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Media release

Electricity Commission releases review of winter 2008

A review of the performance of the electricity market during winter 2008, prepared for the Electricity Commission, makes eight recommendations on ways the electricity system can be improved to cope with dry winters.

Commission chair David Caygill welcomed the report and said the Commission was now seeking feedback on its recommendations.

"We asked the external reviewers to look at how the market performed last winter and what improvements could be made, and they have prepared a comprehensive and clear report", Mr Caygill said. "The Commission is publishing it without comment because we want to hear from stakeholders on the general direction of the recommendations before we formally consider the options suggested."

"A number of those options are significant and would require time for consultation and implementation. However, we expect we could implement some of the simpler improvements, if we adopt them, in time for winter 2009," Mr Caygill said.

The review was undertaken by energy sector consultant David Hunt and company director John Isles. As well as reviewing the performance of the market they interviewed a range of industry stakeholders, including consumers, business organisations and electricity companies.

The review found that winter 2008 and the months leading into it had some of the lowest hydro lake inflows on record. It was positive that many large consumers had insured against the risk of dry year through hedging, there was improved information sharing and that no consumers were forced to cut power, despite the system coming under stress.

But it was the first time some aspects of the security of supply policy were seriously tested and, while no rules were broken, some of expected outcomes did not fully eventuate. The policy aimed to maximise thermal generation to conserve water; however there were periods when this did not happen.

In recommending changes to the current system, the report said that market participants know they can look to the Electricity Commission for help as the de facto 'supplier of last resort', and much of

the cost will be met by others. There was also a risk that suppliers do not consider the cost of power cuts to users in their decision making, as they face no penalty for not supplying, which may increase the chance of an actual shortage occurring.

The reviewers have made eight recommendations on how the market could be improved to better manage dry winters:

- Ensure electricity companies face the costs of any forced cuts to consumers and are not able to shift these off to others, or implement compulsory dry year insurance
- Review the operation and cost efficiency of Whirinaki, including moving it and changing its fuel, and/or transferring the plant out of the reserve energy scheme
- As much as practicable, define and publish plans and triggers for emergency measures the Commission may take in a dry year
- Formalise the improvements to information sharing demonstrated during winter 2008
- Improve risk disclosure around suppliers' demand expectations and their ability to supply
- Improve certainty around the Commission's role when mentioned in terms of resource consent access to emergency generation capacity
- Further clarify the roles of the Minister and the Commission relating to security of supply and confirming the Commission's independent functions.
- Prioritise initiatives that promote competition

The report is available on the Commission's website at www.electricitycommission.govt.nz/consultation/winter08. Initial comments on the report should be sent by 20 February 2009. The Commission will consult on any rule changes that may subsequently be required.

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