

Richard Fletcher  
[richard.fletcher@transpower.co.nz](mailto:richard.fletcher@transpower.co.nz)

8 October 2010

Submissions  
Electricity Commission  
PO Box 10041  
WELLINGTON 6143

Dear Sir/Madam

**Re: Consultation Paper – Customer Compensation Schemes**

This is Transpower New Zealand Limited's submission on the Electricity Commission's 7 September 2010 consultation paper *Customer Compensation Schemes*. Transpower recognises the clear statement in section 42 of the new Electricity Industry Act 2010 that the Electricity Authority must either include a consumer compensation regime in the Code, to apply during public conservation campaigns, or explain why it has not done so.

Transpower's interest is to ensure that the scheme works in terms of the incentives on market participants to contribute to managing system security, and the calling of conservation campaigns, if required. We have only provided limited comment on details of the scheme's implementation at a retail level.

While not explicitly explained in the consultation paper, the value ascribed to demand response during public conservation campaigns indicates that consumer savings have a valid role to play in the management of constrained supply scenarios. The proposed design of the default consumer compensation regime is consistent with the identified value of savings to consumers, apart from the proposed trigger point for public conservation and consumer conservation. The proposed trigger point suggests that the value to consumers of conservation is much higher than that identified. If this is the case, the level of compensation should be adjusted to reward consumers accordingly and allow retailers to factor this value into wholesale electricity procurement decisions, and, in turn, allow generators to factor this value into fuel and asset management decisions.

A conservation campaign is either an emergency measure or a normal market instrument. Neither should be operated by the regulator. If, as we believe, a conservation campaign is an emergency measure, then responsibility for implementation should be consistent with the roles ascribed when implementing other emergency measures. If a conservation campaign is a normal market

instrument, a conservation campaign should be specified in the Code and “called” through normal market mechanisms.

We are concerned that the proposed preparation time of 14 days, albeit with basic planning and processes in place, is the bare minimum necessary. Resources will need to be acquired, messaging that matches the situation will need to be developed and media space (print, radio and television) will need to be secured. The shorter the preparation time, the higher will be the cost of implementing the campaign.

Our responses to the consultation questions and comment on the draft Code follow.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R Fletcher', with a small dot at the end.

Richard Fletcher  
Regulatory Strategy Manager

## Consultation Questions

No.	Question	Response
Q 1	Is 3000 kWh an appropriate minimum level to set for determining customer qualification? If not, what other level is more appropriate and why?	3000kWh is a pragmatic de minimus for the initial default customer compensation scheme. This level should be reviewed when there is a greater penetration by smart metering or after the first public conservation campaign.
Q 2	Do you agree with the approach suggested in paragraph 3.2.9 or is it desirable and feasible to identify other customer types that might be excluded from within the proposed definition of a qualifying customer? If you hold the latter view, please explain what type(s) of customers you would seek to exclude, explain why they should be excluded and how they might be uniquely identified?	<p>The opportunity for consumer participation should be maximised.</p> <p>It is not clear that such a de minimus should apply in the case of a customised scheme. At the very least, customers of any size should be able to opt in to a customised scheme.</p> <p>Once the conservation campaign scheme has been established and time provided for retailers to provide for the regime, consideration could be given to lowering the de minimus over time, even with the current mix of metering technology.</p>
Q 3	Do you agree that a PCC trigger point should be pre-specified in either the EMP or the Code and that this should be set in terms of the HRC / security phase framework?	<p>Triggers should be specified in the EMP. To affect prudent risk management, triggers should accommodate limitations in the hydro risk curve (HRC) modelling and input assumptions.</p> <p>The desire for and the benefits of certainty in an emergency situation are understandable. However, such certainty only exists if all participants respond in a pre-determined manner in an emergency situation.</p> <p>Within narrow bounds, the derivation of the hydro risk curves (HRC) assumes a particular generator offer strategy. While re-calculation of the HRC accommodates changes in other inputs (generation and transmission availability, thermal fuel availability, demand), the HRC derivation methodology is silent on the treatment of changes in assumed participant behaviour, primarily generator offer strategy. While reference to HRC is a useful guide for triggering a PCC, hard coding the trigger for a PCC to a numeric HRC may not always facilitate prudent risk management. Provision should be made for the system operator to consult with the Electricity Authority, and depart from specified triggers if assumed inputs to the HRC have not</p>

No.	Question	Response
		materialised and cannot be factored into a re-calculation of the HRC.
Q 4	Do you consider that the 10% HRC / security emergency phase is an appropriate PCC trigger point?	<p>No. Delaying conservation campaigns until storage has fallen to the 10% HRC would be too late. Until confidence is gained in the MDP initiatives, conservation campaigns should be triggered when storage falls to the 6% HRC.</p> <p>Historically, the Commission has sought to persuade industry participants to run a public conservation campaign when storage has been in the region of the 6% HRC. The actual timing has been influenced by ministerial concerns and need to obtain participant agreement.</p> <p>The current Commission Emergency Response Plan (ERP) reflects the Commission’s desire for industry participants to run public conservation campaigns ahead of its own initiatives. The initial Emergency Management Plan (EMP) has not anticipated the introduction of customer compensation for conservation campaigns and has been drafted on the same basis as the ERP.</p> <p>The consultation paper appears to have equated PCCs with the fall back option contemplated in the ERP rather than the preferred Commission, albeit industry led, campaign triggered in the region of the 6% HRC.</p> <p>Care should be taken when basing conclusions on analysis of the 2008 experience. South Island inflows during the 2008 conservation campaign, mid June – end August, were above average, some 500GWh higher than the 10<sup>th</sup> percentile of hydro inflow distribution for the period.</p> <p>The analysis set out in paragraphs 3.3.19 – 3.3.21 is overly optimistic. The 10% HRC depicts a storage level that is about half that of the 1% HRC. If the inflow sequence was the 10<sup>th</sup> percentile of the hydro inflow sequence, and all the assumptions used in the derivation of the HRCs came to pass, hydro storage would barely fall below the 10% HRC. For the storage to fall below the 10% HRC, one or more of the assumptions:</p> <ul style="list-style-type: none"> <li>• thermal generation has not generated as expected;</li> <li>• inflows have been less than the 10<sup>th</sup> percentile;</li> </ul>

No.	Question	Response
		<ul style="list-style-type: none"> <li>• hydro resource consents may have been more restrictive than anticipated;</li> <li>• plant (generation and transmission) availability has been lower than expected; or</li> <li>• thermal fuel availability or transmission is less than anticipated</li> </ul> <p>must have occurred.</p> <p>Correspondingly, the times set out in Table 1 should not contribute to a conclusion that conservation campaigns may be deferred until storage falls below the 10% HRC.</p> <p>The concluding paragraph 3.4.29 of the consultation paper indicates that a cost of \$300 – 700/MWh is a reasonable estimate of the cost to consumers during PCCs. The paper then goes on to assume that the consumer cost is \$500/MWh. Figure 13: Risk Curve mapping versus Whirinaki SRMC, in the Commission’s paper <i>HRCs and Reserve Energy Dispatch Guidelines (2009b)</i>, indicates that the \$500/MWh spot price used in the analysis equates to the 6% HRC. The choice of HRC PCC trigger and consumer cost should be consistent.</p> <p>The derivation of the HRC is deterministic and based on assumptions that have not been observed in 2003, 2006, or 2008. MDP initiatives, especially scarcity pricing and the consumer compensations scheme, may result in outcomes more akin to the assumptions upon which the HRC are derived. Managing hydro resources is less flexible when reservoir storage is in its lower ranges. Consumer participation in conservation campaigns is voluntary, and with appropriate levels of compensation to manage incidence, conservation campaigns should be employed to avoid greater risks to power supply. Delaying conservation campaigns until storage has fallen to the 10% HRC would be too late. Until confidence is gained in the MDP initiatives, conservation campaigns should be triggered when storage falls to the 6% HRC.</p>
Q 5	Do you agree that preparation for a PCC should begin 14 days before a PCC is expected to be required?	<p>No. Wherever possible longer preparation time would be beneficial.</p> <p>Even with basic planning and processes in place, a 14 day preparation time is short. Resources will need to be acquired, messaging that matches the situation will need to be developed, and media</p>

No.	Question	Response
		space (print, radio and TV) will need to be secured. The shorter the preparation time, the higher will be the cost of implementation. 14 days is an absolute minimum.
Q 6	Do you agree that a PCC end point should be pre-specified, and that the 8% HRC is an appropriate end point?	A PCC end point should be specified but 4% HRC would be more appropriate. Also, maintaining consumer interest in campaigns beyond 8 weeks has not been achieved to date, so an 8 week maximum duration should be considered.
Q 7	Assuming the Electricity Industry Bill passes in its current form, do you agree that the roles and responsibilities set out in 3.3.33 are appropriate?	<p>No, the final decision on whether and when to trigger and end a PCC should rest with the system operator, after consulting with the Electricity Authority.</p> <p>A conservation campaign is either an emergency measure or a normal market instrument. Neither should be operated by the regulator. If, as Transpower believes, a conservation campaign is an emergency measure, responsibility for implementation should be consistent with the roles ascribed for the implementation of other emergency measures. If a conservation campaign is a normal market instrument, a conservation campaign should be specified in the Code and "called" through normal market mechanisms.</p>
Q 8	Should the value of savings (in \$/MWh) be established for future PCCs by using guidelines and be reviewed as required, or should a value be estimated now and codified?	<p>The default compensation regime should remain simple, predictable, and encourage customisation. A value should be estimated and codified now.</p> <p>The outcome of other MDP initiatives may reduce the need for conservations campaigns.</p> <p>If the incidence of conservation campaigns does not decline due to other MDP initiatives, or the level of anticipated customisation does not materialise, development of guidelines and regular review of compensation could be considered.</p>
Q 9	Do you agree that a differential payment level based on island (but not on residential versus non-residential or low fixed user class) is appropriate in certain circumstances?	The design of the default regime should be kept simple. The more complex the regime the more complex conservation messages will need to be. Differentiated rates risk the perception that savings can be left to those with the highest compensation.

Q 10	Do you agree that the Authority is the appropriate body to establish the value of savings (in \$/MWh), including inter-island differential, in future PCCs?	Well specified guidelines should enable any number of agencies to propose the value of savings for stakeholder consideration.
Q 11	What factors should be considered and what process might be used to establish such a value?	The factors considered and the process followed in the consultation paper are adequate for establishing an initial value. Please refer to the comment in response to Q 8 regarding future refinement.
Q 12	Do you think that some level of minimum savings achievement as a precondition to triggering the payment obligation is desirable in the default CC scheme?	No, such refinements should be part of an approved customised compensation scheme.
Q 13	If so, how should a suitable minimum condition be set?	N/A
Q 14	Do you think the principles proposed in respect of assessing an application for a customised CC scheme are sufficient and appropriate?	Transpower has argued above that the default compensation scheme should be simple and uniform across all regions. Restricting the payment value to be the same as the default CC scheme may be too restrictive. Consideration could be given to allowing a retailer to demonstrate, for a given payment value, that they would not benefit from the declaration of a public conservation campaign.
Q 15	What other principles should be considered for inclusion?	No comment.
Q 16	Do you agree that a statutory declaration with a retained right to audit provides a sufficient approach to ensuring retailer compliance?	No comment.
Q 17	Do you think the proposed treatment of qualifying customers that switch (and, similarly, newly connect, disconnect etc) as outlined in this section is reasonable?	It seems an unusual commercial practice for a third party to assume liability for an accrued obligation. What impact will this have on the willingness of retailers to accept new customers? How does this fit with retailer insolvency arrangements?
Q 18	Are there any other circumstances like this that will require additional consideration?	No comment.
Q 19	Do you agree with the proposed treatment for customers with pre-payment meters?	No comment.

Q 20	Do you think the proposed treatment of non-FPVV customers as outlined in this section is reasonable?	No comment.
Q 21	Are there any other reasonably practicable options?	No comment.
Q 22	Do you agree with the methodology, inputs, assumptions and conclusions reached in the CBA?	<p>We note that Appendix 3 has largely been lifted from the Commission paper “An integrated cost-benefit analysis of the Market Development Programme”, September 2010, which indicates that the results should not be quoted, are for illustration only, and may change. This paper is largely qualitative, drawing on results from unspecified analysis. The analysis needs to be documented and included before this question can be answered. This analysis needs to demonstrate the influence a compensation scheme is likely to have on a retailer’s risk management strategies.</p> <p>While noting the above, section 42 of the Electricity Industry Act 2010 requires the Electricity Authority to include a consumer compensation regime, to apply during public conservation campaigns, in the Code or explain why it has not amended the Code to include this matter. In effect, this provision requires the Authority either to demonstrate that such a regime has detrimental consequences or include a compensation regime in the Code. If the indicative results are “in the right ball park” the analysis confirms the need for the Authority to include a compensation regime in the Code.</p>
Q 23	Do you think the CC scheme as proposed raises significant negative retail competition impacts? (see Appendix 3)	We note that the analysis to date has not quantified any negative impact.
Q 24	If so, how should these be evaluated? (see Appendix 3)	N/A

## Draft Code

Clause	Comment	Response
9.23(2)	This is a replication of provisions contained within clause 7.3 and the emergency management plan.	Amend clause 9.23(1)(a) to read “that is commenced by the <b>system operator</b> <u>in accordance with the <b>emergency management policy</b></u> ”.  Delete 9.23(2).
9.23(4)(a)	This is a replication of a provision in clause 7.3(3)(a).	Delete.
9.23(4)(b)	This would seem to be one of the prudent steps to be taken by the system operator.	Delete.