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Bronwyn Christie  
Electricity Commission  
PO Box 10041  
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Dear Bronwyn

**Re: Proposed Electricity Commission work priorities and appropriations for 2009/10**

This is Transpower New Zealand Limited's submission on the Electricity Commission's 19 December 2008 consultation document *Proposed work priorities and appropriations for the 2009/10 financial year*.

**Streamlining Part F of the Electricity Governance Rules**

There is no mention in the transmission priorities of work to progress the rule change proposals submitted by Transpower in late 2008. These proposed rule changes, if implemented, would clarify a number of matters relating to transmission investment applications and substantially reduce the compliance costs associated with processing approvals. The potential benefits of the proposed rule changes are:

- reduction in the duplication of analysis;
- reduction of over-analysis;
- less duplication of consultation;
- establishment of an appropriate level of regulatory oversight for smaller scale investments;
- improvement in role clarity between Transpower and the Electricity Commission;
- improvement of certainty for stakeholders;
- improvement in the quality of investment decisions;
- substantial reductions in compliance costs.

Progressing these rule changes should be a tier one priority for the Commission.

### **Review of specific Benchmark Agreement provisions relating to cost recovery of new connection assets**

The Electricity Commission is progressing a new investment process project which aims to “investigate and consider options for regulating the provision and cost recovery of new connection assets, including bilateral agreements between users and Transpower” (page 18). This project is ranked as tier two and scheduled for completion in 2011/12. Transpower has already flagged to the Commission the fact that the current provisions in the Benchmark Agreement and related rules governing investment in new connection assets are too cumbersome to be operationally practical. Hence, Transpower recommends that this project be accelerated and advanced to tier one. Failure to progress this work urgently could impede needed investment in connection assets.

### **Regulating new connections to the grid**

The Commission is proposing a tier two “new connection process” project which proposes “to investigate and consider options for regulating the process and requirements for new connections to the grid” (page 18). To date, Transpower has seen no problem definition that explains the need for this work. If the Commission is to pursue this work stream, care needs to be taken to limit the role of regulation to issues that cannot be addressed satisfactorily through negotiation.

### **Review of the allocation formula for recovering instantaneous reserves availability costs**

As part of the Commission’s common quality development (frequency) work Transpower recommends that the Commission review the allocation formula for recovering instantaneous reserves availability costs (rule 11.5.1 of Section IV of Part C of the rules) with the aim of ensuring that the costs of reserves are recovered from those that create the need for them. The original intention of the existing allocation method was that instantaneous reserves availability costs allocated to Transpower as owner of the HVDC link would be recoverable from those that caused the need for the reserves via grid charges. Unfortunately, the terms of Transpower’s revenue thresholds mean that this outcome is no longer assured when reserves availability costs are high. Consequently, the need for this work has become urgent and this project should therefore be ranked tier one.

### **Market Design Review and dry year security**

The work of the Market Design Review should be re-assessed to improve its focus by clearly stating the design principles it is applying and the objectives it is seeking to achieve. The current approach risks wasting resources because of lack of focus. As part of the review work, the Commission should initiate a separate investigation of the operation of the market in relation to dry year security. The experience of the 2008 dry year should inform this investigation, including the recently released *Review of 2008 Winter*, which recommends some positive measures in this regard. This work should be ranked tier one.

### **Transmission hedge market project**

Transpower was surprised by the proposed content of the transmission hedge market project (page 28), which envisages finalising the proposal and making recommendations to the Minister of Energy and Resources in 2008/09 and then commencing implementation work in 2009/10. Given the wide range of views and substantial opposition to the locational rental allocation proposal expressed by those who submitted on the consultation document, and the need for efficient transmission hedges to encourage effective wholesale and retail competition, Transpower would have anticipated at least a further round of consultation on hedge market options.

### **System Operator Service Provider Agreement (SOSPA)**

The SOSPA proposal included in the appropriations paper is the result of detailed negotiations between Transpower and the Electricity Commission based on the following principles:

- the proposal is a variation on the current SOSPA; a whole new contract was not contemplated;
- there have been increases in the scope of services provided and the cost of providing services since the current fee was fixed in December 2003, and the 2009 environment features increased generation investment, increased grid investment and the introduction of new technologies;
- the fee agreed with the Commission will ensure that the System Operator is appropriately resourced to do the work defined in the Electricity Governance Rules to the reasonable and prudent standard required, providing value for money for levy payers;
- operational advice to the Commission from the System Operator will be addressed by way of a separate agreement for the provision of advisory services;
- the costs of any new, additional or materially amended services agreed to be provided over and above those required by the current rules will be recovered by negotiating an increased fee with the Commission.

These principles have been agreed by the Electricity Commission and Transpower as a suitable basis for the proposal set out in the appropriations paper. Transpower supports the proposed appropriations to recover system operation costs.

Yours sincerely



Richard Fletcher  
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