



22 May 2002

Commerce Commission
PO Box 2351
WELLINGTON

Attention: Mr Peter Alsop

Dear Mr Alsop

Orion's submission in regard to the Commission's Draft Determination in regard to the Electricity Governance Board Limited, 26 April 2002

1. Orion New Zealand Limited (Orion) makes this submission as a prospective distributor member of the EGB rulebook. Orion supports the submission made by the Electricity Networks Association.
2. Orion believes that the electricity industry has worked diligently to establish an industry self-regulatory governance structure and that conceptually this is superior to a Crown EGB.
3. However, Orion accepts the validity of the Commission's concerns in two key areas:
 - (a) Strikedown of pro-competitive rules, where major generator-retailers can prevent pro-competitive rule-changes being made (Commission's Electricity Wholesaling Question 44); and
 - (b) Under-investment in the grid and the implications for nodal pricing (Commission's Transport Questions 44 and 45).
4. In regard to (a) above, Orion recommends that a safety-valve provision be developed, for example, whereby an expert panel decide whether a rule change, that would enhance competition compared to the status quo, has been voted down. Secondly, that panel should undertake a cost/benefit analysis for the economy in regard to the proposal. The proposal could then be modified as necessary by that expert panel and submitted again for a vote. If unsuccessful, the independent Electricity Governance Board could have the power to make the rule change.
5. In regard to (b) above, the issue of distributors facing 'fixed and unavoidable' charges from Transpower for the vast majority of Transpower's revenue

requirement means that distributors do not face appropriate economic pricing signals. It is the retailer who primarily benefits from lower nodal prices resulting from new transmission investment and the relief of constraints. This is unrelated to the issue of Crown versus Industry EGB.

6. Orion has made substantive submissions to Transpower on the basis that distributors should face economically-sound prices to which they can respond in order to prevent unnecessary investment in the core grid.
7. Transpower's argument is that nodal pricing sends appropriate new investment signals. Orion's concern is that there is no evidence offered by Transpower that this works in practice. While Orion supports Part F of the rules, a precondition is that economically sound pricing prevents uneconomic demands on the grid prior to consideration of who is to pay for new investment.
8. Paragraph 386 of the Commission's paper notes Transpower's concerns in regard to the distortion of investment signals through collective decision-making. Orion argues that this is due to the lack of a sound transmission pricing methodology, not collective decision-making. Such a sound pricing methodology would provide investment signals to distributors who would be empowered to make decisions in each half-hour that would avoid the need for unnecessary investment in the grid. Instead, Transpower must expend considerable effort to find counterparties for new-investment contracts.
9. Orion agrees that Transpower's current pricing methodology does not deliver a coherent and economically efficient outcome. Orion does not believe, however, that a Crown EGB is the appropriate solution. Instead, the adoption of a more coherent pricing methodology by Transpower would solve this problem. Elements of this methodology would include:
 - (i) prices to distribution companies that include a long-run marginal cost signal
 - (ii) acceptance that nodal pricing has not and will not deliver quality transmission investment outcomes
 - (iii) aggregation of grid exit point loads for distribution networks to allow demand-side participation in the avoidance of transmission congestion. This would also greatly assist in avoiding unnecessary transmission investment.

Orion recommends that the Commission takes note of the various submissions to Transpower contained on their website in regard to transmission pricing principles.

Yours sincerely

Rob Jamieson
Strategic Issues Manager