



MAJOR ELECTRICITY USERS' GROUP

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Chair, Electricity Technical Advisory Group

Dr Peter Crabtree
Director, Energy and Communications Branch
Ministry of Economic Development

By email to electricity@med.govt.nz

Dear Gentlemen

Supplementary submission on the Ministerial Review report

1. This is a supplementary submission by the Major Electricity Users' Group (MEUG) on the preliminary report to the Ministerial Review of Electricity Market Performance, Improving Electricity Market Performance (the "Review report"). MEUG's first submission was lodged on 16th September 2009.
2. Several of the twenty eight recommendations in the Review Report will need careful consideration to design and implement. We look forward to working and commenting on those recommendations as they are progressed.
3. Two very important recommendations related to:
 - ▶ Further investigation of SOE electricity supplier asset reallocations; and
 - ▶ Design of the Electricity Market Authority (EMA) governance.
4. MEUG has separately recommended to Ministers that the work begun must continue to include further consideration of SOE electricity supplier asset reallocations. The purpose of this supplementary submission is to provide further points that need to be considered on the second of the two key policy decisions; the design of the EMA governance.
5. MEUG's first submissions supported the Review report recommendations to make the EMA an independent Crown Entity. We also noted reservations on the EMA Board members being elected rather than appointed by the Minister unless, amongst other things, consumers could have access to resources and funding to match that of suppliers and a solution was found to the risk of stalemate on controversial policy decisions where winners equal losers. There is also a lot of work yet to be undertaken in clarifying the role of the EMA and other parties, including a Security and Reliability Council. MEUG has no fixed views on these matters; rather we have noted initial reaction to the Review report and we hope to be involved in the detailed consideration of options. The only part of our first submission on EMA governance that might require re-consideration is which party should be responsible for Part F, i.e. the Transport rules of the Electricity Governance Rules (the "Rules").

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6. The Review report recommended¹ approval of major grid upgrades migrate to the Commerce Commission with EMA responsible for improvements to Part F including the rules the Commerce Commission would apply in approving capital works.
7. MEUG's first submission also suggested all of Part F migrate to the Commerce Commission to coincide with the expiry of the Transpower and Commerce Commission Settlement on 30th June 2011. This would result in:
 - ▶ The EMA solely responsible for regulation and development of the wholesale market, ancillary services market, retail market and security of supply policy; and
 - ▶ The Commerce Commission responsible for all economic regulation of transmission.
8. However the latter may not be an optimal solution because to effectively regulate transmission in a holistic manner requires a detailed understanding of the energy market, eg:
 - a) The Benchmark Agreement has numerous requirements for compliance with the non-Transport sections of the Rules, particularly the common quality rules. Similarly the design of the Transmission Pricing Methodology requires expertise in the wholesale energy market. Overtime the Benchmark Agreement and Transmission Pricing Methodology should progressively change from the practice of "socialising" many transmission and common quality costs across many parties to better targeting costs to beneficiaries or causers as new technology is developed (eg the Market System Project, Automatic Governor Control and various "smart grid" technologies). The Commerce Commission would have to replicate the transmission and common quality expertise of the EC to undertake this work.
 - b) The Commerce Commission would also need energy market and ancillary services (ie common quality) expertise to conduct robust reviews of proposed major transmission upgrade proposals. In analysing such applications there are complex changes in the energy (including the relative change in energy losses) and ancillary services markets that need to be included in the GIT analysis. In the Review report proposal, exactly the same expertise would be needed in the EMA to develop the GIT and Grid Reliability Standards.
9. As far as we are aware, no other OCED country uses their competition regulatory authority to undertake comprehensive economic regulation of transmission. All other countries use specialist energy or utilities sector regulators. We can see value in the status quo where the Commerce Commission sets the overall revenue requirement for Transpower using similar techniques as other monopoly businesses through Part 4 of the Commerce Act. The allocation of the overall transmission revenue requirement to individual Transpower customers through the Transmission Pricing Methodology is best placed with the EMA as the specialist regulator. Large capital works are very complex to analyse and it is likely to be better to give the responsibility for that work to the EMA rather than the Commerce Commission.
10. The preceding comments reflect our view that the issues on how best to implement economic regulation of transmission services are complex. The Review report is a good start to open up the debate. MEUG urges caution in making changes unless clear benefits can be identified. Our earlier proposal to shift all of Part F to the Commerce Commission was worth considering but may be less optimal than other options.

Yours sincerely



Ralph Matthes
Executive Director

¹ Recommendation 16