



Voluntary approach to retail contracting arrangements adopted

Over the last few years, the industry, stakeholders and the Commission have put considerable work into developing model arrangements for domestic retail contracting.

Electricity is purchased by almost every household in New Zealand every day. Although generally regarded as an essential service, the consumer is obliged to buy electricity from a retailer according to the terms and conditions set out in individual retailers' electricity contracts. Competition between retailers should influence prices, but is unlikely to be a material factor in influencing other contract terms.

In mid-2009 a point was reached where it was timely to consider whether the development of a model domestic retail contract was the most appropriate approach to meeting the desired policy outcomes.

The need to intervene in the market was considered, and various options ranging from taking no action, i.e. relying on general consumer protection law, through to a fully regulated domestic retail contract, were explored. A draft set of Reasonable Consumer Expectations (RCEs) was developed and put out for consultation to assess the extent to which the options identified could assist in meeting those expectations.

The Commission proposed a voluntary approach to retail contracting arrangements, based around a comparatively narrow set of suggested minimum terms and conditions, supported by a set of good contracting principles. A draft set of principles and terms for consultation were developed using the RCEs and drawing on industry work to date, including the Electricity and Gas Complaints Commission Consumer Codes of Practice, the Gas Industry Co's benchmark terms, and the Commission's draft Guidelines for domestic contracts for delivered electricity.

Having considered submissions, the Commission remained of the view that there is a need to take some action to protect the interests of consumers in their domestic retail contracting arrangements, and considered that there was sufficient support for its proposed approach for it to proceed. Following some amendments to the RCEs, contracting principles and minimum terms, the final package was published in mid-May 2010.

Monitoring of retailers' adoption of the proposed arrangements is taking place over a two-year period. As suggested by submitters, a relatively informal baseline review of the level of alignment between each retailer's own contracting documents and the published set of suggested minimum terms and conditions has just been completed. Each of the participating retailers has received their own confidential compliance assessment and has been offered the opportunity to talk it through and provide feedback. In mid-September, a non-attributed, consolidated report on the outcomes of the baseline review will be published on the Commission's website. Also at the suggestion of submitters, the timing of the review has been aligned with that of the Gas Industry Co.

The first formal review will take place in a year's time. Following the second review the year after that, an assessment will be made as to whether the voluntary approach is achieving satisfactory outcomes, or whether other measures are warranted.

See www.electricitycommission.govt.nz/opdev/retail/domestic-contract



Electricity efficiency programmes for new commercial buildings

The Commission's Electricity Efficiency Programme has been widely acclaimed, including recognition of its business model as industry best practice in last year's electricity market review.

Although less well known than the residential Rightlight project, over the past two years a programme to improve electricity efficiency in commercial buildings has been gaining traction. Provided through accredited programme partners, the programmes allow businesses to apply for part-funding for electricity efficiency projects where there is a current barrier preventing such projects from proceeding. Projects typically include upgrading to more efficient lighting, upgrades or improvements to HVAC (heating, ventilation and air-conditioning) systems, efficiency improvements, or upgrades of building management systems and refrigeration systems, and installation of monitoring and targeting solutions.

Projects are assessed on a case-by-case basis, and in accordance with pre-determined investment criteria, which focus on achieving electricity savings at less than the long-run marginal cost of new generation. Programme partners are required to identify a level of guaranteed electricity savings to be derived from a project. Commission funding is required to be repaid on a pro-rata basis if the savings are not achieved. The guarantees provide greater certainty when projecting future electricity savings from the programmes.

Around 150 projects have been approved under these programmes, with guaranteed annual electricity savings of over 25 GWh. However results achieved demonstrate that the guaranteed savings have been conservatively estimated and actual annual savings are currently trending towards 30–40 GWh, which approximates the annual electricity usage of the population of a town the size of Greymouth.

With these programmes coming to an end in June 2010, the Commission released a Request for Proposals seeking new programmes to commence from July 2010. A full list of the new programme partners is available on the Commission's website.

See www.electricitycommission.govt.nz/opdev/elec-efficiency/programmes/commercial/index.html

The Electricity Commission goes out of existence on 30 September. By the time you read this I expect that Parliament may have passed the Electricity Industry Bill, which changes the way the electricity industry is regulated.

From 1 October a new Electricity Authority will operate in place of the Commission. The Authority will be an independent Crown entity – which means that (unlike the Commission) it will have the authority to make rules without reference to Ministers. The previous Electricity Governance Rules will become an Industry Participation Code, which the Authority will keep up to date and enforce.

The last few weeks have therefore been a busy time for the Electricity Commission, arranging for transfer of business-as-usual functions at the same time as maintaining progress on key initiatives, notably the Market Development Programme. Most of its staff will move across to the new Authority, although some functions will go to the Energy Efficiency and Conservation Authority and the Commerce Commission, which respectively assume responsibility for electricity efficiency and transmission investment approval.

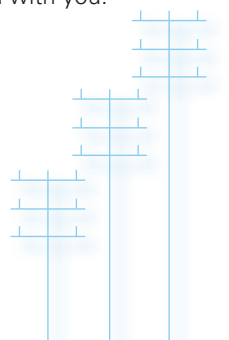
The Electricity Authority will have a new Chief Executive, Carl Hansen. So we will be saying goodbye to Mervyn English, General Manager of the Electricity Commission since it was set up in 2003. On behalf of the past and present Commissioners and staff of the Commission I thank Mervyn for his outstanding leadership over that time.

The work of ensuring that the rules that bind the industry together deliver efficient and secure supply, will continue under the Authority. The Bill sets out seven subjects, or areas, on which the Authority will need to focus in its first 12 months. These include ensuring that at times of scarcity (e.g. when hydro lakes are low) wholesale prices reflect that scarcity – and thus incentivise prudent behaviour. Another seeks rules rewarding consumers for savings they achieve in such conditions. Yet another will address the long-standing difficulty that generator/retailers face in managing the risk of price movements in areas distant from their generating plant.

All of these subjects have been under action by the Commission over the past several months. In each case broad options have been identified and consulted on. In some cases detailed proposals have also been prepared. These will be passed to the Authority for it to progress or amend as it chooses. Our aim has been to give the Authority the best possible start, whilst making the transition as seamless as possible.

In this final *Notes from the Chair* we've provided updates in respect of a representative sample of areas of the Commission's work. For the past seven years the Commission has sought to work with the electricity industry, on behalf of consumers, across the broad range of challenges the sector has faced. I thank all those who have aided, served and led the Commission over that time. It has been a privilege to have worked with you.

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Streamlining the flow of information through the retail system

Current consultation on draft Electricity Governance Rules (Rules) relating to metering is the final step in a major overhaul of the way information flows through the electricity settlement system.

Begun by the Metering and Reconciliation Agreement (MARIA) governance board, and pursued by the Commission with the positive commitment and cooperation of the industry and service providers, this work has revitalised the reconciliation system.

Achievements include:

- Reducing reconciliation times for wholesale invoices to become final from 24 to 14 months;
- Cutting average customer switching time from 23 to 9.5 business days;
- Enhancing competition by creating a level playing field for buyers and sellers, faster switching, and much greater transparency of metering information;
- Simplifying connection and switching for sites with their own generation; and
- Making loss factors applicable to each individual connection point transparent.

The reconciliation system determines the industry's wholesale cash flow by allocating the value of electricity to participants. Put simply, the global system now in place ensures generators get paid for what they generate and retailers pay for what their customers use, with unallocated electricity for each grid connection point shared equitably between traders.

The move to a global system for the New Zealand electricity market was a world first, which required a new set of Rules (Part J), a rebuild of the reconciliation system and extensive modification to the registry in conjunction with reconciliation service provider M-co (and latterly NZX), and the registry manager, Jade Direct. The new systems are working well. Enhanced transparency of settlement information allows closer monitoring of participants' activities and problematic areas of high losses or incorrect submissions from participants to be identified.

On completing the reconciliation review, attention turned to the Rules relating to switching. The objective of the review was to streamline the switching process for participants, fix problems that had become apparent, provide more rapid switching for consumers and prepare the way for new Rules relating to metering. As well as dramatically reducing the switching period, the introduction of distributor switching has been a significant enhancement, enabling points of connection to be switched between networks.

As the final step in the redevelopment, the review of the Rules governing metering knits the reconciliation and switching enhancements together. One of the industry's big barriers has been a lack of transparent information about metering. Reviewing the metering rules will give participants the flexibility to develop and utilise time-of-use tariffs, which will promote better balance between electricity usage and supply. The review has also extended to privacy, security and access to information, as well as transferring responsibility for Installation Control Point (ICP) metering compliance from traders to metering equipment providers.

In addition to more innovative pricing options, advanced metering technology offers a wealth of other opportunities. It provides increased information for consumers to track expenditure and participants to manage their own portfolios more effectively. It offers shared infrastructure potential, reducing the cost of automating other utility meter readings such as gas and water. The technology also has the potential to allow peak electricity demand to be managed, delaying the need for investment in new generation, transmission and distribution assets. An important part of the review has been to ensure the Rules do not stifle consumer or industry access to those benefits.

See www.electricitycommission.govt.nz/opdev/retail/metering/partd/index.html



Commission-developed analytical tools to be freely available

Since 2006 the Commission's long-term generation and transmission planning model, GEM, has been substantially enhanced and, with the more recently created vectorised Scheduling, Pricing and Dispatch model (vSPD), is in increasing industry demand.

To enable the models to be more readily utilised by other organisations for planning and analytical purposes, a graphical user interface (GUI) is now in production.

GEM is a model of the New Zealand electricity generation sector. It projects the construction of new generation over a period of decades and simulates outcomes in terms of dispatch, costs and emissions. It can be used to produce scenarios to assist decision-making regarding investments in transmission, or to assess the implications of policy options and the effect of other inputs such as technology change or carbon pricing.

GEM is continually evolving. At present the focus is on improving the way it models wind integration in the electricity system. Historically, GEM has been used to underpin the development of the Commission's statements of opportunities which identify opportunities for the efficient management of the grid. In the future, it will be used to assist with industry and market monitoring and helping to understand how the Electricity Industry Participation Code will need to evolve. GEM is also used by Transpower, the Ministry of Economic Development, several industry participants, academics and consultants.

vSPD replicates the Scheduling, Pricing and Dispatch software used by the industry. At present, it is used extensively to support the projects in the Commission's Market Development Programme and to investigate proposed rule changes. As an industry and market monitoring tool, illustrating how the wholesale market is working, vSPD can be used to investigate unusual pricing situations or rules breaches. The model solves historical cases in 48 trading period 'chunks', so that it can be used to quickly recalculate significant historical periods with modified parameters or offer behaviour, hence the term 'vectorised'.

Completion of the GUI in September will enable vSPD to be widely utilised in the sector.

See www.electricitycommission.govt.nz/opdev/modelling/gem/index.html



Transmission investment approvals approach \$3 billion

In six years, the Commission has approved some \$2.7 billion of transmission investment and three

proposals involving another \$340 million are under consideration.

The three proposals – the last major ones to go through the approval process before this function transfers to the Commerce Commission – are:

- Lower South Island Renewables (\$170 million) – an economic investment to increase renewable generation investment in the lower South Island region. Following a public conference at the end of June, a final decision approving the proposal has been made.
- Lower South Island Reliability (\$62 million) – involving upgrading lines to meet expected demand growth south of Roxburgh. Consultation has just been completed.
- Upper North Island Dynamic Reactive Support (\$110 million) – approval has been granted for dynamic voltage support, essentially computerised, quality-control systems, for the upper North Island region.

Robust oversight and effective consultation have ensured transmission investments have been fully evaluated. The result has been that where transmission is the best option, the most economic option is built at the least cost to consumers.

Importantly, the approval process, finalisation of the contractual arrangements and the transmission pricing methodology have also provided Transpower with certainty of recovery of the cost of investment in the grid and certainty for its customers with respect to their obligations and rights, addressing a major cause of under-investment before the process was established.

It is pleasing to reflect on the success of the process and the high level of commitment and expertise demonstrated by Transpower and the Commission in solving issues, while both organisations maintained the integrity of their respective roles. Part of this has been about working together to arrive at the most economical solutions, while considering a broader range of technologies and alternatives.

As well as dealing with issues such as risk of critical outages, for example in the Auckland CBD, investment proposal reviews have resulted in numerous improvements to grid reliability and reduced costs to consumers. A cost benefit analysis in 2009 indicated that in approving investments, the Commission has been able to reduce proposed project costs by \$350 million, or 13 per cent, with a further \$160 million saved on projects for which approval was withheld.

See www.electricitycommission.govt.nz/opdev/transmis/gup/2009GUP/index.html