

Advisory Group Review Outcomes – Explanatory Paper

June 2009

1. Introduction

1.1 Background

- 1.1.1 The Electricity Commission has utilised advisory groups to provide advice on sector development since its commencement. Since that time, the Commission's requirements of advisory groups in terms of the type of input they provide has changed, primarily alongside changes to its work plan.
- 1.1.2 In recent years a number of issues regarding the structure, role and operation of advisory groups have been raised both within the Commission and by stakeholders. This, together with its own changing needs, led the Commission to undertake an advisory group review.
- 1.1.3 The objective of the review was to reconsider the structure, scope, and operation of the Commission's advisory groups, and make recommendations as to how advisory groups might be more effectively used.
- 1.1.4 The purpose of this paper is to advise stakeholders of the key outcomes of the advisory group review.
- 1.1.5 The original discussion paper and submissions received are available on the Commission's website.

1.2 Review

- 1.2.1 The Review considered:
- (a) What advisory groups the Commission should have, and their role and purpose;
 - (b) How the advisory groups could be more strongly linked into the planning cycle;
 - (c) How the advisory groups should be chaired; and
 - (d) Approaches to improving effectiveness of consumer representation on advisory groups.
- 1.2.2 A revised Government Policy Statement on Electricity Governance (GPS) was released subsequent to this advisory group review, in May 2009. While the new GPS is silent regarding the use of advisory groups, the Commission sees considerable value in continuing to use advisory groups, and seeks to clarify the processes by which the sector, consumers, Commission staff and the Board interact with these groups.

1.3 Purpose of this paper

1.3.1 This paper:

- (a) outlines the key changes to advisory group structure, role, and operations arising from the Review; and
- (b) discusses, by way of example, how various tasks on the Commission work plan will be addressed by advisory groups, project teams, and other means under the revised structure.

2. Structure and role of advisory groups

2.1 Key issues

2.1.1 Issues raised with the current arrangements, with regard to the structure and role of advisory groups (as summarised in the discussion paper) included:

- (a) Lack of clarity as to the purpose of advisory groups;
- (b) Some quality issues with the advice provided by advisory groups;
- (c) Perception of limited cross-communication between groups; and
- (d) Perception that the views of advisory groups may not be adequately reflected to the Board by the Commission, and uncertainty surrounding the relationship between the Board, workstream leaders, and advisory groups.

2.1.2 In addition, the challenge faced by advisory groups in dealing effectively with both detailed technical work and more strategic issues was recognised.

2.2 Consultation

2.2.1 Following the first stage of the Review, the Commission proposed that a single layer structure be retained, comprising four standing advisory groups. It proposed elevating the focus of these four groups to a higher level (relative to the existing groups) and establishing project teams to deal with very detailed or technical tasks.

2.2.2 Submissions were generally supportive of retaining a structure similar to the existing structure, as proposed. However, several submitters suggested that the key issues with the existing advisory groups were actually lack of mandate and accountability for their work (as a result of status of the groups and reporting arrangements), and poor communication (between advisory groups, Commission staff, and Commissioners). A number of suggestions to address the identified issues were provided.

2.3 Outcomes

Structure

2.3.1 The Commission notes that, while some submitters have proposed that advisory groups have greater decision-making powers, advisory groups or other parties cannot relieve the Commission of its statutory responsibilities and duties. The focus of the changes is therefore on formalising how advisory

group ownership of its work and the quality of that work might be improved within this context, and how the processes through which the Board seeks advice from advisory groups might be strengthened.

2.3.2 The Commission has decided, in terms of the structure of the advisory groups, to:

- (a) Disestablish the five existing advisory groups (plus the Hedge Market Development Steering Group, which has not met in the past year);
- (b) Establish four new standing advisory groups that will usually operate at a higher level, and encourage fresh membership of these groups; and
- (c) Establish project teams as needed for specific projects, primarily for very detailed or technical tasks.

2.3.3 The new advisory groups will be:

- (i) Investment Advisory Group (IAG). This group will take a broader investment perspective than the former Transmission Advisory Group, though its key focus will remain on transmission investment issues;
- (ii) Security Advisory Group (SAG). This group will continue with the work of the former Security Advisory Group, but may also have a role in some aspects of system operations work;
- (iii) Wholesale Market Advisory Group (WMAG). This group will focus on wholesale market development, dealing with tasks arising from the Market Design Review, Commerce Commission review, development of markets and so on; and
- (iv) Retail and Consumer Advisory Group (RCAG). In addition to carrying out projects that promote strong retail competition, this group will have considerable focus on consumer issues such as customer switching.

2.3.4 A key output of the former Common Quality Advisory Group was the Common Quality Development Plan (CQDP) which provides a road map for development in the common quality area for the next couple of years. Individual tasks on the CQDP will be supported by tightly focussed technical project teams. However, the integral nature of common quality and system operations means that input from advisory groups is likely to be required at times. For example, the multiple frequency keepers project (also known as Automated Generator Control (AGC)) will largely be supported by a specific project team established for that purpose, but advice on wholesale market or security of supply interactions will be sought from relevant advisory groups as needed.

2.3.5

Figure 1 on page 8 outlines the broad scope of each of the new advisory groups. Paragraphs 2.4.1 to 2.4.5 outline the key tasks that it is anticipated each of the new groups will carry out over the next 12 months.

Information flows

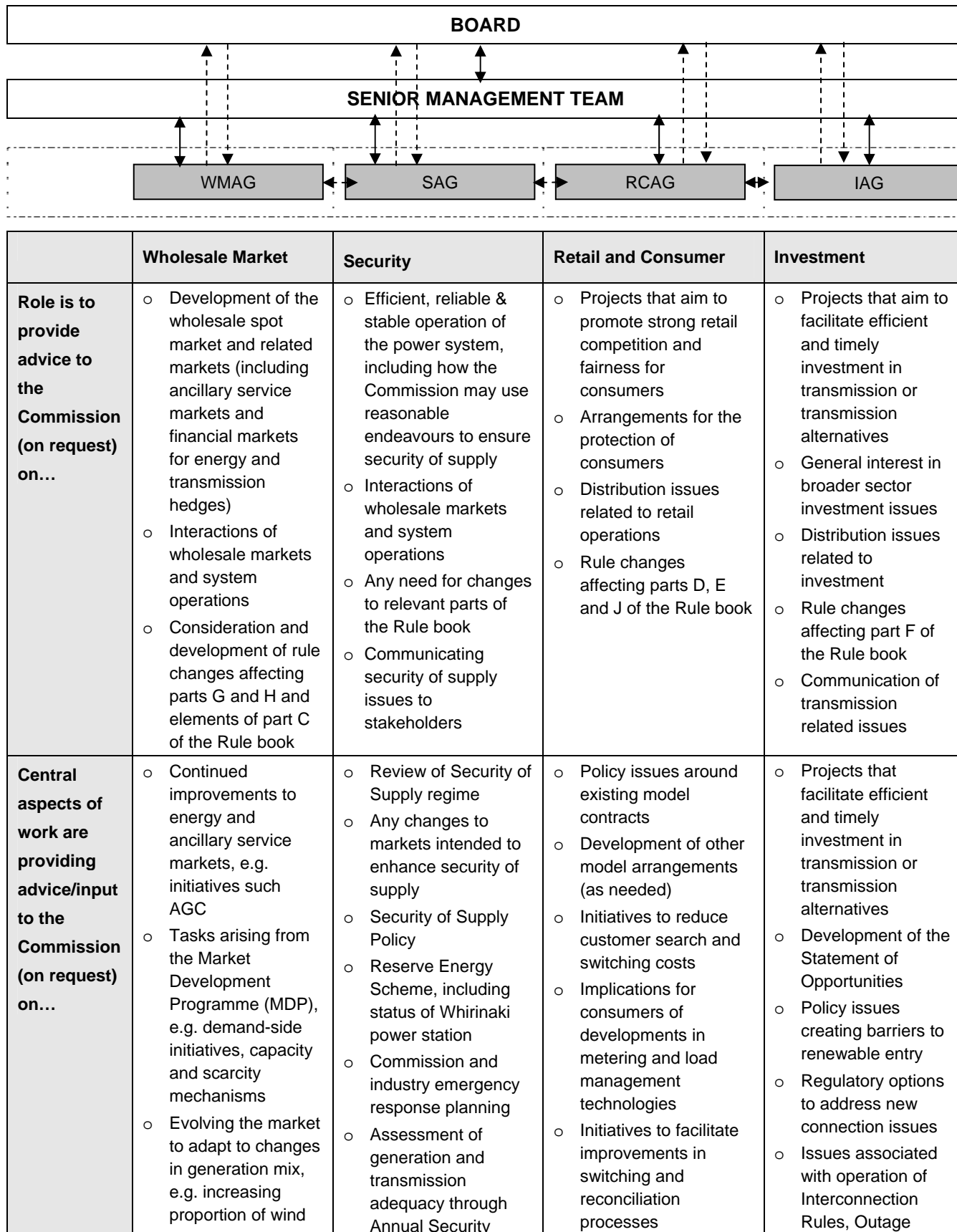
- 2.3.6 The Commission has also amended its advisory groups Charter (which sets out the manner in which all advisory groups operate) to enhance flow of information and advice from advisory groups to the Board (and vice versa) and between advisory groups to formalise the following arrangements:
- (a) Providing for advisory group chairs to append an additional letter or comment to a Director's paper to the Board if he or she considers this necessary;
 - (b) In the event the Board makes a decision that is contrary to the advice provided by an advisory group, requiring the relevant Commission staff member to provide feedback to the advisory group regarding Board discussions leading to that decision; and
 - (c) Including arrangements to improve communication between advisory groups working on related issues.
- 2.3.7 In addition, Commissioners intend to regularly attend advisory group meetings, in order to enhance communications between the Board and stakeholders.

Specific comments

- 2.3.8 Several submitters questioned where particular areas of work were expected to sit under the new arrangements. To clarify these specific points:
- (a) Consumer issues will not be limited to the RCAG, nor will consumer representation be limited to this group (see later discussion on consumer issues);
 - (b) Generation and distribution planning is outside the Commission's scope, but several of the groups may carry out other distribution or generation-related tasks. Examples of this are seeking information and making assumptions regarding generation and/or distribution for the purposes of adequacy analysis for security of supply, the Statement of Opportunities and Transmission to Enable Renewables work. Work will also be carried out by the IAG and RCAG on aspects of distribution such as pricing methodologies and technical losses; and

- (c) A dedicated project team – Transmission Pricing Technical Group (TPTG) – has been established to assist with the transmission pricing review.

Figure 1: Advisory group structure and coverage



Advisory Group Review Outcomes

| | Wholesale Market | Security | Retail and Consumer | Investment |
|--|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <p>generation</p> <ul style="list-style-type: none"> ○ Initiatives to improve competition within the wholesale market, e.g. arising from Commerce Commission investigation ○ Improvements to financial markets for energy and location hedges | <p>Assessment</p> | | <p>Protocol and Benchmark Agreement</p> <ul style="list-style-type: none"> ○ Review of the value of unserved energy project ○ Issues associated with Grid Upgrade Investment and Review Policy (GUIRP) ○ Distribution pricing methodology |

2.4 Tasks likely to be on advisory group work plans

2.4.1 While the co-ordinating Commission staff member for each advisory group will work with the group to develop its work plan, an *indicative* list of tasks expected to be carried out by each group is provided below.

2.4.2 The following tasks are expected to be carried out by the **IAG** over the next 12 months:

- (a) Provision of feedback during the development of the next Statement of Opportunities;
- (b) Provision of advice on policy issues creating barriers to entry of renewable generation;
- (c) Consideration of options for regulating the process and requirements for new connections to the grid, and for regulating the provision and cost recovery of new connection assets;
- (d) Provision of feedback on the review of the Value of Unserved Energy project;
- (e) Consideration of issues associated with the operation of the Outage Protocol, Benchmark Agreement and the Interconnection Rules;
- (f) Input into work on distribution pricing methodologies; and
- (g) Provision of advice on how best to communicate transmission related issues to stakeholders.

2.4.3 The following tasks are expected to be carried out by the **SAG** over the next 12 months:

- (a) Review of Security of Supply Regime: The SAG will provide input into the continuing development of the way in which the Commission deals with security of supply issues;
- (b) The Commission's Capacity and Scarcity project seeks to determine ways to reduce participants' ability to externalise the cost of their risk management decisions. Over the next two years, the SAG will provide input from a security perspective, including advice on potential changes to market rules which have security implications;
- (c) Provision of input into the Commission's review of the role of Whirinaki in the Reserve Energy Scheme;
- (d) Medium-term security assessments: the Commission's annual assessments include assessing future generation and transmission adequacy, both to inform stakeholders and to inform Board decisions about reserve energy procurement. The SAG will be an important source of advice on this;

- (e) Emergency Planning: The Commission's Emergency Response Plan (ERP) is an evolving document outlining how the Commission plans to act in a potential or actual shortage situation. The SAG will be a key source of advice on the development of the ERP over the next two years;
- (f) Industry emergency planning: The Commission would like to see a clear, public plan about how the industry will co-ordinate itself during 'dry year' type events, including use of emergency measures and communications. The Commission has no role in preparing such a plan, but may be able to assist with facilitating its development. In this case, advice would be sought from the SAG; and
- (g) Provision of information to stakeholders: The Commission is considering, on an ongoing basis, how information might be better organised to meet needs of different stakeholders, and what further information might usefully be provided. The SAG will provide input into this.

2.4.4 The following tasks are expected to be carried out by the **WMAG** over the next 12 months:

- (a) Market Development Programme: The WMAG will provide input on project priorities and on the cost-benefit analyses;
- (b) Provision of advice on possible introduction of an instantaneous reserves constrained on mechanism;
- (c) Provision of advice to assist with development of scarcity and capacity mechanisms;
- (d) Demand-side participation: The WMAG will provide input on new initiatives such as dispatchable demand;
- (e) Provision of advice on improvements to the location hedge market; and
- (f) Wind generation integration initiatives. The WMAG will provide advice on areas such as evolution of the market to better deal with an increasing proportion of wind generation.

2.4.5 The following tasks are expected to be carried out by the **RCAG** over the next 12 months:

- (a) Model contracts: in finalising the model contracts, the RCAG's input will assist the Commission to review policies such as transparency of line and energy charges;
- (b) Customer search and switching initiatives: The RCAG will assist with reviewing upgrades to PowerSwitch;

- (c) Provision of advice on the effect of metering and load management technologies; and
- (d) Provision of advice on improving the switching and reconciliation processes.

2.4.6 The following tasks are expected to be carried out by project teams. Project teams may be set up for other specific projects as the need arises:

- (a) Multiple frequency keepers (AGC) project: A specialised project team will be established for this purpose. The WMAG may also be asked to provide some high level input, and forums may be used;
- (b) Frequency keeping cost allocation project: A specialised project team will be established for this purpose. The WMAG may also be asked to provide some high level input, and forums may be used;
- (c) Under frequency management: project teams may be utilised over the next two to three years to look at a number of under frequency initiatives including the AUFLS market, instantaneous reserves cost allocation, and review of the national instantaneous reserves market;
- (d) Transmission pricing review project: A technical project team (the Transmission Pricing Technical Group (TPTG) has been established to assist with this project¹;
- (e) Fundamental Review of Part D of the Rules. The Industry Reference Group has been established to review and provide advice on work carried out by the internal project team²;
- (f) Approval of Participant Outage Plans under the Security of Supply Regulations: A project team will be established for this purpose. The SAG may also be asked to provide some high level input.

¹ The TPTG's Terms of Reference and membership information is available at www.electricitycommission.govt.nz/advisorygroups/pjtteam/tptg/index.html.

² More information about the Part D review is available at <http://www.electricitycommission.govt.nz/opdev/retail/metering/partd>

3. Consumer Involvement

3.1 Key issues

3.1.1 Several issues were raised with the previous arrangements relating to consumer representation on advisory groups, including insufficient representation, lack of technical experience of consumer representatives, and difficulty in selecting consumers with the appropriate skill set to contribute to technical discussions. Some more general membership issues were also raised.

3.2 Consultation

3.2.1 The Commission proposed addressing these issues through:

- (a) Establishing the RCAG to strengthen focus on consumer issues as a whole while retaining operational context;
- (b) Maintaining appropriate consumer representation across all advisory groups, in order that consumer-specific issues can be represented in discussions in the same way that other types of members can represent issues of particular importance to them; and
- (c) Encouraging greater consumer input and building consumer knowledge by holding regular (6 or 12 monthly) open consumer forums or workshops covering consumer topics, similar to the model used by the Gas Industry Company.

3.2.2 Submissions generally agreed with the issues listed and supported the proposed approach. However, a number of submitters (including some representing various consumer groups) noted that it is very difficult to find consumer representatives who are technically qualified and industry knowledgeable, such that they can contribute to discussions, and suggested that up-skilling would be useful.

3.3 Outcomes

3.3.1 The Commission intends to take the approach proposed in the discussion paper (and paraphrased in paragraph 3.2.1). In addition, where practicable, it will endeavour to assist with up-skilling consumer representatives in order that they are more able to fully contribute to discussions. A change to the Charter has been made to this effect.

4. Advisory Group Input into Planning

4.1 Key Issues

4.1.1 Issues were raised regarding advisory group input into the Commission's strategic and work planning processes. Stakeholders questioned the role of advisory groups in planning, noting inconsistency across groups. It was also suggested that the link between advisory group work and the Commission's strategic priorities was too weak, resulting in groups focussing too much on detailed design or technical work at the expense of key issues.

4.2 Consultation

4.2.1 The Commission proposed increasing opportunities for advisory groups to contribute to Commission planning processes. In addition, the proposed structure of the advisory groups was intended to focus the groups more on key issues and less on detail.

4.2.2 Some submitters were highly supportive of this proposal; others did not consider that this would add value as the Commission already seeks such input through consultation processes.

4.3 Outcomes

4.3.1 Historically there has been some confusion about the role of advisory groups in work planning, and this has been clarified in the Advisory Group Charter. Advisory groups will contribute to work planning on two levels:

- (a) Advisory groups will be able to comment as an advisory group on the Commission's work plan and priorities, as part of the annual appropriation consultation process;
- (b) Once the Commission work plan is finalised, advisory groups will work with their co-ordinating Commission staff member to finalise an advisory group work plan that supports the Commission's priorities.

5. Chairing Advisory Groups

5.1 Key Issues

5.1.1 An issue was raised regarding the lack of clarity around the role of the chair, and it was questioned who should fill this role (for example, from within the group, or by an independent party).

5.2 Consultation

5.2.1 The Commission proposed that:

- (a) the role of chair be decided on a case-by-case basis, and might be an independent party, Commissioner, or group member; and
- (b) The specific functions of the chair should be clarified in the Charter (amended version provided for consultation);

5.2.2 Most submitters did not agree that Commissioners should chair advisory groups – rather they should remain more aloof, to preserve independence. Most supported either independent or member chairs, or a combination of the two. Several submitters noted that the chair must be free to raise matters of concern with the Board.

5.3 Outcomes

5.3.1 The Commission agrees that Commissioners should not chair advisory groups. Advisory Group chairs will be appointed by the Board following recommendations from the Commission's General Manager.

5.3.2 The revised Charter clarifies that the key functions of the chair are facilitation of discussions to stimulate robust debate, guiding discussions so they are relevant and effective, ensuring that issues and decisions reached are properly understood and members understand what is expected of them in relation to those decisions, and facilitating reports to the Board at the request of the advisory group or the relevant workstream leader.

5.3.3 The Commission considers that the revised Charter allows for the chair of an advisory group to escalate issues if required.

6. Amendments to the Charter

- 6.1.1 The discussion paper noted that any material changes to the advisory group structure will require amendments to the Charter and to the Terms of Reference for each group. A number of changes have been outlined in the body of this explanatory paper.
- 6.1.2 As noted in the discussion paper, the Commission has revoked its existing Advisory Group Membership Policy as relevant aspects of this have also been incorporated into the Charter and Terms of References.
- 6.1.3 The new Charter and the Terms of Reference for each of the new groups is available on the Commission's website.