

Electricity Commission Update

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Electricity Commission Objectives

To ensure that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable, and environmentally sustainable manner and to promote and facilitate the efficient use of electricity.

System Challenges

- Security of winter supply
- Timely investment in new generation
- Fixing the grid
- Upgrading the grid
- Pricing the grid

System Challenges (cont.)

- Making markets work
 - Regional retailers
 - Limited forward activity (hedges)
 - Surveillance and compliance
 - Vertical integration issues
 - Little demand side activity

System Challenges (cont.)

- Low level of efficiency investment
- No built-in incentive for reducing losses or keeping lines in service

State of the Electricity System 2005

- Security of winter supply improved for '05 & '06
 - Whirinaki added
 - Fuel security improvements
 - Base load keeping up with demand
- Base load generation investment is being made
 - Tararua, Huntly GT, Hau Nui, Te Apiti, Tuaropaki, Mokai, Wairakei, e3p, and others
- Progress in gaining certainty around carbon charge and fuel availability

State of the System (cont.)

- Transmission issues progressing
 - Tactical upgrades proceeding
 - Transpower planning major upgrades
 - Interim Grid Reliability Standards in place
 - Pricing methodology guidelines in place
 - Grid Investment Test (GIT) adopted
 - SOO and GUP to follow

State of the System (cont.)

- Market needs being addressed
 - Hedge market development
 - Compliance improved
 - Work planning to address demand side, vertical integration, & regional concentration
- Efficiency programmes boosted
- Contracts to improve accountability for service

Major Issues for New Zealand

- Limits to central planning
- Providing dry sequence reserves
- Intervening for electricity efficiency

Central Planning

- Transmission planning is central planning, by necessity
- Transmission will determine where generation will go
- Alternatives not economic for market may be cheaper than new transmission
- How far should funding of alternatives go?

Dry Sequence Reserves

- Market will not provide dry reserves without change
- Whirinaki-type acquisition not only option
- Market incentives or regulation?

Electricity Efficiency

- How much intervention to stimulate customer response?
- Generation and transmission investments cost two or three times efficiency investments
- Should all customers pay for efficiency?