

Government Policy Statement on Electricity Governance

Submission to the Ministry of Economic Development
4 April 2008

Background to IPENZ

The Institution of Professional Engineers New Zealand (IPENZ) is the lead national professional body representing the engineering profession in New Zealand. It has approximately 10,000 Members, including a cross-section from engineering students to practising engineers to senior Members in positions of responsibility in business. IPENZ is non-aligned and seeks to contribute to the community in matters of national interest giving a learned view on important issues, independent of any commercial interest.

Submission

IPENZ supports the revision of the Government Policy Statement (GPS) on Electricity Governance and welcomes the opportunity to comment on this.

Our main concerns outlined in this submission relate to the respective roles of the agencies involved, as it is not clear who has ultimate responsibility where there is an overlap in roles or activities, and to the proposed cost recovery and pricing principles, which are not consistent with the principal objectives and specific outcomes.

We do not seek to speak to this submission but are happy to meet to discuss the issues highlighted here.

The following are our comments on the contents of the draft Government Policy Statement (GPS) on Electricity Governance.

1. Commission's powers and approach

We support this section, including the requirement for the Electricity Commission to continue to improve the quality of information it provides on security of supply, risk management and the actual level of risk. We note that information intended for the public at large may need to be presented in a simplified form.

2. New Zealand Energy Strategy (NZES) and New Zealand Energy Efficiency and Conservation Strategy (NZECS)

IPENZ strongly supports initiatives for improving the use of energy. However, we note that the responsibility for delivering the NZES and NZECS actions are shared across a number of

departments and Crown entities, including the Commission, and have some concerns about this. These concerns are outlined in our response to section 10.

3. Consumer protection

We are not qualified to comment on these issues.

4. Electricity efficiency

We strongly support investment in energy efficiency measures where this is cheaper than the long-term costs of building extra generation and network capacity. We also support the focus on demand-side management, although we note that the statement “The Commission should ensure that it gives full consideration to the contribution of the demand side as well as the supply side in meeting the Government’s electricity objectives” is not very specific and could be expanded, for example, to say how this will be taken into account and what the priorities are. This would be in line with the detail included for other objectives.

We also support the proposal to review the *Memorandum of Understanding* between the Energy Efficiency and Conservation Authority (EECA) and the Commission, which we hope will address some of the issues outlined above. However, unless the intention is for ongoing reviews, we note the relevant paragraph may not be appropriate for inclusion in a GPS.

While we support the intention for the Commission to participate in the delivery of the EnergyWise Homes package, we would expect that such participation would be covered by paragraph 37: “EECA has expertise in the management of energy efficiency programmes and the Government expects to draw on this expertise in designing, administering and delivering its programmes”. As such we are surprised to see this mentioned separately in paragraph 44 and question if there is a reason for this that we are not aware of.

5. Renewable energy

We support the objectives as outlined in paragraph 52.

We also support paragraph 53 but suggest that marine-derived energy conversion should be specifically included due to its potential.

6. Security of supply

Paragraph 65 states that, to establish the need for additional reserve energy, the Commission should look out three to five years (given consent and construction timelines for new capacity). We question whether three to five years is a long enough period, considering the long lead-time for construction.

7. System operation and wholesale and related markets

We have no comments on this area.

8. Transmission

The proposed cost recovery and pricing principles to be applied by Transpower and the Commission (as set out in paragraph 115) are not consistent with the principal objectives and specific outcomes outlined in Section 172 N of the Electricity Act 1992. These expressly provide that the principal objectives of the Commission are to ensure that electricity is

produced and delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner

The cost recovery and pricing principles contained in the draft GPS are based solely on economic and allocative efficiency principles – that is, user pays, incentives for least cost, demand management, locational signals, minimising distortions. There is no recognition of the principal of fairness as per the Electricity Act.

This point is highlighted in the way that the core grid is defined and its relationship to the grid reliability standard. The grid operates under an N-1 contingency arrangement, but this means that a number of significant communities and industries do not have any redundancy in the transmission lines that serves them.

We consider that a framework, and subsequently reliability standards, should be developed for evaluating what might be a “fair” approach to grid reliability. Domestic and industrial electricity consumers should be consulted on this issue.

An appropriate framework might include consideration of:

- the distribution of national, regional and local benefits of continuity of supply
- the social and environment benefits of continuity of supply
- the period over which those benefits accrue

We note that it is difficult to precisely align the beneficiaries of a service with those funding it, especially when taking externalities into account. This raises fairness and equity issues which tend towards providing a minimum level of reliability for users – the costs of which would need to be funded across the whole national grid. There needs to be wide consultation on these minimum levels and informed debate on these levels of service versus cost. Such a minimum level of service funded on an average basis (to reflect the public interest) is common for other infrastructure jurisdictions.

In practice this could involve redefining criteria for what constitutes core grid, and consequently extending the core grid, or consulting with consumers on the application of varying levels of reliability. It is our view that such an approach would allow the application of the fairness principle to the cost recovery and pricing principles.

9. Distribution

In its determination of the revenue bases for New Zealand line companies, the Commerce Commission uses the concept of Optimized Deprivation Value (ODV) methodology to assess the efficacy of electricity distribution network assets which are set up so that lines companies are paid for the volume of electricity passing through their lines. This incentivises the increased use of electricity and disincentivises the use of demand-side management, distributed generation, distributed energy storage or energy efficiency projects that would reduce the overall cost to lines companies’ customers and prolong the life of their assets. That runs counter to the Government’s goals and the overall benefit to the country. We propose that the existing ODV guidelines be amended to ensure megawatts (energy savings that were enabled or funded by the lines companies) are added to the actual power carried on lines companies’ networks, thereby valuing the energy savings created by the lines companies.

10. Interrelationship with the Commerce Commission

We have previously stated that it is necessary to clarify the role of the Electricity Commission in relation to those of other agencies, in particular delineating which agency determines the policy and which has full responsibility for implementation. The best examples of confusion are the apparent overlap of Electricity Commission interests with the Commerce Commission and the interface with EECA over efficiency matters. We consider that without clarification of roles and stable market rules there will be unnecessary uncertainty, which will create the risk that far-sighted decisions will not always be made by investors in electricity generation, transmission and end-use.

We are not convinced that this issue is adequately dealt with in the revised GPS. In our view considerable effort must be given to this addressing this matter, and to ensuring that there is investor confidence that there will be stable and consistent rules for the wholesale electricity market.

11. Distributed generation

We strongly support the intention to ensure that there are no barriers to the development of distributed generation. As part of this, we consider it is important that appropriate specifications and standards are put in place in the regulations to ensure that small generators are clear about what is expected of them, and that the technical requirements are not set unreasonably high with the result of excluding them.

12. Retail

Intelligent meters, and the national benefits that accrue through their use, have been recognised for several years, but their introduction to New Zealand has been continually stymied by the incumbent power supply industry. Accordingly, this extremely important strategy should be recommending regulations rather than guidelines which will be portrayed by the industry as altruistic but impractical.

Equal access to metering information using Automatic Metering Infrastructure (AMI) systems will enable both the supply and demand side of the electricity market to compete fairly for the benefits that will result from the revolutionary changes taking place in the electricity industry worldwide (but so far not in New Zealand). Countries such as Australia, Canada and Italy do not advocate Automatic Meter Reading (AMR, that is, without infrastructure backup) because these only increase supplier control of the power market (as demonstrated by the wasted AMR investment in the United States).

13. Accountability requirements

We have no comments on this section.

Conclusion

We consider that it is necessary to clarify the role of the Electricity Commission in relation to those of other agencies, in particular delineating which agency determines the policy and which has full responsibility for implementation. We do not think that this issue is adequately dealt with in the revised GPS.

We are also concerned that the proposed cost recovery and pricing principles to be applied by Transpower and the Commission are not consistent with the principal objectives and specific outcomes outlined in Section 172 N of the Electricity Act 1992. We consider that a framework, and subsequently reliability standards, should be developed for evaluating what might be a “fair” approach to grid reliability. Domestic and industrial electricity consumers should be consulted on this issue.

We also question the length of time used for the Commission’s forecasts, considering the long lead-time for construction.