ENERGY TRUSTS OF NEW ZEALAND INC.
P O Box 305
Te Awamutu 3840
www.etnz.org.nz

Submitter	**Energy Trusts of NZ Inc. (ETNZ)**
Questions Q1. Do you consider section 3 to be an accurate summary of thew existing arrangements for power system operation in New Zealand? Please give reasons if you do not agree. And Q2. Do you agree that we have captured the key drivers of change in New Zealand's power system operation? And Q6. Do you consider existing power system obligations are compatible with the uptake of DER and IBR-based generation?	**Comments** It is an inadequate summary: • The brief history doesn't cover the legislated separation of distributors' line and energy activities that effectively truncated their existing and emerging local system operator functions. • It also omits the dislocation of data flows created by line/energy separation. • It does not cover several key regulatory arrangements that could be improved to promote the objective of an efficient transition to a carbon-free system. These are: <u>The nodal pricing system</u>. This provides key information to the System Operator that is at the heart of efficient dispatch. However, it is also used to set market prices in a way that delivers misleading local investment signals. Put simply, nodal prices rise sharply where transmission constraints occur and/or where supply is constrained but collapse if a local generator or demand-side equivalent starts up. It would seem very desirable to look for a mechanism that continues to deliver the SO the same dispatch messages but that delivers much more stable long-

	term pricing signals to local investors in green options. <u>The Transmission Pricing Methodology</u> The TPM is an obligation that currently loads most of the costs of transmission onto consumers, although this is meant to gradually shift a substantial part of that cost to transmission-reliant generators over an indeterminant number of years. In effect the established Grid dependant generators are able to be dispatched at artificial prices that have been subsidised by the consumers they supply, whereas investors in non-Grid dependant local options have no such advantage. This is a David vs Goliath situation that gives the dominant parties in the wholesale electricity market even more competitive weight to use against competition from DER and IBR-based generation. While the simplest option to correct this discriminatory pricing arrangement would be to accelerate the reallocation of transmission cost loadings, if this is not an option then consideration could be given to finding an alternative dispatch mechanism that is cost-neutral to consumers.
Q7. Do you consider we need an increased level of coordination of network planning, investment and operations across the New Zealand power system?	Yes, as the current system has emerged from a fairly chaotic mix of local initiatives, government edicts, upstream monopolies, central planning and unevenly regulated market forces. It would seem sensible to begin with a high level aspirational planning process, involving all levels of the industry (including consumers) and ensuring that consumer interests are understood and effectively projected. It is important to avoid tokenism, and to ensure that resource limitations and information imbalances are accounted for.

	The 'Energy Plan' approach of the 1980s is worth revisiting.
Q8. Do you think there are significant conflicts of interests for industry participants with concurrent roles in network ownership, network operation and network planning?	There are several fairly clear conflicts of interest: • The government's position as the entity governing the various regulators along with the relevant policy advisors while also being the most significant asset owner (all of Transpower plus 51% of the 3 major generator/retailers). While the reasons for maintaining Transpower's ownership arrangements are reasonably well understood, confidence in the industry would be enhanced if transparent structures were established to ensure that the dividend stream from the Crown's gentailer shareholdings was not a factor in determining policy decisions. Consideration could be given to a system that ensured that entities with a significant Crown shareholding were not permitted to have any interface with Ministers (either directly or through proxies) and must always direct any representations through a regulatory council of some sort. • Ownership of retailing by the major generators. Given the strong powers that the parties that control the major generation elements have to influence the market, it would seem prudent to encourage them to stick to their primary role of ensuring that the lights stay on (and that the transition to a decarbonised system occurs) rather than competing in the retail market. • Ownership of distributors by various different entities (consumer and community trusts,

	local government and private investors). In an unregulated market situation conflicts of interest could arise that impacted on DER. However, the regulated separation of line and energy functions, along with the dual oversight of the Commerce Commission and the Electricity Authority should provide more than adequate safeguards against this leading to unfair market practices. In fact, the technical knowledge held by distributors is important to the emergence of DER and IBR, where would-be investors would otherwise be at a disadvantage to established market participants. As the organisation representing most energy trusts, ETNZ is also conscious of the primary responsibility of all trustees which is to act in the best interests of their beneficiaries – i.e. consumers and communities. Were consumer interests being threatened by predatory behaviour by an entity that the trust had oversight of, a trust's clear responsibility would be to protect those interests. A contrast could be drawn between trust ownership and, for example, the ownership of Aurora by local government. Revenue maximisation and rates minimisation seem to have been two drivers that got in the way of timely system renewal and development. Similarly, private ownership of Wellington Electricity (before remedial moves were initiated by successive owners) resulted in underinvestment problems.
Q9. Do you have any further views on whether this is a good time for the Authority to assess future	It seems sensible to begin looking at how the SO function can be improved, on the cusp of the forecast surge in demand-

system operation in New Zealand, and whether there are other challenges or opportunities that we have not covered adequately in this paper?	side priorities. The current structure was established after the breakup of the Electricity Corporation monopoly but retained what were essentially top-down priorities, aimed at efficient dispatch of multiple Grid connected generators. With downstream investments that facilitate decarbonisation expected, a shift in the SO's priorities to demand-side and consumer priorities is desirable. We would like to see a much more apparent consumer role in SO governance, and hope that this is given careful attention. The flow of system operation down to. Consumers is very relevant to consumer empowerment and demand-side activities. Here retailers can be obstructive, terms such as 'fixed costs' can be misleading, and even finding clear and timely information on topics such as storage lake levels is not a consumer friendly process. Similarly, planned and unplanned system outage notifications at wholesale and local levels are becoming increasingly relevant and downstream market activities expand. Here a central information registry supported by requirements for reminder notices etc. would be useful. We've touched on other challenges and opportunities in our answers to Qs 1-7 above.