

DRAFT GOVERNMENT POLICY STATEMENT ON ELECTRICITY GOVERNANCE

SUBMISSION TO THE MINISTRY OF ECONOMIC DEVELOPMENT

16 MARCH 2009

BACKGROUND TO IPENZ

The Institution of Professional Engineers New Zealand (IPENZ) is the lead national professional body representing the engineering profession in New Zealand. It has approximately 10,000 Members, including a cross-section from engineering students to practising engineers to senior Members in positions of responsibility in business. IPENZ is non-aligned and seeks to contribute to the community in matters of national interest giving a learned view on important issues, independent of any commercial interest.

EXECUTIVE SUMMARY

IPENZ notes the proposed blanket removal of the use of advisory groups. We recommend that the Electricity Commission continues to use a limited number of advisory groups on critical issues.

We note the intention to remove references to the New Zealand Energy Strategy and the New Zealand Energy Efficiency and Conservation Strategy. IPENZ strongly supports these strategies and notes that removing these references will lead to significant policy gaps in electricity policy.

IPENZ notes and supports the importance placed on security of supply.

IPENZ supports the new process as long as it includes provisions to ensure that larger projects (over \$20 million) cannot be divided into smaller projects to avoid scrutiny by the Electricity Commission.

The amendments to the Government Policy Statement on Electricity Governance seem to signal an intention by this government to review a number of key policy areas such as energy efficiency and renewables. It is our view that the government needed to clarify its policy positions on energy issues prior to amending documents such as the Government Policy Statement.

IPENZ appreciates the opportunity to make this submission and is able to provide further clarification if required.

SUBMISSION

This submission is structured to provide comments on the sections of the draft Government Policy Statement on Electricity Governance (GPS).

Commission's Powers and Approach

As with our submission during the previous revision of the GPS, we broadly support the intention of this section.

We note that the requirement for the Electricity Commission to make extensive use of advisory groups is to be removed. IPENZ acknowledges that having a plethora of advisory groups can be unhelpful and time consuming.

Advisory groups can provide industry input and assistance to the Electricity Commission. In particular, it is useful to have industry input into rules and regulations, as this helps to ensure that those rules and regulations are workable and appropriate.

We consider that industry input is vital and recommend that the Electricity Commission continues to use a limited number of advisory groups on critical issues.

We support the encouragement of innovation and the relevant text on page six of the draft GPS. However, we consider that further guidance should be provided to the Electricity Commission, which describes how to balance certainty and clarity with scope for innovation.

New Zealand Energy Strategy and New Zealand Energy Efficiency and Conservation Strategy

We note the proposed removal of this section and understand that the reason for this is that these strategies are to be reviewed in 2009.

IPENZ strongly supports the New Zealand Energy Efficiency and Conservation Strategy. We support the encouragement provided in New Zealand Energy Efficiency and Conservation Strategy for households and businesses to use energy more efficiently. IPENZ also supports energy-efficient products and the use of mandatory minimum efficiency standards to drive technology change. We note that National's Energy Policy states that National will "support energy efficiency by making sure the Energy Efficiency and Conservation Authority and its programmes are well funded". National's Energy Policy has other actions including that National will "ensure energy efficiency projects do not get bogged down in red tape".

IPENZ considers that removing references to the New Zealand Energy Strategy and the New Zealand Energy Efficiency and Conservation Strategy will leave large gaps in electricity policy. We recommend that clarity be provided in relation to the New Zealand Energy Strategy and the New Zealand Energy Efficiency and Conservation Strategy.

We also seek clarity as to the actions assigned in this section of the GPS, in the New Zealand Energy Strategy, and in the New Zealand Energy Efficiency and Conservation Strategy. For example, we do not know whether the 90 per cent renewables target is still government policy and we question the status of the actions on pages 68 and 80 of the New Zealand Energy Strategy.

Security of Supply

IPENZ notes that this section has been brought forward in the GPS. We support the importance placed on ensuring security of supply.

As stated in our submission on the previous revision of the GPS, we note that the GPS requires the Electricity Commission to look ahead three to five years to establish the need for additional reserve energy. We continue to question whether three to five years is sufficient time given the long lead-time to construct new generating capacity.

Consumer Protection

IPENZ is not qualified to comment on this section.

Electricity Efficiency

In relation to the proposed removal of the paragraph on page 16, IPENZ strongly supports investment in energy efficiency measures where it is cheaper than the long-term costs of building extra generation and network capacity. We therefore recommend that the sentence to this effect, within deleted paragraph 61, be reinstated in the GPS.

As in our previous submission, we note that the statement: “the Commission should ensure that it gives full consideration to the contribution of the demand side as well as the supply side in meeting the Government’s electricity objectives”, is not very specific and does not state the Electricity Commission’s priorities. We recommend that the statement be expanded to explicitly state the priorities for the Electricity Commission’s considerations.

We note the government’s request for a review of the Memorandum of Understanding between the Electricity Commission and the Energy Efficiency and Conservation Authority on page 16. We also note that this was present in the previous version of the GPS and, as we stated in our previous submission, IPENZ supports the review of the Memorandum of Understanding. However, once a review has taken place, this clause in the GPS may be inappropriate.

We note the removal of text on page 17 relating to discount rate. IPENZ understands that a five per cent discount rate is used to reflect the long-term benefits of energy efficiency. We question why the use of a discount rate is being removed from the GPS. IPENZ recommends that the government clarify its policy position on the assessment of energy efficiency measures.

Renewable Energy

We note the proposed removal of reference to the government target “for 90 per cent of electricity to be generated from renewable sources by 2025”. We recommend clearly defining the renewables target to provide certainty for those involved in the energy industry.

IPENZ also notes the proposed removal of the requirement for the Electricity Commission to “investigate the extent to which hydro and other generation sources can be integrated fully with intermittent wind generation”. IPENZ supports innovation and the use of developing technologies. We are concerned by the removal of this requirement. Our previous submission noted our support of this statement and recommended that marine-derived energy conversion should also be included.

IPENZ recommends that deleted clause 78 be reinstated into the GPS and that the inclusion of marine-derived energy conversion be considered.

System Operation and Wholesale and Related Markets

IPENZ has no comments on this section.

Transmission

On page 23, IPENZ notes the proposed new process to approve transmission upgrades costing up to \$20 million. IPENZ supports reducing the planning duplication and simplifying the processes for these relatively small projects.

IPENZ supports the new process provided it includes provisions to ensure that larger projects (over \$20 million) cannot be divided into smaller projects to avoid scrutiny by the Electricity Commission.

One suggested mechanism is an annual review of small (under \$20 million) projects by the Electricity Commission. This review could confirm that the small projects are appropriate and, using criteria for projects costing over \$20 million, would have been approved by the Electricity Commission.

Distribution

IPENZ has no comments on this section.

Interrelationship with the Commerce Commission

We note the request on page 27 for the Commerce Commission and the Electricity Commission to review their Memorandum of Understanding. The draft GPS contains a date of 30 November 2008 for this review to take place. Given this date has already passed; we recommend that the GPS set an achievable date.

Our submission during the previous review of the GPS noted that the Electricity Commission's role needs clarifying where that role overlaps with other agencies. We remain unconvinced that this GPS adequately clarifies the roles of the Electricity Commission and recommend that further effort be made to address this.

Distributed Generation

IPENZ supports the use of distributed generation and also supports the requirement that "there are no unnecessary barriers to its development".

Retail

IPENZ supports the use of competition to drive costs down and increase service quality.

Accountability Requirements

IPENZ has no comments on this section.

CONCLUSION

IPENZ appreciates the opportunity to make this submission and is able to provide further clarification if required.

Tim Davin

Director – Policy