

# Electricity Governance

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# Background

- Ministerial inquiry: Feb – June 2000
- Government Policy Statement: Dec 2000
- Electricity Governance Establishment Committee formed Dec 2000
- Authorisation sought from Commerce Commission: Dec 2001
- Rules approved, Sept 2002
  - for four years
  - subject to four conditions



# Proposed Electricity Governance Board

- 7 members
- Chair elected by and from the Board
- All independent, ie cannot be a director, employee, or shareholder of a participant; nor a trader under the rules
- Elected by members:
  - generators and purchasers: one-third
  - distributors and grid owner: one-third
  - approved consumer groups: one-third



# Duties of board

- To promote the guiding principles
- To be the primary governance body for the rules
- To oversee the operation of the rules, inc. compliance and enforcement
- To oversee the rule change process
- To ensure real time transmission system security
- To develop and maintain model use of system agreements and a model approach to distribution pricing (should members so wish)
- To appoint service providers
- To review the performance of service providers and other parties contracted by the board
- To exercise executive powers where required by the rules or by law



# Guiding principles

The rules should:

- Foster economic welfare
- Promote efficient use of scarce resources
- Foster competition
- Foster levels of performance desired by consumers
- Favour voluntary membership
- Facilitate decisions on common services
- Facilitate a robust business environment
- Ensure their evolution is unbiased and transparent
- Be robust and enforceable
- Comply with the law



## Why an independent board?

- To counter the perception of supply-side dominance
- Alternative (a representative structure) also problematic
- Key problem: how to reconcile multiple, conflicting interests when agreement is essential
- Consumers not excluded by definition of “independent”



# How are rules to be amended?

- Anyone may propose a rule change
- Working group appointed by the Board, ie membership, terms of reference and timetable
- Working group report checked against guiding principles
- Board can bypass working group (Commerce Commission condition 1)
- Controversial rule changes will require approval of members (but see Commerce Commission condition 2)



## Will the Board lack authority?

- It appoints service providers
- It negotiates performance standards with the Minister
- It will promote improvement of the rules
- The Commerce Commission conditions strengthen its powers
- Wherever it is located, the power to change the rules will bring uncertainty and risk



# Where to now?

- Finalise rules:
  - Incorporate Commerce Commission conditions
  - Incorporate changes to NZEM/MARIA since application
  - Ring-fence Comalco agreement(s)
- Finalise service provision contracts
- Conduct referendum of prospective members
- Wind up existing agreements, ie NZEM, MARIA, MACQs
- System operator confirmation



# Unfinished business

- Model agreements:
  - use of system
  - approaches to distribution pricing
  - domestic consumer contracts
- Real-time market
- Transmission pricing methodology
- Financial transmission rights
- Frequency standards

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