



MAJOR ELECTRICITY USERS' GROUP

13 October 2008

Amy Sutich
Electricity Commission
By email to info@electricitycommission.govt.nz

Dear Amy

Comments on 'big picture issues' for the electricity sector

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Commission invitation for comments on 'big picture issues' for the electricity sector requested in the Commission letter of 29th September 2008.
2. The diagram on the next page illustrates our overall policy objectives for the main parts of the supply chain and other industry activities. Key actions to achieve those outcomes are listed with those within the Commission's mandate highlighted. In summary the big picture issues MEUG suggest the Commission should prioritise for 2009/10 are:

- a) **Make suppliers accountable for dry-year risk.** If the policy framework were changed to make suppliers more exposed to the consequences of their actions, then we think that would help overcome a repeat of the poor outcomes in 2001, 2003, 2006 and 2008.
- b) **Continuous incremental improvement to the existing market.** The Market Design Review, the winter 2008 Review and the Part 2 of the Commerce Act inquiry will all assist with incremental improvements; but they will not substitute for a more comprehensive review. The latter is not within the scope of the Commission.

The Commission should continue to work with industry to develop voluntary solutions. Where those do not eventuate, a focus on quality regulation is needed, ie regulation supported by robust cost-benefit analysis and sunset provisions as the market evolves.

- c) **Improve locational pricing signals for the AC network.** This would include a review of the contract counterparties. Experience with the HVDC has shown that if the correct counterparties are identified, then there is robust countervailing pressure on Transpower to consider all options. This pressure is almost non-existent on the AC network.
 - d) **Continuous improvement of the Benchmark Transmission Agreement.** The Commission has indicated it would consider improvements such as an Unconditional Service Guarantee. We think work on those changes needs to commence in 2009/10 because the changes will take some time to develop, consult and implement. The sooner we can create more contractually based incentives on line monopolies, the better.
3. We look forward to commenting on the detailed draft appropriation paper later this year.

Yours sincerely

Ralph Matthes
Executive Director

MEUG comments on 'big picture issue' for the electricity sector¹

Electricity Industry:	MEUG's policy objectives	Priority actions to meet policy objective. Suggested EC priorities for 2009/10 Other EC
Industry governance	Governance institutions where decision making is subject to robust principles, is transparent, the institutions are accountable and independent of political interference.	<ul style="list-style-type: none"> ➤ Make the EC an independent Crown Entity and review the scope of the EC. ➤ Improve cost-benefit-analysis of policy options by departments and regulators. ➤ Consider if parts of the rules could be managed in a self-regulatory model.
Supply Chain elements: <ul style="list-style-type: none"> ▪ System Operations (SO) monopoly <hr style="border-top: 1px dashed black;"/> <ul style="list-style-type: none"> ▪ Network monopolies (both Transpower and the distribution companies)³ 	Quality regulation of SO natural monopoly.	
	Improve competition for ancillary services.	<ul style="list-style-type: none"> ➤ Improve the Frequency Keeping market post MSP implementation².
	Promote competition for network line services where possible.	<ul style="list-style-type: none"> ➤ Remove Transpower's statutory monopoly to be the only grid developer to have income guaranteed from having expenditure approved.
	Improve accountability and service innovation through better contracts with line networks.	<ul style="list-style-type: none"> ➤ Continuous improvement of the Benchmark Transmission Agreement ➤ Improved New (Transmission) Investment Contract. ➤ Reverse the decision to shift interconnection services from the BA into the rulebook.
	Quality regulation for services that cannot be opened up to competition or contracted for.	<ul style="list-style-type: none"> ➤ Tidy up regulatory processes for transmission, eg implement GUIRP ➤ Implement recent changes to Commerce Act Part 4. ➤ Improve locational pricing signals by reviewing AC network TPM ➤ Continuous improvement of the GIT and GRS. ➤ Develop model distribution pricing methodology. ➤ Resist distribution company monopoly power increasing through recent changes to Electricity Industry Reform Act, Electricity Act and Commerce Act.
<hr style="border-top: 1px dashed black;"/> <ul style="list-style-type: none"> ▪ Wholesale and retail markets⁴ 	<p>More competition. This will lead to pressure on costs and prices, innovation by suppliers and more choice for consumers.</p> <p>A preference for voluntary industry solutions, but where that is not possible, quality regulation should be considered to facilitate development of market solutions.</p>	<ul style="list-style-type: none"> ➤ A comprehensive review of the whole market including governance. ➤ Repeal of legislative restriction on new thermal power stations. ➤ Ensuring the impact of the ETS on electricity prices is no more than other similar countries⁵. ➤ A review of the NZ Energy Strategy, e.g. is setting renewables targets appropriate? ➤ Make suppliers accountable for dry year risk ➤ Continuous incremental improvements to the existing market
Other: <ul style="list-style-type: none"> ▪ Electricity efficiency ▪ Electricity affordability 	Shift responsibility for electricity efficiency and electricity affordability policy development and operations to the appropriate government agencies.	<ul style="list-style-type: none"> ➤ Make EECA responsible for all energy efficiency programmes. ➤ Make Ministry of Social Development responsible for electricity affordability policy.

¹ This analysis excludes possible economy wide generic improvements such as changes to the RMA.

² For the 12 months ending 31-Aug-08, FK costs were \$104m.

³ Transmission costs ≈ \$500m and distribution costs ≈ \$1,000m per annum.

⁴ Energy costs ≈ \$3,800m per annum.

⁵ A \$50/t CO₂ cost leads to at least a 2.9 c/kWh increase in wholesale power prices, ie +\$1,000m per annum higher cost.