understanding of the plan well before it is completed. Provision of specific guidance to Transpower concerning how the plan will be assessed effectively advises Transpower what it needs to do in order to get it

approved. If Transpower provides the material the Commission has effectively requested in order to approve the plan, but the preliminary information the Commission relied upon to provide specific criteria turns out to be sub-optimal, it will be very difficult for the Commission to stand back and objectively assess the adequacy of the plan and its compliance with the rules.

Although MEUG members consider it is a very good idea for the Commission to provide more information about generic evaluation criteria that can be applied to every grid upgrade plan, members do not consider specific criteria should be developed for each plan. Were the Commission to do this, it would seriously compromise its standing as the independent assessor and it would effectively involve it much more closely in grid planning. Neither of these outcomes is desired, hence MEUG recommends that this reference to specific criteria for individual plans be removed.

- e) Paragraph 88B refers to Transpower being able to recover the reasonable costs of land and easements. MEUG is comfortable with such cost recovery, including capitalised interest, once transmission assets are commissioned and therefore providing services to consumers. MEUG does not consider it is appropriate to start charging consumers before the assets are commissioned. This issue has been addressed in submissions to the Commerce Commission. MEUG suggest before definitive text is included in the GPS on this point that it would be preferable to await the conclusion of the settlement discussions between the Commerce Commission and Transpower. MEUG therefore recommends that paragraph 88B be deleted.
6. Consistent with the MEUG general approach of no surprises to other members of the industry, copies of this letter have been forwarded to the Electricity Commission, Commerce Commission, Generators CEO Forum and Todd Energy for their information.

Yours sincerely



Ralph Matthes
Executive Director

Copy: Mr Roy Hemmingway, Chair Electricity Commission
Ms Paula Rebstock, Chair Commerce Commission
Dr Ralph Craven, CEO, Transpower
Generator CEO Forum members and Todd Energy