

**MEMORANDUM OF UNDERSTANDING  
BETWEEN  
THE COMMERCE COMMISSION  
AND  
THE ELECTRICITY COMMISSION**

**PROTOCOL ON IMPROVING INCENTIVES FOR ELECTRICITY  
DISTRIBUTION BUSINESSES**

**13 NOVEMBER 2008**

# **This Protocol to the Memorandum of Understanding between the Commerce Commission and the Electricity Commission is dated 13 November 2008**

## **Background**

- A. This protocol forms part of a Memorandum of Understanding between the Commerce Commission and the Electricity Commission dated 16 August 2007, as updated on xx November 2008. The Memorandum of Understanding explains how the two Commissions coordinate their respective roles under the Commerce Act 1986 and the Electricity Act 1992.
- B. In May 2008 the Government, through its Government Policy Statement on Electricity Governance (Government Policy Statement), requested the two Commissions to review the Memorandum of Understanding. The Commerce Commission is required by section 26 of the Commerce Act to have regard to the economic policies of the Government as notified in writing from time to time to the Commerce Commission. The Electricity Commission is required by section 172ZK of the Electricity Act to give effect to the objectives and outcomes in the Government Policy Statement.
- C. Paragraph 119 of the Government Policy Statement provides:

*In addition, the Government requests that the Commerce Commission and the Electricity Commission review their Memorandum of Understanding by 30 November 2008 to specifically address the following matters in relation to improving incentives for electricity lines businesses in respect of:*

- *managing distribution losses*
- *facilitating uptake of advanced metering infrastructure and more efficient distribution pricing*
- *ensuring target security levels for distribution networks are met at least cost*
- *facilitating investment in energy efficiency (including consumer end-use efficiency), demand side management and distributed generation.*

- D. The Commerce Commission and the Electricity Commission have reviewed the Memorandum of Understanding as requested.
- E. The two Commissions consider that, in respect of detailed operational statements regarding the coordination of their respective roles, such as that contemplated by the Government Policy Statement, these statements are best issued as protocols to the Memorandum of Understanding. The reasons for this approach are to:
- (a) ensure consistency with the Memorandum of Understanding as an umbrella document providing a general overview of the respective roles of, and the interrelationship between, the two Commissions; and
  - (b) facilitate the development by the two Commissions of detailed operational statements regarding the coordination of their respective roles without requiring

formal amendments to the Memorandum of Understanding each time such statements are issued.

- F. This protocol is intended to ensure that interested parties have certainty and clarity on how the Commerce Commission and the Electricity Commission will operationalise the coordination of their respective roles in relation to improving incentives for electricity distribution businesses. The Memorandum of Understanding also provides an overview of the differences between the roles of the two Commissions.

## **THE PARTIES AGREE**

### **1. Incorporation by reference of protocol into Memorandum of Understanding**

- 1.1 The protocol contained in the schedule, as varied from time to time by the two Commissions, is incorporated by reference into the Memorandum of Understanding and remains effective until otherwise agreed.
- 1.2 The protocol may be revoked or amended at any time by written agreement between the Commissions.

### **2. Evolving Regulatory Environment**

- 2.1 If there is a material change to the regulatory regime applicable to suppliers of electricity lines services, the two Commissions will meet to discuss in good faith the implications of that change for the terms of this protocol, and whether any modification of the protocol is necessary.

**SIGNED** for and with the authority of the  
**COMMERCE COMMISSION** by:

Paula Rebstock  
Signature

PAULA REBSTOCK  
Name

CHAIR  
Designation

**SIGNED** for and with the authority of the  
**ELECTRICITY COMMISSION** by:

David Gyffe  
Signature

David Gyffe  
Name

Chair  
Designation

## **SCHEDULE**

# **PROTOCOL ON IMPROVING INCENTIVES FOR SUPPLIERS OF ELECTRICITY LINES SERVICES**

## **1 Introduction**

- 1.1 This protocol describes how the Commerce Commission and the Electricity Commission roles interact and how they coordinate their respective roles under the Commerce Act 1986 and the Electricity Act 1992, particularly regarding the matters referred to in paragraph 119 of the Government Policy Statement.
- 1.2 At a high level, the roles and responsibilities of each Commission are laid out in this document. Close working relations and formal lines of communication have been established to foster sharing of knowledge and coordination of the respective roles.
- 1.3 In summary, the matters referred to in paragraph 119 of the Government Policy Statement relate to incentivising electricity distribution businesses to be more energy efficient.

## **2 Role of Commerce Commission with respect to improving incentives for suppliers of electricity lines services**

- 2.1 The Commerce Commission is required, under section 54Q of the Commerce Act, to promote incentives, and avoid imposing disincentives, for suppliers of electricity lines services to invest in energy efficiency and demand side management, and to reduce energy losses. The Commerce Commission will promote such incentives by way of the regulatory instruments available to it under the Commerce Act, subject to the overall purpose statement in section 52A of the Commerce Act. The Commerce Commission will consult on and consider possible approaches as it implements the regulatory regime under Part 4 of the Commerce Act. In exercising its powers under the Commerce Act, the Commerce Commission will have regard to any relevant programmes and initiatives developed by the Electricity Commission, such as those set out below at paragraph 3.3 below, in accordance with section 54 V of the Act.
- 2.2 The Government has also set out objectives regarding energy efficiency in the Government Policy Statement, including that the Commerce Commission should provide appropriate incentives for demand side management and reducing energy losses. The Commerce Commission will have regard to all of these objectives when it implements the new regulatory regime.

## **3 Role of Electricity Commission with respect to improving incentives for suppliers of electricity lines services**

- 3.1 The Electricity Commission is required, under the Electricity Act, to promote and facilitate the efficient use of electricity. Consistent with that principal objective, it must seek to achieve the following specific outcomes<sup>1</sup> in relation to electricity efficiency and incentives on suppliers of electricity lines services:
- 3.1.1 incentives for investment in energy efficiency and demand-side management are maintained or enhanced and do not discriminate between private and public investment; and
- 3.1.2 the electricity sector contributes to achieving the Government's climate change objectives by minimising distribution losses and promoting demand management and energy efficiency and removing barriers to investment in distributed generation.
- 3.2 Therefore, the Electricity Commission has responsibility for the development of demand-side programmes, improved metering arrangements and the promotion of loss minimisation initiatives that encourage and/or mandate electrical distribution businesses to pursue energy efficiency. The Electricity Commission is required to seek voluntary solutions before imposing new rules and regulations on market participants.
- 3.3 In that regard, the Electricity Commission has initiatives as part of its work plan that support the Government Policy Statement objectives. The table below matches the Government Policy Statement objective with the relevant Electricity Commission initiative:

Government Policy Statement	Relevant Electricity Commission Initiative
Managing distribution losses	Establish guidelines for the calculation and management of distribution losses
	Develop policies to reduce non-technical losses
	Develop policies to reduce technical losses
Facilitating uptake of advanced metering infrastructure and more efficient distribution pricing	<p>Implement small rule change with respect to 2 way communication with meters</p> <p>Investigate the provision of guidelines or rules for:</p> <ul style="list-style-type: none"> <li>• open access to and operation of AMI systems</li> <li>• no remote change in metrology</li> <li>• minimum of six accumulating registers</li> </ul>
Ensuring target security levels for distribution networks are met at least cost	Establish model distribution pricing methodology
Facilitating investment	Establish load control policy and load management

<sup>1</sup> The specific outcomes in the Electricity Act cover a number of other matters and do not specifically relate to electricity distribution businesses but for the purposes of the protocol the most directly relevant parts of the specific outcomes to the promotion and facilitation of energy efficiency by electricity distribution businesses are noted here.

Government Policy Statement	Relevant Electricity Commission Initiative
in energy efficiency (including consumer end-use efficiency), demand side management and distributed generation	development issues and any necessary rule changes
	Investigate whether guidelines or standards for domestic scale distributed generation are required
	Establish plan for administering distribution generation regulations
	Implement efficient lighting programme
	Implement efficient compressed air programme
	Implement efficient motors programme
	Implement efficient commercial buildings programme
	EnergyWise Homes programme

## 4 Achieving operational coordination between the Commissions

- 4.1 The Commerce Commission and the Electricity Commission have identified a potential for overlap between their respective roles in the following areas:
- 4.1.1 establishing guidelines for the calculation and management of distribution losses;
  - 4.1.2 developing policies to reduce non-technical losses; and
  - 4.1.3 establishing electricity distribution pricing methodology.
- 4.2 The Commerce Commission and the Electricity Commission will coordinate their respective initiatives in these areas to ensure that there is consistency in any information requirements to be provided by suppliers of electricity lines services to avoid duplication and the imposition of unnecessary administrative costs.