

3 March 2011

Customer Compensation Scheme during Public Conservation Campaigns

Questions and Answers

When does the Customer Compensation Scheme (CCS) come into effect?

The CCS comes into effect on 1 April 2011. Any PCC that may be called after this date will be covered by the provisions of the CCS.

Does the introduction of the CCS mean we are heading into a dry winter in 2011?

No. The introduction of the CCS is not at all related to the current supply and demand situation. The CSS is designed to provide a better deal for customers and clarity for the industry, especially retailers, should a sustained period of energy shortage occur in the future, such as during very low hydro storage conditions.

Where can I find information on hydro storage?

Hydro storage and risk information are available on the System Operator's website at <http://www.systemoperator.co.nz/latest-sos-update>

Currently, the System Operator's Risk Meter shows a 'normal' level, which means the risk of supply shortages remains low.

What is a public conservation campaign?

A public conservation campaign (PCC) is an official campaign to encourage electricity conservation. A PCC is triggered and ended by Transpower as the System Operator, lasts for at least one week, and covers either the South Island or all of New Zealand depending on the prevailing hydro storage conditions.

Why is the South Island given special treatment?

The South Island is completely reliant on hydro generation for its supply, augmented at times with southward energy transfers from the North Island across the inter-island HVDC link. The southwards transfer capability is relatively limited, so it is possible that a hydro energy shortage could impact the South Island only. Hence, the new scheme provides for

compensation to be paid only to South Island customers when there is a South Island-only PCC.

What triggers a PCC?

A PCC is triggered by the System Operator when hydro storage falls to the point that the risk of supply shortages is 10% or more and is forecast to remain at 10% or more for a period of at least one week. The risk of shortage assessment takes into account any material factor affecting supply, such as constraints on fuel supplies, available generating capacity, the available transmission capacity and the projected hydro inflows for the time of year. Depending on the specific hydro storage circumstances, the PCC may apply to the whole country or to the South Island only.

During a PCC, a coordinated conservation campaign will be run in the media.

When will a PCC end?

The System Operator ends a PCC when storage recovers to an electricity shortage risk level of 8%.

What is the definition of a retailer for the purposes of the CCS?

A retailer is a participant who supplies electricity to another person for any purpose other than for re-supply to another party. A retailer must be on the participant register maintained by the Electricity Authority.

Who is a qualifying customer for the purposes of the CCS?

To qualify for the default CCS, a customer must have a category 1 or category 2 meter installed and have had a minimum level of consumption over the previous year of 3000 kWh. This qualifies the vast majority of residential and small business customers while excluding very low consumption sites, such as farm sheds and holiday homes, where conservation measures are not realistically achievable. It also excludes higher consumption commercial and industrial customers, who are better able to manage situations of tight supply directly with their retailers.

What are category 1 and 2 meters?

These are the types of electricity meter provided to measure and record electricity consumption at the vast majority of residential and small business customers in New Zealand.

Who is covered by the qualifying criteria?

The qualifying criteria target the vast majority of residential and small business customers (1.8 million accounts) that are on fixed-price, variable-volume tariffs. These tariffs do not provide an incentive for customers to conserve their usage when the supply situation tightens and wholesale electricity prices rise.

What happens if I haven't built a full year of consumer history with my current retailer?

Your retailer must make a reasonable estimate of what your consumption would be over a year for the purpose of determining your qualification for the CCS. Bills from a previous retailer can provide a record of your consumption if they cover the most recent year; your current retailer could ask for this supporting information.

How was \$10.50 per week arrived at?

The compensation payment of \$10.50 a week is based on the estimated savings that qualifying customers will achieve during a PCC. The \$10.50 amount is intended to remove the benefit gained by retailers when their customers conserve electricity use. It is also intended to provide a reasonable level of compensation for the cost and inconvenience an average customer incurs from curbing electricity consumption.

The Electricity Authority must review the weekly amount after the end of any future PCC and at least once every 3 calendar years.

What payment applies on the default scheme if the public conservation campaign runs for, say, four weeks and three days?

The weekly amount of \$10.50 is pro-rated for part weeks. In the example in the question, the total compensation payment for a qualifying customer on the default scheme would be \$46.50.

What happens if I switch retailers during a PCC?

Your compensation will be calculated and paid by the retailer supplying you on the qualifying date, as recorded on the industry registry. The qualifying date is the day following the date on which the PCC ends. Your exact compensation entitlement will depend on whether you are covered by the default scheme or an alternative scheme that you have previously opted into.

What is the qualifying date for the CCS?

The qualifying date is the day following the date on which the PCC ends.

How do I receive the compensation?

Retailers must pay each qualifying customer within two billing periods following the end of the PCC. Retailers will decide what form the payment will take. For example, it could be a payment of money to the account holder or a credit on the customer's electricity account.

What do I need to do if there is a PCC?

Your retailer will communicate with you regarding your options and have details available on its website. If you are a qualifying customer you don't need to opt into the default CCS. However, if you wish to be covered by any alternative CCS offered by your retailer, you will need to opt into the alternative CCS.

What is the difference between the default CCS and an alternative CCS?

The CCS is a very simple scheme that recognises the collective conservation efforts of all qualifying customers with a payment of \$10.50 for each week the PCC is in effect, paid by

retailers to their qualifying customers. The amount, which will be pro-rated for any part week, must be paid within two billing cycles following the end of the PCC.

Retailers can also, at their option, provide an alternative CCS which may be, but does not have to be, more directly linked to an individual customer's conservation efforts. A customer must opt into an alternative CCS if they want to be covered by the alternative scheme. Opting into an alternative scheme replaces the customer's default scheme compensation entitlement with that provided by the alternative scheme.

Can I change between the default CCS and an alternative CCS?

Yes. Opting into an alternative CCS substitutes for the default CCS, but you may subsequently elect to opt back. Compensation will be calculated based on the CCS you are covered by on the qualifying date, which is the day after the final day of the PCC.

If you want to be covered by an alternative scheme, you must agree with your retailer to be covered by that scheme before the qualifying date.

What about smart meters?

Smart meters can provide the ability to measure and record your electricity consumption in half hour time periods every day. This means that a retailer will be able to build up a profile of your usage that allows an assessment to be made of how much electricity you are saving when compared with a previous period of time. A retailer could develop an additional CCS that uses this information to calculate a compensation amount based on your assessed savings. This is not possible to do with the old technology meters commonly used in New Zealand and hence the default scheme has been designed with this in mind.

How has the detail of the CCS been finalised?

Planning for the CCS has been under way for some time. The Electricity Authority and its predecessor, the Electricity Commission, have consulted widely with interested parties and with an advisory group comprising industry and consumer representatives. A special technical group with industry and consumer representation has provided technical advice to the Electricity Authority and developed a detailed working design for the CCS. Forums for organisations interested in contributing to the development of the CCS have also been held. The Electricity and Gas Complaints Commissioner has been briefed.

Do qualifying customers that are normally heavy electricity users get more compensation? After all, these users can potentially save the most.

Not under the default CCS. Every qualifying customer covered by the default scheme is entitled to \$10.50 for each week a public conservation campaign is in effect. However, it is possible that different levels of compensation may apply to qualifying customers that opt into any alternative scheme that their retailer may choose to offer. In that case, the exact level of compensation will depend on how the alternative scheme works.

Who is responsible for overseeing the CCS?

Transpower, as the System Operator, is responsible for calculating and publishing the hydro risk information, and determining when hydro storage has fallen to the level necessary to

trigger a PCC. It must also endeavour to provide the electricity industry and the Authority with at least two weeks' notice of a PCC. They must determine when hydro storage has recovered to the level specified for the PCC to be ended.

Retailers are responsible for implementing the CCS, including any alternative CCS they may choose to offer, for their qualifying customers. They must make the appropriate compensation payments to their qualifying customers within two billing periods following the end of a PCC.

Following a PCC, retailers must provide statutory declarations to the Electricity Authority that they have complied with all the CCS requirements, including making the compensation payments to their qualifying customers. At its discretion, the Electricity Authority may audit any retailer to determine whether they have complied with their obligations under the CCS.

What would the CCS default payment obligation cost retailers for a 6 week PCC?

A 6 week PCC, at \$10.50 for each of New Zealand's approximately 1.8 million qualifying customers per week, would collectively cost retailers approximately \$113 million.

What does the introduction of the CCS mean for industry participants; specifically how might they change the way they manage the dry year risk?

The CCS has been designed to change the way retailers think about and provide for security of supply to their customers, particularly during sustained energy shortage situations, such as those that occur during dry winter hydro storage conditions. There have been three PCCs called in the last decade: 2001, 2003 and 2008 and a near miss in 2006. Some retailers have called for PCCs early in the onset of the dry winter sequence as a means of reducing their exposure to the high spot market prices that prevail in these situations.

An explicit aim of the CCS is to reduce the frequency of PCCs. By being required to pay compensation to their qualifying customers, retailers will have stronger incentives to more actively use commercial arrangements to manage dry year risks, rather than rely on 'free savings' from consumers as appears to have occurred in the past. The stronger focus on commercial arrangements is expected to result in more contracting for demand response, such as demand buy-backs and innovative schemes that more closely link compensation to electricity savings. It should also lead to greater investment in dry year generation capacity, and greater use of hedge contracts to manage risk. The end result should be better management of dry year risk and reduced frequency of public conservation campaigns.

What will the industry do now in response to the introduction of the CCS?

Industry participants, along with consumer representatives, have been involved in the development of the CCS. Retailers will need to consider the detail of the final CCS and prepare to manage their customers through any future energy shortage situation. This will include the need to communicate about all aspects of the CCS, how they will implement the default scheme and whether they will offer an alternative scheme.

Does this mean PCCs will never happen again?

The current reality is that the New Zealand electricity system is heavily reliant on hydro generation, which is based on relatively shallow hydro lakes and fickle rainfall patterns. Extreme dry periods will still occur from time-to-time, in which case there will be a genuine need for a PCC to achieve demand reductions. The purpose of the CCS is to remove incentives for electricity retailers to lobby for conservation campaigns before they are truly needed, which undermines confidence in the electricity system.

What should I do if I have a CCS-related question or problem?

In the first instance contact your retailer. If you are unable to resolve a problem, you may contact the Electricity and Gas Complaints Commissioner's office at:

<http://www.egcomplaints.co.nz/>

Where do I get more information?

For further information please contact your electricity retailer. Please note that retailers will need some time following the announcement of the scheme to consider the final details of the CCS.

Hydro storage situation and risk information is available on the System Operator's website at: <http://www.systemoperator.co.nz/latest-sos-update>

The Security of Supply Forecasting and Information Policy document is available at: <http://www.ea.govt.nz/search/?q=Security+of+Supply+forecasting+and+information+policy>