



Richard Fletcher
richard.fletcher@transpower.co.nz

13 February 2009

Bronwyn Christie
Electricity Commission
PO Box 10041
WELLINGTON 6143

Dear Bronwyn

Re: Review of 2008 Winter

This is Transpower New Zealand Limited's submission on the *Review of 2008 Winter*. We understand that the Commission is not seeking comprehensive submissions on the report's proposals, but rather comment on the merits of proceeding to more detailed work on the particular recommendations and how such work should be prioritised. As a general comment, the report was clear, impartial and met the brief admirably.

Transpower would prioritise the implementation of particular recommendations as follows:

1. ***Recommendation 1: The market rules be changed to ensure decision-makers face the cost to consumers of any forced demand curtailment, and then that the present reserve energy scheme be discontinued or modified to ensure costs are targeted as closely as possible to those parties who benefit from its use.***

The Commission should act ahead of next winter to amend the market rules to ensure that, if forced demand curtailment occurs due to insufficient energy supply, spot prices default to the value of lost load (VoLL). This will ensure that market participants face the full cost to consumers of demand curtailment and provide the right incentives to manage available fuel (hydro and thermal) efficiently. Once this change is achieved, Whirinaki should be removed from the reserve energy scheme and sold to a commercial generator. Recommendation 2, which proposes investigating what the correct location for the Whirinaki generation units should be, and the best fuel to use, would then be irrelevant, as whether or not to pursue different location or fuel options would become commercial decisions.

While these actions are in train, the Commission should give urgent consideration to how it might best achieve its security of supply objectives by means other than direct intervention as a market participant.

2. ***Recommendation 4: The "informal" improvements to information provision adopted for winter 2008 be examined to determine whether any should be codified into existing arrangements or contingency plans.***

This work should commence while the issues are still fresh in participants' minds. Some of this work could be undertaken by Transpower as System Operator, in liaison

with the Commission, and Transpower would also be willing to participate in a group to assess options.

3. **Recommendation 3: Triggers and plans for any emergency measures be pre-defined as far as practicable, and that they should be published.**

This would help to improve market certainty and remove some of the risk of unforeseen outcomes that can result from ad hoc measures. Transpower as System Operator may be able to assist with defining some standing procedures in liaison with the Commission.

4. **Recommendation 8: The Electricity Commission place priority on initiatives that will facilitate competition.**

Transpower fully supports this recommendation and further recommends that the Commission give priority to investigating the value of transmission as the platform enabling competition in the electricity market.

5. **Recommendation 6: The Electricity Commission consider whether there are any steps it can take to provide more certainty around the terms of resource consent access to "emergency" generation resources where consents directly or indirectly make reference to the Electricity Commission.**

It would assist the operation of the market if there were clear rules governing the circumstances in which additional reservoir storage may be accessed or thermal plant may be permitted to operate outside normal consent envelopes.

Other recommendations

Recommendation 5 proposes that electricity hedge market positions be made publicly available in order to facilitate better risk management decisions and assist the overall functioning of the electricity market. Transpower's understanding is that this objective has already been achieved by the addition of a new Section VI – Hedge Market Disclosure Rules – to Part G of the Electricity Governance Rules 2003. These new rules were gazetted on 16 October 2008 and came into force on 2 February 2009.

With respect to recommendation 7, Transpower does not believe that there is anything to be gained by attempting to delimit the roles of the Commission and the Minister with respect to supply emergencies. In a genuine emergency, the Government will always retain the right to act on its own initiative and the community will expect this.

Yours sincerely



Richard Fletcher
Regulatory Strategy Manager