

General Manager's Update

Market Development Programme

The Market Development Programme (MDP) has taken a significant step forward with the release in mid-October of four consultation papers:

1. Transmission Pricing Review: High-level Options
2. Managing Locational Price Risk: Options
3. Scarcity Pricing or Compulsory Contracting: Options
4. Dispatchable Demand: Options

These inter-linked papers are central to an important evolutionary step in the market. They focus on changing the way that risk is managed, so that those parties in the best position to manage risk have greater responsibility, and the role of non-mandatory policy and 'non-market' actions is minimised.

In addition, another project is underway to address the Future of Whirinaki and the Reserve Energy Scheme, with papers due to be out to Advisory Groups and the sector in the New Year.

Progressing the MDP has been endorsed by the Ministerial Review team. The MDP and the Review are both about strengthening supply and competition and constraining costs. The widest possible industry input through the MDP consultation round is critical to achieving those goals.

www.electricitycommission.govt.nz/opdev/mdp

MDP process

Regular discussions have been held with Regulatory Managers on MDP work, to develop a common understanding of the projects and their general purpose. While we all are more concerned about outcome than process, shared awareness of the process greatly assists in getting the right results. Because of the importance of MDP consultation papers, Regulatory Managers were also given early access, in most cases, to working drafts.

Some key points of the process are:

1. Several of the MDP subjects are closely related, for example locational price risk management and scarcity or capacity mechanisms, and inter-relationships will be taken into account in decision-making.
2. Generally, we will move from consultation on high-level options, to detailed design work on a small number of options, and then to decision and implementation.
3. Where possible, meetings will be held for consumers and participants to engage in discussions with the Commission and to hear each others' thoughts.
4. The Commission considers that two dialogues need to take place. The first is about the regulatory changes, the second involves participants' internal business consideration of how they will adapt commercially to the changes. Market adaptation is an interactive process and will happen over time.
5. Technical groups are likely to be formed to assist as we move through the detailed design and implementation phases.

Regulatory Managers' briefings

Discussion of the consultation schedule with Regulatory Managers has resulted in timing changes to better match work flow to participants' and interested parties' resources. Because of everyone's commitments between now and the end of the year, it is intended to have the next briefing early in the New Year to stocktake progress against the workplan. This should also assist interested parties to have an understanding of the next phase of the work and the resources that may be required.

Distribution pricing

A highly constructive workshop was held at Te Papa in June. The strong themes that emerged were caution about the costs of regulatory intervention exceeding the benefits, and, in particular, the need for more dialogue between distributors and retailers. Retailers and distributors have subsequently made very useful contributions at a follow-up workshop. A working group has also been formed to address a number of administrative issues which, when resolved, will assist all parties, hopefully without requirement for regulatory action.

The three-way dialogue over several months between retailers, distributors and the Commission has been very beneficial from a regulatory, decision-making perspective. Partly on the advice of participants, and through its own deliberations, the Commission adopted a view approximating the Pricing Approaches Working Group's (PAWG) approach to distribution pricing. As the discussion has unfolded and fresh insights emerged, the draft proposals have changed and include less prescription and a lower compliance cost process. However, a light-handed approach will have to continue to promote the adoption of efficient pricing methodologies across the distribution sector and the reduction of any barriers to retail competition that may arise from distributors' pricing.

www.electricitycommission.govt.nz/opdev/transmis/distrib-pricing/index.html

Advisory Groups

Chairs have met and updated board members and the GM on Advisory Group activity. The four reorganised groups are now applying considerable energy to MDP projects and have contributed their particular perspectives to all MDP papers released to date. Feedback has been invaluable to the Board in finalising the various papers for consultation.

In other Advisory Group work, there was a particularly valuable session recently with the Investment Advisory Group, about the current contributions for generation investment.

www.electricitycommission.govt.nz/advisorygroups

Rule changes

During day-to-day market operations and activity, small problems with rules come up. About 150 of these have been worked through and are now out for comment. These are largely editorial matters aimed at achieving clarity rather than change.

A second group of changes which were out for consultation recently, generally fit the description of minor changes. There are about 100 of these, and they largely relate to parts E, J and H. One proposed change of note is a new standard for switching times, which requires retailers to complete 80% of switches over a 12-month period within three business days.

Tidying up the rules has involved much detailed work and we would like to thank all the participants who assisted.

The market governance forum on 16 November included an agenda item on rule changes in progress. To assist market participants in tracking rule-change proposals, this will be a regular agenda item of future forums.

www.electricitycommission.govt.nz/consultation/amend-e-j

Frequency keeping

The management of frequency is an issue that has been identified in work on integrating variable generation, as well as in the Common Quality development plan. Strengthening of a market-based approach to the provisions of frequency-keeping services is an important aspect of this. A significant project, part of which is being led by the System Operator, is being initiated and the CEO Forum has agreed to a combined steering group approach to this work, so that all critical interested parties are involved in guiding the work.

This project is potentially an important one for constraining costs in the value chain and thus constraining costs for consumers.

www.electricitycommission.govt.nz/opdev/comqual/multiple-freq-keeper/index.html

Electricity efficiency

The Commission's electricity efficiency programmes continue to achieve exceptional results, with the 'public-private partnership' model having now been successfully rolled out in a number of industrial and residential settings. Achieved annual electricity savings of 444GWh per annum exceeded the 2008/09 target and are very close to the target set for the end of 2009/10. Those savings will generate \$287 million in net present value for the New Zealand economy. Individual projects, such as the compressed-air initiative delivering savings greater than the Cobb power station generates annually, illustrate the impact that world-leading efficiency measures can have. These programmes are now receiving international recognition.

www.electricitycommission.govt.nz/opdev/elec-efficiency/

Service Provider Agreements with NZX

The transition of the Clearing, Pricing and Reconciliation Service Provider Agreements from M-Co to NZX has proceeded smoothly. Since the sale of M-Co's energy business and assets to NZX in June, service delivery has been maintained in a seamless manner and NZX's commitment to the sector's continuous 24x7 service requirements has enabled development of a strong, practical, working relationship.

www.electricitycommission.govt.nz/opdev/servprovinfo/servprocagree

Market governance

Valuable feedback was obtained from the workshop held in August to follow up participants' submissions on the Commission's compliance framework. As a result of discussions on greater transparency regarding EGR decisions, consultation has been undertaken on a proposal to publish the Committee's minutes as a means of providing guidance on rule interpretation, and related issues of commercial confidentiality. Concern about notified minor breaches arising from retail audits and associated resource commitments is also being addressed. Market governance forums are important for maintaining a strong and open dialogue about compliance and processes.

www.electricitycommission.govt.nz/rulesandregs/compliance/consultation

Quarterly reporting

The Commission publishes detailed quarterly updates on progress against the Government Policy Statement (GPS) work programme. These can be found at www.electricitycommission.govt.nz/publications/index.html#reports