

**Electricity Commission**

**Consultation Paper**

**Minor Proposed Changes to the Reconciliation Rules**

**13 June 2008**

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## Purpose

1. The Electricity Commission (Commission) is considering changes to the Electricity Governance Rules 2003 (Rules). This is to make amendments to some of the Rules which concern the reconciliation process, which were notified by the Minister of Energy (Minister) pursuant to section 172H of the Electricity Act 1992 (Act) on 7 November 2006 (Reconciliation Rules). The Commission considers that all of the proposed rule changes (Proposed Rule Changes) fall into one of the following categories:
  - 1.1 the objective is to alter the scope of some of the existing Reconciliation Rules, and in particular to alter the scope of:
    - (a) some of the existing obligations under the Reconciliation Rules; and
    - (b) the application of some of the existing obligations under the Reconciliation Rules;to align the Reconciliation Rules with current practice or intended best practice which is, in the view of the Commission staff, needed to ensure the integrity of the overall reconciliation process;
  - 1.2 the objective is to clarify the scope of some of the existing Reconciliation Rules, and in particular to clarify the scope of:
    - (a) some of the existing obligations under the Reconciliation Rules; and
    - (b) the application of some of the existing obligations under the Reconciliation Rules;
  - 1.3 to promote ease of understanding and interpretation; and
  - 1.4 to resolve some minor drafting and wording issues, to rectify consistency-related, cross-referencing, formatting, or other minor matters and effect other amendments in order to achieve consistency within the Rules, and between the Rules and the Electricity Governance Regulations 2003 (Regulations).
2. The purpose of this paper is to consult with the persons that the Commission thinks are representative of the interests of persons likely to be substantially affected by these proposed changes, in accordance with section 172E of the Act.

## Abbreviations used in this paper

Abbreviation	Description
Act	Electricity Act 1992
Commission	Electricity Commission
ECRPT	Electricity Commission's Reconciliation Implementation Project Team
Minister	Minister of Energy
Proposed Rule Changes	The proposed rule changes set out in detail in Appendix 2
Reconciliation Rules	The Rules which concern the reconciliation process which were notified by the Minister on 7 November 2006
Reconciliation Rules 2006 Assessment	Means the assessment carried out in 2006 in relation to the statement of proposal for the Reconciliation Rules, a copy of which is appended to this paper as Appendix 4
Rules	Electricity Governance Rules 2003
Regulations	Electricity Governance Regulations 2003

## Background

3. The Reconciliation Rules became effective on 1 May 2008.
4. The Reconciliation Rules are reflected in a new part J of the Rules and significant, but less substantial amendments, to parts A, D, E, G and H of the Rules.
5. The Reconciliation Rules were implemented to ensure that the Rules reflected the recommendations for enhancing the reconciliation system, contained in the Electricity Commission's Reconciliation Implementation Project Team (ECRPT) final report. The four key recommendations in the ECRPT final report were the:
  - (a) elimination of incumbency and the introduction of "global" reconciliation;
  - (b) facilitation and treatment of embedded generation data processing;
  - (c) development of a compliance and audit regime; and
  - (d) grouping of grid exit points for reconciliation.
6. The Minister's reasons for deciding to amend the Rules were stated as being to:
  - (a) provide a coherent reconciliation process that clearly sets out the expectations to be placed on industry participants;

- (b) improve the quality of data that goes into the reconciliation process;
  - (c) remove ambiguity about what actions the reconciliation rules in the Rules actually require;
  - (d) clarify the processes that retailers must follow when a consumer switches retailers; and
  - (e) set a platform for future enhancements, should they be required.
7. The implementation of the Reconciliation Rules was the largest single rules change in the history of the Rules. This being the case, and given the number and magnitude of the changes required to the reconciliation procedures and processes, industry participants have spent considerable time planning and preparing for the coming into effect of the Reconciliation Rules, and service providers have similarly built new systems to comply with the new functionality required. This entailed, amongst other things, a registry go live period during which industry participants populated the new registry with the required additional information. This degree of participant and service provider change, and the associated planning and preparatory activity is unprecedented for a change of the Rules.
8. During the planning and preparatory work, the Commission has, as a result of:
- (a) the Commission's considerable internal planning and preparatory work; and
  - (b) the Commission's experience with industry participants, and service providers in the testing and go live phases of the project, and dealing with their queries on the interpretation of some aspects of the Reconciliation Rules,
- became aware of several parts of the Reconciliation Rules which should be amended.
9. Commission staff consider that all of the Proposed Rule Changes fall into one of the categories set out in paragraph 1 above.
10. The Commission considers that all of the Proposed Rule Changes are in furtherance of promoting the recommendations for enhancing the reconciliation system, contained in the ECRPT final report, referred to in paragraph 5 above, and should be implemented for the same reasons given by the Minister when amending the Rules to implement the Reconciliation Rules.

### **Effect of Proposed Rule Changes is Minor**

- 11. The Commission has considered all of the Proposed Rule Changes, both individually and collectively.
- 12. The Proposed Rule Changes are considered minor because they have insignificant or no financial or operational impact on participants and service providers, they clarify or remove discrepancies from the Rules, or they align the Rules with current service provider practice.

13. Under section 172F(3) of the Act, the Commission is satisfied that the effect of the Proposed Rule Changes is minor and will not adversely affect the interests of any person in a substantial way. Accordingly, the Commission is not required to comply with the requirements of section 172F(1) of the Act (preparation of a statement of proposal, identification of all reasonably practicable options, and assessment of those options).
14. Furthermore, the Commission is satisfied that:
  - 14.1 it would, if it had been aware of the need for and/or desirability of the Proposed Rule Changes at the time that the Reconciliation Rules were originally implemented, have included the Proposed Rule Changes as part of the process for recommending the Reconciliation Rules;
  - 14.2 nothing in the Proposed Rule Changes would have altered, in any way, the results and outputs of the assessment carried out in 2006 in relation to the statement of proposal for the Reconciliation Rules, a copy of which is appended to this paper as Appendix 4 (Reconciliation Rules 2006 Assessment) which was carried out in accordance with section 172F(1) of the Act, for the purposes of the original proposal to make the Reconciliation Rules; and
  - 14.3 in effect, it has already complied with section 172F(1) of the Act, despite not needing, in the circumstances, to do so.

## Submissions

15. The Commission's preference is to receive submissions in electronic format (Microsoft Word and/or pdf). Submissions in electronic version should be emailed with 'Proposed Reconciliation Rules Amendments' in the subject header to [info@electricitycommission.govt.nz](mailto:info@electricitycommission.govt.nz) by **5.00 pm on Friday 11 July 2008**.
16. If submitters do not wish to send their submission electronically, they should post one hard copy of their submission to the address below.

Maree McGregor  
Electricity Commission  
Level 7, ASB Bank Tower  
2 Hunter Street  
P O Box 10041  
WELLINGTON  
Tel: (04) 460 8860  
Fax: (04) 460 8879
17. The Commission will acknowledge receipt of all submissions electronically. Please contact Maree McGregor if you do not receive electronic acknowledgement of your submission within two business days.
18. Where possible, submissions should be provided in the format shown in Appendix 5. Your submission is likely to be made available to the general public on the Commission's website. Submitters should indicate any documents attached, in support of the submission, in a covering letter and clearly indicate any information that is provided to the Commission on a confidential basis. All information provided to the Commission is subject to the Official Information Act 1982.

## Proposed Rule Changes

19. The Proposed Rule Changes are described in Appendix 1, and set out in full in the version of the Rules contained in Appendix 2.
20. By way of summary, the most significant of the proposed rule changes are:

### 20.1 Part A

- (a) **Definition of the expression “*embedded network*”**: Clarification by the explicit requirement of the quantification of electricity between the two relevant networks;
- (b) **Definitions of the expressions “*grid exit point*” and “*grid injection point*”**: These definitions have been amended in order to promote ease of understanding and interpretation, ensure that certain points on the grid to which certain obligations in the Rules apply are accurately described, and to eliminate any potential inconsistency or ambiguity. A consequential amendment has been made to rule 6.2 in part H of the Rules;
- (c) **Definition of the expression “*historical estimate*”**: This definition has been amended by seeking to accommodate some participants’ use of other than the standard profile shape, by allowing the use of any profile approved by the Board, in the allocation of volume information into consumption periods, without compromising the quality or integrity of the overall reconciliation process;
- (d) **Proposed new definition of the expression “*interconnection point*”**: The introduction of this new defined term is intended to assist in the accurate description of certain points of connection, to aid in the interpretation of the application of some of the obligations in the Rules;
- (e) **Definition of the expression “*loss factor*”**: This is being amended to accommodate the Board-notified loss factors (see paragraph (gg) below);
- (f) **Definition of the expression “*participant identifier*”**: The proposal is to introduce a new definition to promote clarity and ease of interpretation of the Rules;
- (g) **Definition of the expression “*profile applicant*”**: The proposal is that this definition be amended so as to accommodate applicants applying not only for the introduction of new profiles (which is already provided for under the existing Rules), but also changes being made to existing profiles; and

- (h) **The relocation of several embedded definitions:** Several definitions have been re-located from their original positions in part J and relocated into part A, in an effort to promote clarity and aid the interpretation of the Rules.

## 20.2 Part D

- (i) **Rule 3:** Clarification of the responsibilities of embedded generators (except those to which the new rule 3.4 applies) and certain network owners at points of connection, in terms of providing metering installations and using them to quantify the conveyance of electricity; and
- (j) **COPD5:** Clarification of the market administrator's and the review panel's responsibilities. This includes that the review panel must, within 15 business days of receiving it, make a recommendation to the market administrator on any proposed variations to the codes of practice D2 to D4, and that the market administrator must, within five business days of receiving the recommendation, publish the result of the application for variation.

## 20.3 Part E

- (k) **Rule 2.1:** It is proposed that this rule be amended by the introduction of two further classes of points of connection for which ICP identifiers must be obtained. These are points of connection on either local networks or embedded networks, at which there is a distributor status ICP:
  - (i) on the parent network point of connection on an embedded network; and
  - (ii) at the point of connection of shared unmetered load;
- (l) **Rule 2.2:** It is proposed that this rule be amended so as to:
  - (i) clarify the time by which ICP identifiers must be obtained (which is before the relevant participant assumes responsibility for the ICP under the Rules); and
  - (ii) introduce two new categories of participants (the embedded network owner and the network owner for shared unmetered supply) who are obligated to obtain ICP identifiers;
- (m) **Rule 8.1:** Proposed amendment to an existing obligation and imposition of a new obligation. It is proposed that this rule be amended by:

- (i) extending the timeframe for compliance with the obligation to notify the reconciliation manager and the market administrator; and
  - (ii) introducing a new obligation to notify affected participants at least five business days before the NSP is livened or decommissioned;
- (n) **Rule 24.1:** A proposed mechanism to allow the clearing manager, the system operator and the reconciliation manager to require, on request, reports from the registry, detailing the ICPs for which a particular operator is, and has over the previous 14 months been, responsible for, on a one off basis, or at a given frequency, either for a fixed period, or indefinitely;
- (o) **Rules 1.1.2 and 1.1.3 of schedule E1:** A proposed new requirement that ICP identifiers must be used to identify points of connection between shared unmetered load and its parent network;
- (p) **Rule 1.7 of schedule E1:** The proposed new requirement that embedded generators of 10MW or over must have a unique loss category code;
- (q) **Rule 2.7 of schedule E1:** It is proposed that this rule be amended by requiring that in the case of the ICP that is on the parent network at the embedded network point of connection, the status must be shown as *“DEDICATED”*;
- (r) **Rule 5.3 of schedule E1:** It is proposed that this rule be clarified by providing that any change to an existing loss category code or change to the value of or applicable time period for a loss factor will not take effect until at least three months from the date of advice to the market administrator;
- (s) **Rule 5.4 of schedule E1:** It is proposed that this rule be clarified by providing that any change to an existing loss factor will not take effect until at least two months from the date of advice to the registry; and
- (t) **Rule 8.1A of schedule E1:** It is proposed that a new rule 8.1A of schedule E1 be inserted. This contains a new obligation on various participants to notify the reconciliation manager of the creation of new NSPs.

## 20.4 Part H

- (u) **Rule 6.2:** The proposal is that this rule be amended so as to clarify that, in relation to all local networks and embedded networks, the point of connection will, for the purposes of the Rules, be deemed to be a grid injection point.

## 20.5 Part J

- (v) **Rule 3.2:** The proposal is that the requirements of rule 3.1 be dis-applied in relation to embedded generators which consider that they will generate less than 2000 kW/Hr during any year (subject to the satisfaction of certain requirements and other constraints) to allow generators that generate for self-consumption, and who are not concerned about selling, and saving the expense of selling, small surplus generation volumes to the clearing manager;
- (w) **Rule 4.3.2:** The proposed widening of the application of an already existing obligation to include:
  - (a) local network owners; and
  - (b) each person who initiates an interconnection point;
- (x) **Rule 10.5:** The proposal is to include more detailed provisions on how missing trader data is to be estimated for purchasers and generators;
- (y) **Rule 11.4.4.2:** The proposal is that the application of this pre-existing obligation be extended to all reconciliation participants;
- (z) **Rule 18.2:** The proposed introduction of rules allowing the Board to require that particular participants undertake an audit. This rule refers to the more detailed wording which it is proposed will be contained in rule 8 of schedule J1;
- (aa) **Rule 19 and schedule J1:** The proposals are to change existing rules, and to introduce new rules, in order to:
  - (i) clarify that although the obligation to become certified in terms of the Rules applies to reconciliation participants, they are able to rely on the underlying facilities, processes and procedures of any agents they use (for the purposes of both the rules audit and the requirement of ISO certification); and
  - (ii) clarify that if any of the facilities, processes and procedures, and other items, change, the then current certification will automatically cease and the participant should have applied for re-certification of the changes;

- (iii) specifying that at least two months' notice must be given to the Board of any reconciliation participant's intention to become certified;
  - (iv) clarify the categories of functions to be carried on by reconciliation participants which must be certified in accordance with rule 19 of part J;
  - (v) achieve a more consistent use of some of the language and defined terms, and consistency with the Regulations;
  - (vi) clarify that the regime does not apply to embedded generators who sell electricity direct to another reconciliation participant; and
  - (vii) provide that the Board must approve auditors before they can act as approved auditors under the Rules;
- (bb) **Rule 20:** The proposed introduction of a rule allowing the Board to allocate, and requiring participants to use, four letter identifiers. Associated with this proposed amendment is the introduction of a new defined term "*participant identifier*";
- (cc) **Rule 3 of schedule J4:** The proposal is that new provisions are introduced setting out the requirements for the calculation of volume information by difference on local networks;
- (dd) **Rule 4.2 of schedule J4:** The proposal is that this rule be amended to provide certain limits for the ICP scaling factor;
- (ee) **Schedules J4 and J5:** In several instances the respective roles of the Board and the market administrator have been clarified;
- (ff) **Rule 6.2 of Schedule J4:** The proposal is that this rule be amended to recognise that operation logs can be submitted instead of the shape file;
- (gg) **Rule 7 of schedule J4:** The proposal is that this rule provides for the introduction of Board-notified default loss factors;
- (hh) **Rule 8.2 of schedule J4:** The proposal is that there is a corrective amendment made to the formula for the calculation of the UFE factor;
- (ii) **Rule 8.9.4 of schedule J5:** The proposal is that a mechanism is introduced to allow for the approval of changes to existing profiles;

- (jj) **Rules 2.3 and 2.4 of Appendix 1 to schedule J5:** The proposal is that two new rules be introduced, dealing with, respectively, unmetered installations which require a shape file to be submitted, and metered installations which require a shape file;
- (kk) **Rule 2.5 of Appendix 1 to schedule J5:** Profile class 2.5 concerning embedded generation has been moved from profile class 1; and
- (ll) **Several Rules:** The introduction in several rules of timeframes for compliance.

### Process for amending the Rules

21. The process for amending the Rules is outlined in sections 172E to 172I of the Act.
22. Under the Act, the Minister may make a rule for all or any of the purposes for which a Regulation may be made.<sup>1</sup> A rule is made by publishing a notice in the *Gazette*.<sup>2</sup>
23. If the Minister makes, or the Commission recommends, a rule for a purpose for which a Regulation may be made, the Minister and the Commission must comply with the same conditions and process that would apply under section 172D(3)<sup>3</sup>, section 172E, or section 172F of the Act if they were making recommendations on that Regulation, and those sections apply (with all necessary modifications) accordingly.
24. Sections 172X and 172Z of the Act also apply.<sup>4</sup> The Commission must, in formulating recommendations, give effect to its principal objectives and specific outcomes and its Government Policy Statement on electricity governance (GPS) objectives and outcomes.<sup>5</sup> This is outlined in Appendix 3. The Minister must have regard to a recommendation by the Commission in exercising any of his functions or powers in relation to the Rules.<sup>6</sup>
25. Under section 172E(2)(b), before making a recommendation, the Commission must:

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<sup>1</sup> Section 172H of the Act.

<sup>2</sup> Section 172I.

<sup>3</sup> Section 172D(3) provides that the Commission and the Minister must ensure, before making a recommendation for any rules under section 172D(1)(2), that those rules do not provide for undue discrimination between electricity generators.

<sup>4</sup> Section 172E(2)(a).

<sup>5</sup> Section 172X.

<sup>6</sup> Section 172Z.

- (a) undertake an assessment under section 172F;
  - (b) consult with persons that the Commission thinks are representative of the interests of persons likely to be substantially affected by the proposed rules;
  - (c) give those persons the opportunity to make submissions; and
  - (d) consider those submissions.
26. Under section 172F(1), before making a recommendation, the Commission must:
- (a) seek to identify all reasonably practicable options for achieving the objective of the Rule;
  - (b) assess those options by considering the benefits and costs of each option, the extent to which the objective would be promoted or achieved by each option, and any other matters that the Commission considers relevant;
  - (c) ensure that the objective of the Rule is unlikely to be satisfactorily achieved by any reasonably practicable means other than the making of the Rule (for example, by education, information or voluntary compliance); and
  - (d) prepare a statement of proposal for the purpose of consultation under section 172E(2)(b)(ii).<sup>7</sup>
27. Under section 172F(3), the Commission is not required to comply with section 172F(1) if it is satisfied that the effect of the recommendation is minor and will not adversely affect the interests of any person in a substantial way.

## **Attachments**

28. The following items are attached:

Appendix 1 - Details of the Proposed Amendments

Appendix 2 - Draft Rule Changes

Appendix 3 - Consideration of the Proposed Rule Changes against objectives and outcomes

Appendix 4 - Reconciliation Rules 2006 Assessment

Appendix 5 - Suggested format for submissions

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<sup>7</sup> Section 172F(2) provides that the statement of proposal must contain a detailed statement of the proposal, a statement of the reasons for the proposal and an assessment of the reasonably practicable options, including the proposal, and other information that the Commission considers relevant. Under section 172E(2)(b)(ii), the Commission must consult with persons that it thinks are representative of the interests of persons likely to be substantially affected by the proposed rule.