



# MAJOR ELECTRICITY USERS' GROUP

31 July 2006

Jenny Walton  
Electricity Commission  
By email to [info@electricitycommission.govt.nz](mailto:info@electricitycommission.govt.nz)

Dear Jenny

## **Submission on draft Benchmark Agreements consultation paper and Interconnection Rules consultation paper**

1. This is a submission by the Major Electricity Users' Group (MEUG) on two consultation papers released by the Electricity Commission (the "Commission"):
  - a) *Benchmark agreement consultation paper and draft Benchmark Agreement*, 19 May 2006 plus an addendum published mid June; and
  - b) *Interconnection rules consultation paper and draft interconnection rules*, 9 June 2006.
2. MEUG commissioned the New Zealand Institute of Economic Research (NZIER), to undertake an independent report on the consultation paper. Attached to this submission is the report of NZIER dated July 2006.
3. This submission and the attached NZIER report cover both of the EC consultation paper on a draft Benchmark Agreement and proposed Interconnection Rules because of the important design linkages between both. Our submissions do not cover comments on detailed draft contract provisions; largely because there are significant contract and regulatory design issues to be resolved first.
4. Note several MEUG members will also be making individual submissions on these consultation papers.
5. MEUG agree with the analysis, conclusions and recommendations set out in the NZIER report. In particular MEUG note the list of significant aspects of the consultation paper and proposed contract and rule design that are considered inappropriate set out on page 27 of the NZIER report. The list of NZIER concluding comments is repeated below:
  - a) *Caution against making statements that might be interpreted as suggesting the HVDC link is an interconnection-type asset*
  - b) *Reject the Commission's reasons for concluding that interconnection asset services should be dealt with in the Rules*
  - c) *Argue that interconnection asset services should be covered by the benchmark agreement*

- d) *Argue the Commission has made a fundamental mistake in regard to defining which parties should be designated transmission customers and hence counterparties to transmission agreements. Retailers should also be included among the designated transmission customers*
  - e) *Argue that the Commission should introduce a market measure that relates to the economic impact of outages to consumers*
  - f) *Reject the Commission's reasons for considering it is not reasonably practicable to enforce reliability and availability measures*
  - g) *Argue that the proposed compensation and liability measures for inclusion in benchmark agreements were of very limited practical use to Transpower's counterparties*
  - h) *Urge the adoption of the universal service guarantee approach to compensation and liability*
  - i) *Argue the Commission's proposals in relation to the GRS and connection assets are a tumble down the slippery slope to the effective implementation of N-1 as the GRS for all grid exit points and the elimination of economic rationality in investment decision making relating to the transmission grid*
  - j) *Reject the Commission's proposals for changing the Rules to cater for new and upgraded connections*
  - k) *Argue that the optimal change to the Rules to deal with new and upgraded connections is to introduce a provision that precludes Transpower from objecting to any other party connecting to its assets, except on technical grounds, and provides for an appeal to the Rulings Panel against any technical objections raised by Transpower.*
6. In summary the draft benchmark agreement and the proposal to shift Interconnection services from the benchmark agreement to the Electricity Governance Rules need some fundamental changes. Getting this right is more important than accepting proposals that are little different from the status quo in terms of defining services and having incentives and accountability for performance.
7. Because of the importance of the benchmark agreements in the overall Part F framework, MEUG believe it is essential that the EC allow for cross-submissions and hold a conference to consider views.

Yours sincerely



Ralph Matthes  
Executive Director