



Part F

Commission Briefings
October 2004



Presentation contents

- Commission introduction and overview – Chair, Roy Hemmingway
- Part F processes and current work – John Gleadow, Senior Advisor, Transmission
- Discussion

Electricity Commission – an introduction

- Set up after industry unable to agree on self-governance regime
- Established under Electricity Amendment Act, 2001
- Board – a full-time chair and five other members
- Advises Minister of Energy
- New powers under Electricity and Gas Industries Bill (EGIB).

What the Commission does

- Proposes electricity governance rules (EGRs)
- Grants exemptions from rules
- Declares 'Undesirable Trading Situations' (UTSs)
- Monitors New Zealand electricity markets
- Appoints Rulings Panel to decide disputes between market participants
- Responsible for providing reserve energy for one-in-60 'dry' year (after EGIB passed)

What the Commission does – con'td

- Approves transmission pricing methodology
- Determines contracting parties for Transpower
- Approves (or not) investments proposed in Transpower's grid upgrade plans
- Develops model retail contracts
- Promotes hedge markets
- Promotes retail competition
- Promotes electricity efficiency.

Commission does **not**

- Set prices – retail or wholesale
- Provide baseload generation
- Approve new generation projects
- Regulate lines companies (Commerce Commission)
- Decide retail disputes (Electricity Complaints Commission).

Commission governance and operations

- Board – five Commissioners and Chair meet fortnightly
- Rulings Panel – external
- Market governance – internal
- Staff (about 30)
- Workstreams – six core workstreams
- Service providers x 7 – individual contracts
- Advisory groups x 7 – industry, consumer, independent.

What makes a good regulator

- Seek best information and sound analysis
- Consult broadly
- Respect for evidence
- Openness, transparency, comprehensibility in decision-making
- Share information with stakeholders
- Timeliness – early responsiveness to events
- Focus on long-term public benefit

What makes a good regulator – cont'd

- Limited intervention – only when necessary to preserve/enhance market functioning
- Not all problems have regulatory solutions
- Consistency in decisions – participants know the rules and what to expect
- Ethics – highest standards without favour to any interest in the electricity sector. Neutrality.

Electricity Governance Rules (EGRs) 2003

- EGRs set out
 - various Commission authorities and responsibilities to carry out market and system governance functions
 - various participant responsibilities and functions
- Rules (parts A, C, D, E, G, H, and I) were approved by the Minister of Energy on 18 December 2003 and took effect on 1 March 2004
- Part F, dealing only with transmission issues, came into force in May 2004.

Introduction to Part F

- Part F contains the rules around transmission
- Transmission agreements (section II)
- Grid upgrades and investments (section III)
- Transmission pricing methodology (section IV)
- Financial transmission rights (FTRs) (section V).

Transmission agreements (section II)

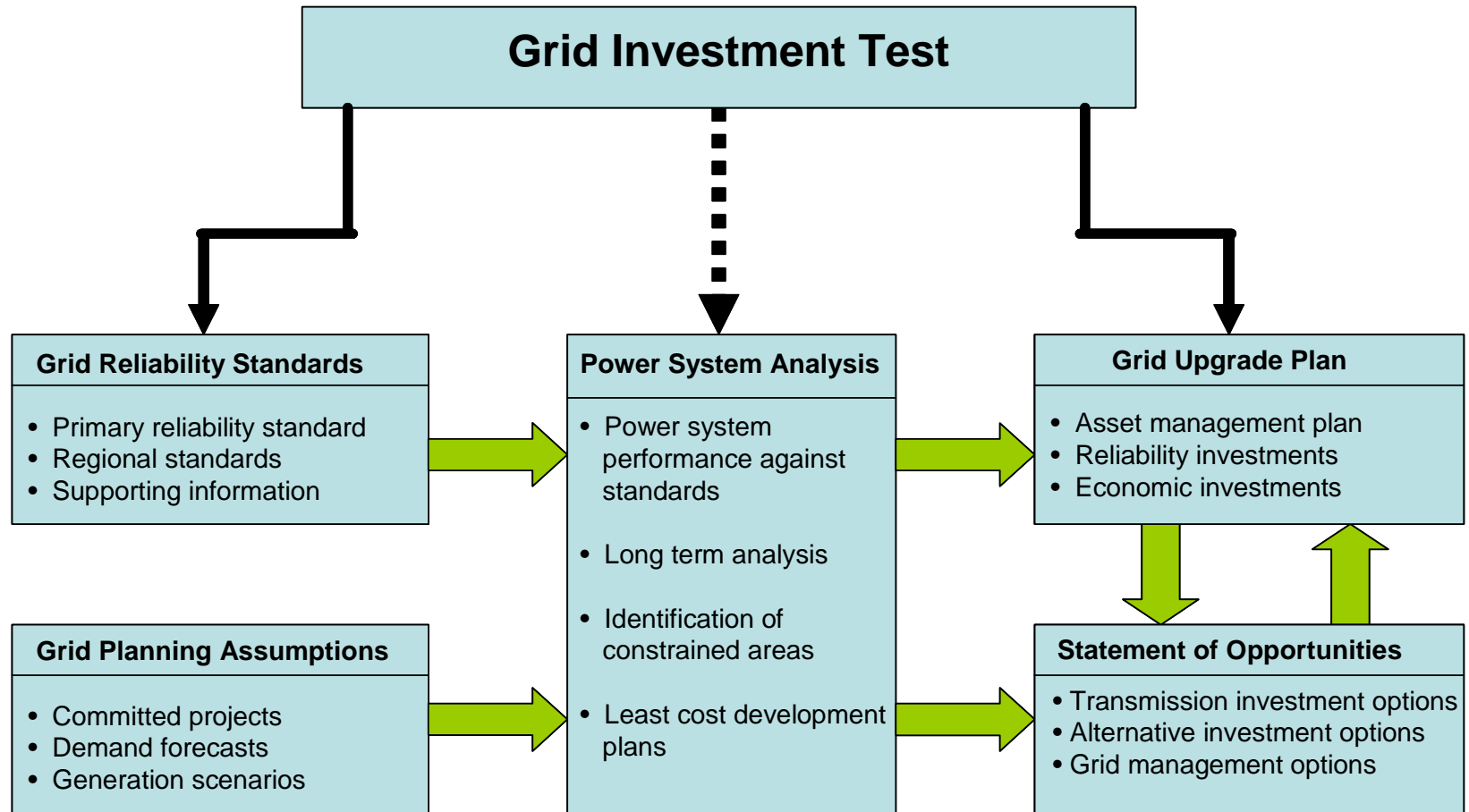
Includes:

- structure of transmission agreements
- designated transmission customers
- matters to be included in transmission agreements
- benchmark agreements that act as a default transmission agreement.

Grid upgrades and investments (section III)

- Grid Planning Assumptions (GPAs)
- Grid Investment Test (GIT)
- Grid Reliability Standards (GRS)
- Statements of Opportunities (SOO)
- Grid Upgrade Plans (GUP)
- Transitional provisions.

Part F section III processes



Transmission pricing methodology (section IV)

- Board's requirement to publish transmission pricing process and guidelines for Transpower
- Development of transmission pricing methodology by Transpower
- Processes for consultation
- Determination of transmission pricing methodology by the Board.

Financial transmission rights (FTRs) (section V)

- Board's requirement to publish progress report by 30 June 2005
- Potential to enhance energy market and retail competition
- FTRs no longer required to guide transmission investment due to GIT.

Current progress on section II – transmission contract structure and counterparties

- Preliminary consultation on the view that transmission arrangements include services that apply to all participant counterparties – close date 15 October 2004.

Current progress on section III

Grid Investment Test (GIT)

- a 'net benefits' economic test applied to grid investment proposals
- draft GIT published – submission expiry date 29 October 2004, finalisation by 26 November 2004.

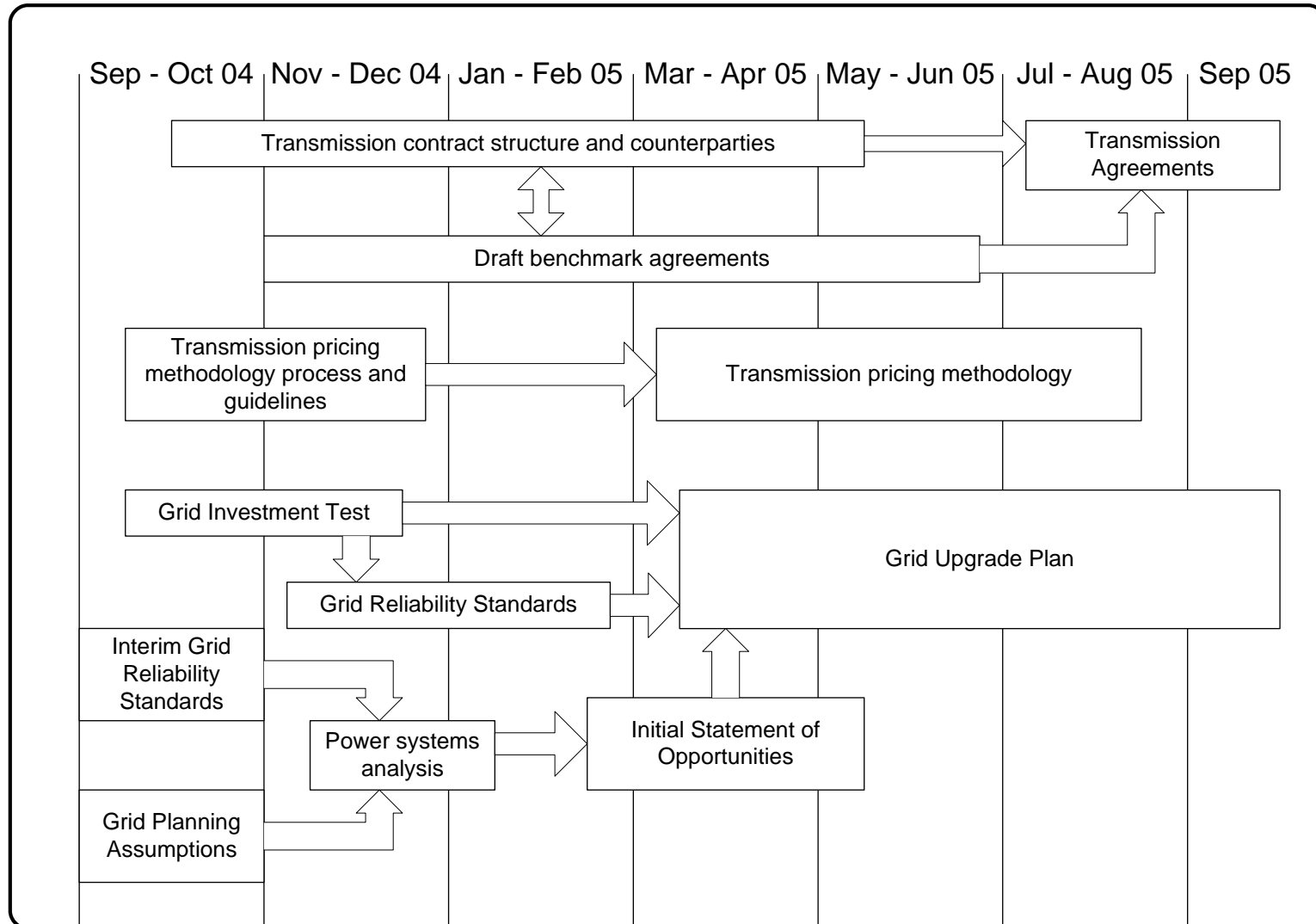
Grid Reliability Standards (GRS)

- sets out a reliability standard for the grid
- likely publication of draft GRS December 2004.

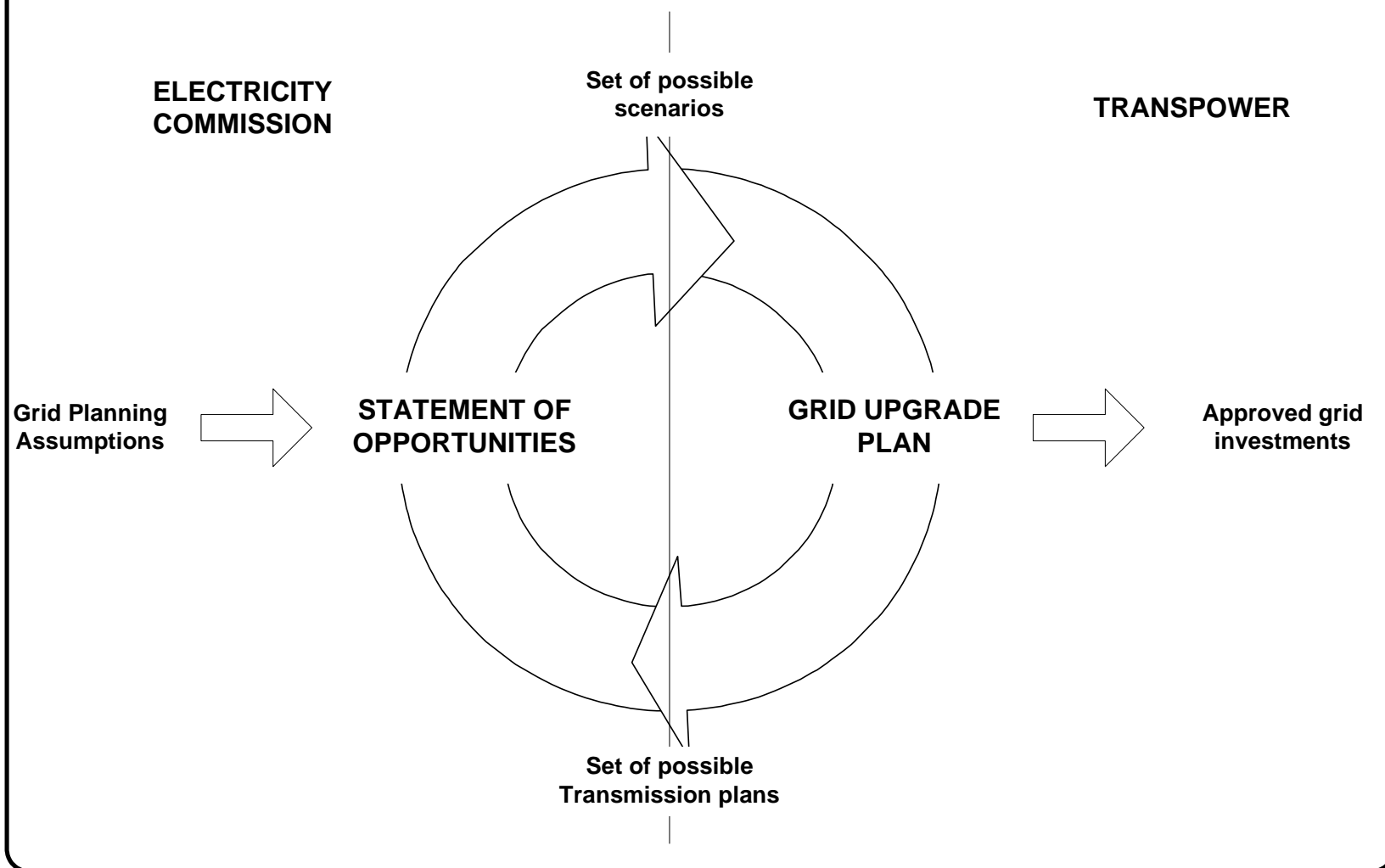
Current progress on section III – Statement Of Opportunities (SOO)

- Published for information only
- Contains a set of possible futures over next 20 years to which industry is able to respond
- Designed to make process around transmission investment more transparent
- Commission intends to publish draft SOO and invite submissions beginning of March 2005.

Part F set up – one-off processes



PART F TRANSMISSION INVESTMENT CYCLE



Part F minor rule change for SOO

- GPS target of September 2005 for GUP does not allow full Part F process to be followed for SOO
- Proposal for minor changes to EGRs to provide for a special process for the first, or **Initial Statement of Opportunities**
- Closing date for submissions – 29 October 2004.

Current progress on section III – Grid Upgrade Plan (GUP)

- GUP contains investment plans proposed by Transpower
- Commission intends to trigger provision early March 2005
- Designated transmission customers to be consulted
- Transpower required to apply the GIT
- Board to review Transpower's application of the GIT and approve (or not) specific investments.

Current progress on section III – Grid Upgrade Plan (GUP)

- Long leadtimes between initial approval and actual expenditure for some major investment projects
- Multi-step conditional-approval process is foreseen.

Current progress on section IV – pricing methodology guidelines

- Issues paper published by Board – submission expiry date 5 November 2004, finalised by 3 December 2004
- Transpower then to prepare the pricing methodology and submit for Board approval 90 days later.

Development work in the transmission area

Grid reliability standards

- Currently reviewing with TAG to establish an economic reliability standard.

Transmission alternatives

- Work is currently underway to consider whether rule changes are needed to better support transmission alternatives.

Summary of current Part F work

- Structure and counterparties (preliminary) consultation – closing date 15 October 2004
- Part F minor rule change – closing date 29 October 2004
- Draft GIT – submission expiry date 29 October 2004
- Pricing methodology guidelines – submission expiry date 5 November 2004
- Draft GRS – publication target December 2004
- Draft SOO – publication target March 2005
- Consideration of process for transmission alternatives – December 2004.

Summary of papers released for Part F work

Paper	Date released
•Farrier Swier report on Transmission Contract Structure and Counterparties	12-Aug-04
•Farrier Swier report on Performance Incentives	12-Aug-04
•Frontier Economics report on Process and Guidelines for Transmission Pricing Methodology	12-Aug-04
•Frontier Economics report on Grid Investment Test	12-Aug-04
•TAG comments on above papers	27-Sep-04
•TPAG comments on above papers – particularly Pricing Methodology	27-Sep-04
•Covec Limited report on Locational Pricing	27-Sep-04
•Saha International report on Alternatives to Investment in the Transmission Grid	12-Aug-04
•PB Associates report on Probabilistic Transmission Planning	12-Aug-04
•Draft Grid Investment Test	24-Sep-04
•Issues paper on Transmission Pricing Methodology process and guidelines	24-Sep-04
•Preliminary consultation on Transmission Contract Structure and Counterparties	24-Sep-04
•Rule Change Proposal for Initial Statement of Opportunities.	24-Sep-04

Contact us

- Level 7
ASB Bank Tower
2 Hunter Street
P O Box 10041
Wellington
New Zealand
- Phone: +64 4 460 8860
Fax: +64 4 460 8879
- Email: info@electricitycommission.govt.nz
Website: www.electricitycommission.govt.nz