



Improving Electricity Market Performance

Energy Federation of New Zealand
Lunchtime Seminar

25 March 2010



Introduction

- ▶ Government election promise to hold review
- ▶ Ministerial Review of Electricity Market Performance
 - Minister of Energy and Resources - Hon G Brownlee
 - E-TAG – 6 Members + 1
 - MED
 - Concept Consulting
- ▶ ToR
 - In = Market performance/Electricity sector governance
 - Out = SOE ownership/line regulation/gas regulation

Process

- ▶ E-TAG/MED prepared two volume preliminary report during April – August 2009
- ▶ Report release approved by Cabinet Committee under delegated authority from full Cabinet for consultation in August 2009
- ▶ 128 submissions received from interested parties on and before 16 September 2009
- ▶ E-TAG/MED reviewed the submissions and made final recommendations to Government

Process (2)

- ▶ Government accepted recommendations in December 2009
- ▶ Electricity Industry Bill to give effect to many of the recommendations introduced into the House before Christmas 2009
- ▶ Select Committee hearings currently underway
- ▶ Establishment Board for Electricity Authority announced and meets next week for first time

Key findings – the good

- ▶ Large part of the recent increase in electricity prices is justified because:
 - Costs of generation have increased (eg gas costs)
 - Costs of building new capacity have risen and continue to rise
- ▶ Sufficient new generation is being built to meet increased demand and the quality of investment in generation is generally good

Key findings – the good (2)

- ▶ NZ's hydro-based system is vulnerable to dry years; on occasion, public conservation campaigns are required and a cost efficient response

Key findings - the bad

- ▶ Despite the above
 - The rate at which retail prices have risen, especially for residential consumers, appears excessive when compared with the costs of new supply
 - The way in which dry years are managed can be substantially improved
 - The reliability and capacity of the transmission system can be improved

Diagnosis – the market

- ▶ The main causes of these problems are:
 - Insufficient competition in the retail market, especially outside the main centres, combined with scope on occasion for the exercise of market power in the wholesale market
 - In dry years, there are incentives for some market participants to seek to shift increased costs to consumers through public conservation campaigns, rather than manage the risks themselves
 - There is a backlog of investment in transmission, which will take some years to clear

Diagnosis - governance

- ▶ Governance of the sector could be improved:
 - The EC has too many objectives and functions
 - The EC is insufficiently independent from Ministers who find it hard to resist interfering
 - There is an unnecessary degree of overlap between the EC and ComCom in relation to transmission and the EC and EECA in relation to conservation
 - Responsibility for system security could be made clearer

The cure

- ▶ 27 recommendations in the report, some with several parts
- ▶ Broken down into recommendations to:
 - improve the management of dry years
 - help constrain the costs of generation
 - improve procedures for upgrading transmission
 - improve wholesale and retail competition and help restrain prices
 - improve the governance of the electricity sector

Management of dry years

- ▶ Require retailers to make payments to consumers in the event of a public conservation campaign and enforced power cuts
- ▶ Put a floor on spot prices during any public conservation campaign or during any enforced power cuts
- ▶ Clarify roles and responsibilities for security of supply
- ▶ Phase out reserve energy mechanism and re-assign ownership and management of Whirinaki
- ▶ Review access to emergency water in Hawea and Pukaki

Help constrain costs of generation

- ▶ Consider implications in climate change policy development, reviews of RMA and water policies
- ▶ Take into account the importance of gas to electricity generation when developing petroleum resource policies; improve quality of published information on gas reserves
- ▶ Review barriers to development of geothermal
- ▶ Consolidate energy efficiency in EECA; review
- ▶ develop terms for purchase of output from small-scale distributed generation

Improve transmission upgrade procedures

- ▶ Transfer approval of major upgrades and defining the GIT to the ComCom
- ▶ Incorporate into Part 4 of the Commerce Act

Improve wholesale and retail competition

- ▶ Transfer Tekapo A and B to Genesis
- ▶ Sell Whirinaki to Meridian
- ▶ Impose virtual asset swaps on 3 SOEs
- ▶ Require development of liquid hedge market with clearing house and low barriers to participation
- ▶ Introduce as a priority a transmission hedging mechanism
- ▶ Facilitate greater demand side participation
- ▶ Let lines companies back into retailing

Improve wholesale and retail competition (2)

- ▶ Remove 50 MW cap on lines companies building thermal generation
- ▶ Develop *more* standardised tariff structures and UoS rules
- ▶ Ensure guidelines and standards on smart meters provide for open architecture
- ▶ Encourage retailers to offer tariffs that facilitate demand management, including during dry years
- ▶ EA to monitor and analyse market data
- ▶ Encourage and facilitate customer switching

Improve governance

- ▶ Replace EC with EA:
 - EA to be an independent Crown Entity
 - Objective of EA to be to promote secure and efficient operation of, and competition in, the electricity market for the long-term benefit of consumers
 - Board appointed by GG on recommendation of Minister
 - Minister required to invite nominations from stakeholders
 - Criteria for members set out in legislation
 - EC should focus on market rules and their enforcement
 - EC should use working groups

Improve governance (2)

- ▶ Transfer GIT and consolidate transmission investment approvals at ComCom
- ▶ Transfer to System Operator:
 - information and forecasting on security of supply
 - emergency management
- ▶ Transfer responsibility for SOO to MED
- ▶ EA to set up and service a Security and Reliability Council to monitor and provide advice on:
 - System Operator performance
 - Security of supply issues generally

Next steps

- ▶ Officials have been busy already
- ▶ Establishment Board for EA announced last week; meets for first time next week
- ▶ Bill will be reported back to the House and legislation progressed
- ▶ Expected establishment date for EA is 1 Oct 2010
- ▶ Challenge: Getting the right balance between maintaining momentum of EC on rule development etc. while ensuring there is real improvement in outcomes for consumers