



MAJOR ELECTRICITY USERS' GROUP

12 December 2008

Maree McGregor
Electricity Commission
By email to info@electricitycommission.govt.nz

Dear Maree

Submission on consultation paper “Arrangements for Rolling Outages”

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Commission (EC) consultation paper *Arrangements for Rolling Outages* dated 14th November 2008¹. Several members of MEUG are also making separate submissions. All members of MEUG were consulted in the preparation of this submission.
2. A regulated rolling outage process in anticipation of a likely imminent Part C shedding of supply at Transpower's circuit breakers is characterised in the consultation paper as a last resort intervention to avoid messy and possibly deeper demand cuts should there be no regulations. The consultation paper fails to adequately consider that:
 - a) The existing and proposed amended regulated intervention will add significant additional regulatory compliance costs to end consumers, Transpower, suppliers, distributors and the Commission; and
 - b) The existing and proposed amended regulated intervention effectively controls the demand side but leaves the supply side untouched. The opportunity for suppliers in such extreme events to gouge consumers is highly risky. This illustrates how the existing and proposed regulatory regime has not been well-tested.
3. MEUG suggests a better option and use of industry resources would be to strengthen the commercial incentives and accountabilities of parties in the supply chain in respect of energy supply to end consumers. For example by way of model contract terms and conditions that the Commission already publishes. The consultation paper has no discussion on improving such commercial arrangements ahead of using regulation. There may also be some insights from the winter 2008 review report to assist strengthen the accountability of suppliers to consumers in such events.
4. MEUG is also concerned that there needs to be a very bright line between the role of the System Operator and connected parties to meet Part C requirements compared to efficient management of energy supplies right up to the point that Part C is triggered. The existing and proposed regulations blur that line and create a role for the System Operator and distributors in managing energy resources that we think set a dangerous precedent. Energy retailers and generators will game such a blurred line to avoid their liability for failure to supply energy. It would be better to change the commercial incentives on retailers and generators as discussed in paragraph 3 above.

¹ Refer <http://www.electricitycommission.govt.nz/pdfs/opdev/secsupply/pdfsconsultation/rolling-outages-aufls.pdf>

5. Therefore MEUG recommend the Commission revoke the existing regulations and revisit how the commercial terms and conditions between end users and suppliers might be improved to ensure efficient use of energy resources as they become increasingly scarce cognisant of the need to keep a bright line separation between the energy market and Part C Emergencies. Should amendments to contractual terms fail to improve incentives and resource allocation close to Part C Emergencies being triggered, then the Commission can revisit a regulatory solution.
6. Going straight to a regulatory solution without exploring all contractual options will be much harder to unwind in the future as the environment changes (eg technology changes such as smart meters and smart grid) compared to being absolutely certain all commercial options have been considered.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Matthes', with a long horizontal stroke extending to the right.

Ralph Matthes
Executive Director