

8 October 2003

Mr Ross Milner
Resources and Networks Branch
Ministry for Economic Development
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Dear Mr Milner

Revised Government Policy Statement on Electricity Governance

1. Business New Zealand notes that the documentation released concerning the revised Government Policy Statement (GPS) makes it very clear that policy decisions have already been made on reserve generation and associated trigger pricing, and a range of areas covering both supply and demand of electricity. In addition, the decision to allow the Ministry for Economic Development to contract reserve generation prior to the establishment of the Electricity Commission and prior to the release of this revised GPS strongly suggests that electricity policy is confirmed and limited willingness exists to consider alternate approaches.
2. In particular the GPS document stresses the role of the Sustainable Development Programme of Action, the Growth and Innovation Framework and renewable energy, but is almost silent on the essential role of a secure and stable energy supply in achieving sustainable economic growth goals.
3. Since the review of the events of winter 2001 Business New Zealand has made a variety of submissions to both officials and in response to Government bills. In our commentary we have consistently argued the critical role of electricity and the need for rigorous policy development. The following offers a selection of the comment we have offered and it is with considerable disappointment to note that few or any of the suggestions offered and positions taken have been reflected in the revised GPS:

Winter Electricity Review (2 October 2001)

Submitted a suite of recommendations on changes to existing arrangements including:

- The Minister request historic and day-to-day inflow and hydrology data and information, spot prices, generator offers, primary hedge information and anonymous retail contract pricing be made public through a readily accessible medium such as the Internet (should be at low or nil cost).
- The Minister direct Transpower consult with stakeholders and the Grid Security Committee and report back to the Minister by 28 February 2002 on how the existing grid capacity could be enhanced prior to winter 2002.
- The Minister direct Transpower consult with stakeholders and report back to the Minister before 31 March 2002 on attainable, forward new grid investment prior to winter 2002 for a five year period ending 2007
- Should the Commerce Commission decide to not direct the divestment of On Energy's retail base from Genesis and Meridian, an independent cost/benefit analysis of alternative ways to separate generation from retailing be undertaken and reported back to the Minister no later than 31 March 2002.
- The Minister request all retailers to demonstrate by 31 March 2002 that they had available a range of market products, targeting different groups of customers, that would provide continuing incentives for conservation, particularly in dry years.
- The Minister request Cabinet approval for an amendment to the Government Policy Statement requiring the Electricity Governance Board to carry out a comparative and in depth review of the New Zealand electricity market within 18 months of its (the Board's) establishment.

Renewable Energy (17 June 2002)

- Supported the goal of working toward a sustainable energy future and believed identifying a longer term, secure energy supply was critical to achieving sustainable national growth.
- While recognising the desirability of utilising additional renewable technologies the advocacy of such technologies must not be permitted to impact negatively on market energy prices.
- To minimise costs and to facilitate the introduction of new developments several regulatory barriers needed to be addressed. In particular,

comprehensive reform of the RMA was required if a sustainable and cost-effective energy future was to be achieved.

- A comprehensive overarching energy strategy needed to be developed that looked beyond 2020. The strategy needed to consider all viable energy fuels, the drivers and impediments to delivering those fuels and their associated technologies, and offer a seamless and least-cost pathway to supplying the demands of the future.

Design Details Reserve Generation Preferred Option (2 July 2003)

- In this communication to your colleague Mr Andrew Jefferies Business New Zealand urged caution on the reserve generation proposal and recommended a closer examination of the events earlier this year would reveal that the core problem was fuel management rather than a lack of generation capacity.

Electricity Inquiry Submission (29 July 2003)

- Submitted to the Inquiry that the new Commission's role should be confined to ensuring a stable and secure supply of electricity. Pending the outcome of the deliberations of the Gas Industry Steering Group it was inappropriate to expand the Commission's role into consideration of broader gas issues.
- Supported the establishment of the Electricity Commission and balanced governance of the electricity industry. The Commission should adopt a least cost and limited intervention approach. The ring fenced reserve generation proposal did not fulfil these criteria and further in-depth consideration of alternative methods of securing supply, such as mandatory tendering of long term contracts, should be conducted prior to confirming the Government Policy Statement.
- Recommended that Transpower remained an SOE with an independent board, retain its system operator and asset management roles but be required to embark upon a robust, ongoing, targeted programme of asset upgrades aimed at developing a modern and flexible system within five years. The Commission's role should be one of oversight, with direct involvement in grid investment decisions minimised.
- Submitted the Commission should require all distribution companies to publicly release a detailed security of supply report out to 2013 for their entire network by 31 March 2007. This report should also include information on any plans to discontinue supply post March 2013.
- Stated that current Government policy positions in reference to generation fuels had the potential to result in unnecessary costs to the economy. Recommended the Inquiry call for an unbiased evaluation of the costs and benefits of ALL available fuel reserves.

Resource Management (Energy and Climate Change) Amendment Bill

(22 September 2003)

Currently before Select Committee and reiterates much of what was said in earlier commentary including:

- The country is currently at a critical stage regarding a secure and stable energy supply. Considerable uncertainties surround fuel supplies, notably gas, the price of delivered electricity, and the timely construction of generation facilities. This situation is compounded by problems with the national grid. The average age of transmission assets is now 40 years, a number of constraints exist, and issues surrounding the RMA have been cited by the system owner as a significant barrier to improving the situation.
- There is a strong possibility that investment has already been lost to New Zealand because of uncertainties over future supply. Similarly, business has been lost from New Zealand as a consequence of extreme price volatility caused at least in part by the present supply deficiencies.
- The need to take an inclusive approach when considering energy fuels for electricity generation is highlighted by considering the following comparison as detailed in a recent Centre for Advanced Engineering report. It shows the energy supply by commodity or generation type required to meet the predicted 800GWh, or 2%, per annum growth of supply requiring 150 MW of new installed capacity each year. CAE notes, *"This comparison demonstrates the difficulty of meeting growth requirements from renewable sources and the importance of fossil fuels"*.¹

ENERGY SOURCE	ANNUAL ENERGY REQUIREMENT TO MEET 2% ELECTRICITY DEMAND GROWTH
gas	22.5 billion cubic feet
coal	380,000 tonnes of sub-bituminous
oil	15 million barrels
geothermal	unconstrained development of an average geothermal field
wind	300 new wind turbines
hydro	a new hydro station equivalent to the Aviemore dam
solar	360,000 domestic solar water heaters

¹ "New Zealand's Energy Future", Centre for Advanced Engineering, 2003, p24

4. It is the view of Business New Zealand that Government reaction to the events of the winters of 2001 and 2003 and the failure of the electricity industry self-governance project has been a “rush to regulate” rather than a careful consideration of the dynamics of the market and the considered application of a selective and light handed regulatory approach.
5. The revised GPS identifies a substantial number of areas of the market where intervention is proposed and it is of considerable concern that this approach, combined with an over emphasis on renewable fuel sources, will act as an effective investment deterrent, bring unnecessary costs to the economy and jeopardise the development of a secure and stable forward energy pathway.

Thank you for the opportunity to comment.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Whitehouse', with a horizontal line underneath.

Peter Whitehouse
Adviser Environment & Technology