



# MAJOR ELECTRICITY USERS' GROUP

26 February 2004

Mr Roy Hemmingway  
Chair  
Electricity Commission  
PO Box 10041  
WELLINGTON

Dear Mr Hemmingway

## **Comments on Work Programme**

The purpose of this letter is to provide some initial comments on the draft Work Programme prepared by Concept Consulting and M-co dated 14 January 2004 and the various portions of that programme that are included in the terms of reference for the Advisory Groups. The comments are necessarily brief and are not a comprehensive review of the Work Programme and Advisory Group terms of reference. The comments are illustrative of the need to review the Work Programme priorities because some significant issues appear to have been omitted.

MEUG recognise the Electricity Commission has a large number of issues to manage. Also there is some uncertainty on key policy settings until final legislation emerges from the current Electricity and Gas Industries Bill (termed "the Bill" in this letter) before the House and the consequential alignment of a revised Government Policy Statement (GPS). It is therefore important that the Work Programme remain flexible and relevant.

Ideally a feedback process from all interested parties would have been useful rather than rely solely on discussions with Concept Consulting and M-co to finalise the Work Programme priorities. One option the Commission may wish to consider is to seek feedback on the Work Programme after the legislative setting is finalised.

The following sections comment on 4 issues that illustrate why MEUG believe the priorities in the Work Programme need to be revised:

- 1) Having a view on the best market structure as a long-term vision is essential;
- 2) Vertical integration as a potential barrier to choice, innovation and competition does not appear to be covered in any workstream;
- 3) Access to relevant and timely information for TOU consumers should be a higher priority than the low priority assigned in the Work Programme; and
- 4) Transparency of charges on final invoices should have a specific workstream.

### **Having a view on the best market structure as a long-term vision is essential**

The Work Programme essentially assumes the evolution of the existing NZEM, MARIA and MACQS paradigm, along with the yet to be formed Part F and security reserve rules, will lead to the best long-term outcome for New Zealand. Staying on that course without considering other market models is short sighted. A check of the New Zealand model compared to other market models such as NETA is needed to either validate that our course is appropriate or that a fundamental change in market design may be better.

Work on that broader comparison of options may not be possible immediately given the extent of other priorities this year, but at least provision should be made in the Work Programme for this much broader check on the long-term vision of the market structure.

The comments on vertical integration, access to relevant and timely information and transparency of charges on end consumer invoices that follow are important but of second order to ensuring the longer-term vision of the overall market structure is the best possible.

### **Vertical integration as a potential barrier to choice, innovation and competition does not appear to be covered in any workstream**

The Work Programme currently has no specific workstream to consider if vertical integration is a potential barrier to competition. There is passing mention of vertical integration as an issue in task W1 (Hedge market arrangements) and also in the Concept Consulting and M-co presentation slide no. 15 titled "*Retail Market – Key Issues*" – but neither lead to specific work on vertical integration as a potential barrier to competition. There was a specific issue W6 on barriers to entry but that has not been included in any of the Advisory Group terms of reference.

Reducing barriers to competition is a specific outcome required of the Commission (re s.172N (2)(c) of the Bill). The omission of vertical integration as a priority issue may be because it falls between the issues covered by the Wholesale Market and Retail Market Advisory Groups. Whatever the reason, MEUG believe the Work Programme needs to consider as a priority the pros and cons of vertical integration in the context of the New Zealand market on competition and choice for consumers.

### **Access to relevant and timely information for TOU consumers should be a higher priority than the low priority assigned in the Work Programme**

Another barrier to a more competitive market is limited access to relevant and timely market information. This issue is particularly relevant for the time-of-use (TOU) market. The draft GPS (paragraph 4) lists information that should be public. Regulating making powers for more information disclosure are provided in s.172E (1)(d) and s.172 (2)(d), (e) and (f) of the Bill.

The Concept Consulting and M-co presentation slide no. 11 titled "*Wholesale Market – Key Requirements*" in referring to access to market information assesses the current status as, "*most information is readily available to market participants*" and assigns a low development priority. MEUG disagree with this assessment.

Access to COMIT and TPIX information is costly for the infrequent and unpredictable periods when TOU consumers might wish to access information. Anecdotal evidence suggests overseas electricity markets publish significantly more information free-to-air on the wholesale market than New Zealand. For example NEMMCO in Australia have a web site with extensive real time data (refer [www.nemmco.co.au](http://www.nemmco.co.au)). The reason TPIX and COMIT raw data is not available free-to-air may be because of the historic dominance of suppliers of the NZEM rules and hence COMIT. Several work streams are looking at pieces of information, eg W10 and W13 on HVDC flow data, but this is piecemeal.

MEUG recommend a key priority should be to assess all information flows in the wholesale market at present and determine which should be published free-to-air. For example MEUG see no reason why the following, which are currently COMIT subscriber only services, should not be made public (listed chronologically relative to real dispatch time – this list is indicative only):

- 1) Pre-dispatch schedule;

- 2) Forecast near term trading period supply and demand curves;
- 3) Reserve parameters;
- 4) All dispatch schedule arc flows;
- 5) All provisional and final energy and reserve prices (only some are currently public);
- 6) Actual kWh injected at each GIP;
- 7) Actual kWh off-take at each GXP;
- 8) Full constrained on and off information; and
- 9) Daily NIWA hydrology reports.

In addition MEUG supports the need for better fuel and spill information as proposed.

Some COMIT services should remain subscriber only such as terminal connections for making bids and offers. COMIT dispatch price alert and messaging services should also be subscriber specific. Competition for price and other market information alert services should be contestable by ensuring free-to-air access to market raw data. To date that has not been possible.

#### **Transparency of charges on final invoices should have a specific workstream**

The Work Programme should specifically consider transparency of charges on final invoices as a separate workstream.

Paragraph 4 of the draft GPS requires "*provision of information on customer accounts.*" Paragraph 12 of the draft GPS requires "*transparency of charge components*" as part of minimum terms and conditions for consumer contracts. MEUG in commenting on the draft GPS raised concerns that development of those minimum terms and conditions should be with all interested parties including suppliers and line businesses and not just the Commission, Ministry of Consumer Affairs and consumer representatives as proposed in the draft GPS.

Section 172E(17) of the Bill allows regulating making powers for "*providing for the disclosure of information by electricity retailers and electricity distributors on tariffs and other charges*" and s.172E (24) for, "*providing for the provision of information on customer accounts.*"

Taking a wider perspective there has been a high level of frustration by end users' in determining which part of the supply chain has been telling the truth or otherwise about who is to blame for increases in prices. Improved transparency of relevant information on end consumer invoices will not only settle this matter but also allow consumers to better exercise targeted countervailing power. This type of information will help the market work better.

Despite this being a key policy issue, there is no mention of the need to consider transparency of charges on final invoices in the Work Programme or terms of reference of the Retail Market Advisory Group. This omission should be reviewed.

#### **Concluding comments**

Please contact me should you, Commissioners or Commission staff wish to discuss these comments further.

Yours sincerely



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Executive Director