

Consultation Paper

Rule change no.21: Amendment to Rule 7.1 of Section IV of Part F of the Electricity Governance Rules 2003

29 July 2005

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A. Introduction

Purpose

- 1 The principal purpose of this paper is to fulfil the Electricity Commission's (Commission) requirements under sections 172E(2)(b) and 172F (consultation and assessment) of the Electricity Act 1992 (Act) in respect of the amendment (rule change no.21) made by the Minister of Energy (Minister) to rule 7.1 of section IV of part F of the Electricity Governance Rules 2003 (Rules).
- 2 This paper meets the requirements of a statement of the proposal for the purpose of consultation under section 172E(2)(b)(ii) of the Act, pursuant to section 172F(1)(d) of the Act.

Submissions

- 3 The Commission invites submissions on this paper, including responses to the Commission's specific questions contained in the paper (Section E).
- 4 Written submissions on this paper should be received by **5.00pm on Friday, 19 August 2005**. Parties intending to make submissions should note that submissions received after this deadline may not be considered.
- 5 The Commission's preference is to receive submissions in electronic form (Microsoft Word). It is not necessary for parties submitting to send the Commission hard copies of their submissions, unless it is not possible to do so electronically. Submissions in electronic form should be emailed with "Rule 7.1 Amendment Consultation Paper" in the subject header. Submissions should be sent to:

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- 6 The Commission will acknowledge receipt of all submissions electronically by email. Please contact Jenny Walton at the Commission if you do not receive electronic acknowledgement of your submission within two business days.
- 7 Submissions should be provided in the format shown in Appendix 1.
- 8 Your submission is likely to be made publicly available to the general public on the Commission's website. Submitters should indicate any documents attached in support of their submission in a covering letter and clearly indicate any information that is provided to the Commission on a confidential basis. All information provided to the Commission is subject to the Official Information Act 1982.

List of abbreviations

9 The following abbreviations are used in this paper:

Act	Electricity Act 1992
Commission	Electricity Commission
GPS	Government Policy Statement on Electricity Governance
Minister	Minister of Energy
Rules	Electricity Governance Rules 2003
Transpower	Transpower New Zealand Limited

Background and scope

Amendment made to the Electricity Governance Rules 2003

- 10 Pursuant to section 172I of the Act, the Minister published, on 24 March 2005, a notice in the *Gazette* notifying the amendment of the Rules under section 172H of the Act.¹
- 11 The amendment to the Rules related to rule 7.1 of section IV of part F. This rule specifies the time allowed for Transpower New Zealand Limited (Transpower) to submit a proposed transmission pricing methodology to the Commission. As notified in the *Gazette*, rule 7.1 (as amended) came into force on 21 April 2005.²
- 12 The amendment to rule 7.1 of section IV of part F of the Rules consisted of inserting a provision for the Commission to allow Transpower a longer period³ in which to submit a proposed transmission pricing methodology to the Commission. The amendment inserted in rule 7.1 the words “(or such longer period as the **Board** may allow)” after the words “90 days”. Thus, rule 7.1 now reads as follows:

7.1 Transpower to submit methodology

Transpower must submit a proposed **transmission pricing methodology** to the **Board** within 90 days (or such longer period as the **Board** may allow) of receipt of a written request from the **Board**. The **Board** may, after **publishing** the process described in rule 6.1 and the guidelines described in rule 6.2, issue such a request.

Amendment was made under urgency

- 13 The amendment to rule 7.1 of section IV of part F of the Rules was made in reliance on section 172E(3) of the Act. This section provides an exemption from the application of section 172E(2)(b) and section 172F of the Act (which relate to consultation and assessment) prior to the making of the rule if the Commission considers that it is necessary or desirable in the public interest that the proposed rules be made *urgently*.
- 14 However, section 172E(3) of the Act requires that, if an electricity governance rule is made urgently under that provision, then, within six months of the rule being made, the Commission must, among other things, comply with the

¹ *New Zealand Gazette*, “Notice of Making of Electricity Governance Amendment Rules (No. 21) 2005 and Notice of Reasons for Decision”, Issue No. 56, pp. 1445-1446.

² *ibid.*, p. 1446.

³ That is, longer than the maximum 90 days set out in the Rules prior to the amendment being made.

consultation and assessment provisions (sections 172E(2)(b) and 172F of the Act), and make a recommendation to the Minister on whether or not the rule should be revoked, replaced, or amended.

Transpower submitted a proposed transmission pricing methodology

- 15 In response to the Commission's written request of 1 February 2005, Transpower submitted to the Commission, pursuant to rule 7.1 of section IV of part F of the Rules, a proposed transmission pricing methodology on 27 May 2005. This was within the (extended) deadline specified by the Commission under (the amended) rule 7.1.
- 16 On 13 July 2005, the Commission advised Transpower that it was declining to consider the proposed transmission pricing methodology and requested Transpower provide extra information and a revised transmission pricing methodology, pursuant to rule 7.3 of section IV of part F of the Rules.

B. Process to date

Proposed transmission pricing methodology

- 17 On 1 February 2005, the Commission issued a written request requiring Transpower to submit to the Commission a proposed transmission pricing methodology, pursuant to rule 7.1 of section IV of part F of the Rules. Under rule 7.1, Transpower was required to submit a proposed transmission pricing methodology within 90 days of receipt of the written request. On this basis, Transpower had a deadline of 1 May 2005.
- 18 Transpower wrote a letter to the Commission dated 21 February 2005. The letter attached Transpower's project plan for submitting a proposed transmission pricing methodology. The project plan indicated a target end date of 20 May 2005 based on Transpower's best assessment (at the time of writing) of the earliest possible date by which it could submit a proposed transmission pricing methodology, given the limited resources Transpower had at its disposal. However, Transpower also signalled the possibility that the estimated timetable may need to be revised because of its resources being spread thinly due to other pressing regulatory requirements by both the Electricity Commission and the Commerce Commission.
- 19 As a consequence, Transpower requested in its letter that the Commission consider recommending an "urgent" amendment to rule 7.1 of section IV of part F of the Rules, which would allow the 1 May 2005 deadline for submitting a proposed transmission pricing methodology to be extended.

Amendment made to rule 7.1

- 20 On 18 March 2005, the Commission made a recommendation to the Minister that he make the Electricity Governance Amendment Rules (No. 21) 2005 and authorise the publication in the *Gazette* of the notice making the rule amendment.
- 21 The amendment to rule 7.1 of section IV of part F of the Rules was made urgently in reliance on section 172E(3) of the Act, and notified in the *Gazette* by the Minister on 24 March 2005.
- 22 As noted above, the amendment to rule 7.1 of section IV of part F of the Rules consisted of inserting a provision for the Commission to allow Transpower a longer period than the maximum 90 days set out in the Rules prior to the amendment being made in which to submit a proposed transmission pricing methodology to the Commission (paragraph 12).
- 23 Pursuant to section 172Z(4) of the Act, the reasons notified by the Minister to amend the Rules were:⁴
 - Transpower had advised that it required additional time to complete the proposed transmission pricing methodology this year, due to the limited staff resources available to complete the work required, and the potential for competing resource requirements to meet other regulatory requirements of both the Electricity and Commerce Commissions; and

⁴ supra n 1, p. 1446.

- it was conceivable that 90 days might also not be sufficient in future years, particularly if there are further changes to the part F framework in the Rules which impact on the preparation of the transmission pricing methodology.

Legal process for amending rules

- 24 The Minister may make a rule for all or any of the purposes for which an electricity governance regulation may be made.⁵ A rule is made by publishing a notice in the *Gazette*.⁶
- 25 If the Minister makes, or the Commission recommends, a rule for a purpose for which an electricity governance regulation may be made, the Minister and the Commission must comply with the same conditions and process that would apply under section 172D(3)⁷, section 172E, or section 172F of the Act if they were making recommendations on that electricity governance regulation, and those sections apply (with all necessary modifications) accordingly.
- 26 Sections 172X to 172Z of the Act also apply.⁸ The Commission must, in formulating recommendations, give effect to its principal objectives and specific outcomes and its Government Policy Statement on Electricity Governance (GPS) objectives and outcomes.⁹ The Minister must have regard to a recommendation by the Commission in exercising any of his functions or powers in relation to the Rules.¹⁰
- 27 Under section 172E(2)(b), before making a recommendation, the Commission must:
- a. undertake an assessment under section 172F;
 - b. consult with persons that the Commission thinks are representative of the interests of persons likely to be substantially affected by the proposed rules;
 - c. give those persons the opportunity to make submissions; and
 - d. consider those submissions.
- 28 Under section 172F(1), before making a recommendation, the Commission must:
- a. seek to identify all reasonably practicable options for achieving the objective of the rule;
 - b. assess those options by considering the benefits and costs of each option, the extent to which the objective would be promoted or achieved by each option, and any other matters that the Commission considers relevant;

⁵ Section 172H of the Act.

⁶ Section 172I.

⁷ Section 172D(3) provides that the Commission and the Minister must ensure, before making a recommendation for any rules under section 172D(1)(2), that those rules do not provide for undue discrimination between electricity generators.

⁸ Section 172E(2)(a).

⁹ Section 172X.

¹⁰ Section 172Z.

- c. ensure that the objective of the rule is unlikely to be satisfactorily achieved by any reasonably practicable means other than the making of the rule (for example, by education, information, or voluntary compliance); and
 - d. prepare a statement of the proposal for the purpose of consultation under section 172E(2)(b)(ii).¹¹
- 29 Section 172E(3) provides that the obligations under section 172E(2)(b) and section 172F, which relate to consultation and assessment, do not apply if the Commission considers that it is necessary or desirable in the public interest that the proposed rules be made urgently, and, in this case, the recommendation must state that it is made in reliance on section 172E(3). Section 172E(3)(a) provides that within six months of the rule being made, the Commission must comply with section 172E(2)(b) and section 172F (consultation and assessment), and the Commission must then make a recommendation to the Minister on whether or not the rule should be revoked, replaced, or amended.
- 30 Also within that six months, after receiving the Commission's recommendation, the Minister must publish a notice in the *Gazette* stating whether or not he decides to revoke, replace, or amend the rule and explaining the reasons for that decision (or stating where copies of that explanation may be obtained).¹² Within a further six months, the Minister must make that rule.

¹¹ Section 172F(2) provides that the statement of the proposal must contain a detailed statement of the proposal, a statement of the reasons for the proposal and an assessment of the reasonably practicable options, including the proposal, and other information that the Commission considers relevant. Under section 172E(2)(b)(ii), the Commission must consult with persons that it thinks are representative of the interests of persons likely to be substantially affected by the proposed rule.

¹² Section 172E(3)(b).

C. Next steps

Legal process

- 31 As set out above, the amendment to rule 7.1 of section IV of part F of the Rules was made in reliance on section 172E(3) of the Act (paragraphs 13 and 21). Accordingly, sections 172E(2)(b) and 172F of the Act (which relate to consultation and assessment) did not apply prior to the making of the rule as the Commission considered that it was necessary or desirable in the public interest that the rule amendment be made *urgently*.
- 32 However, within six months of the rule being made, the Commission must, among other things, carry out consultation and an assessment, and make a recommendation to the Minister on whether or not the rule should be revoked, replaced, or amended (paragraph 29).
- 33 The amendment was made on 24 March 2005. In this case, the six months period expires on 24 September 2005.

Statement of the proposal and assessment

- 34 The Commission has prepared a statement of the proposal for the purpose of consultation, including the assessment, as required under section 172F of the Act. The statement of the proposal is set out in Section D of this paper.

Consideration against the relevant objectives and outcomes

- 35 In addition, in formulating recommendations for electricity governance rules, the Commission is required to give effect to its principal objectives and specific outcomes and to its GPS objectives and outcomes, in accordance with section 172X of the Act.
- 36 As set out in Appendix 2, the Commission considers that rule 7.1 of section IV of part F of the Rules (as amended by the Minister on 24 March 2005) gives effect to the relevant objectives and outcomes.

D. Statement of the proposal

- 37 Sections 172E and 172F of the Act set out the requirements on the Commission regarding consultation on, and assessment of, a rule before recommending to the Minister that a rule be made.
- 38 As the proposal involves a rule amendment, the process set out in the Act must be followed.
- 39 This is a statement of the proposal under section 172F(2) of the Act, for the purposes of consultation under section 172E(2)(b)(ii) of the Act. As such, it is required to set out a detailed statement of the proposal, a statement of the reasons for it, provide an assessment of the reasonably practicable options, and any other information that the Commission considers relevant.

The proposal

- 40 The objective of the proposal is to ensure that Transpower has sufficient time to prepare a proposed transmission pricing methodology that meets the requirements of part F of section IV of the Rules, while balancing the need for it to be submitted to the Commission in a timely manner and the need to allow flexibility to extend the prescribed time if required.
- 41 The proposal relates to the amendment to rule 7.1 of section IV of part F of the Rules made urgently (in reliance on section 172E(3) of the Act) by the Minister on 24 March 2005 (effective from 21 April 2005). The amendment consisted of inserting a provision for the Commission to allow Transpower a longer period than the maximum 90 days set out in the Rules prior to the amendment being made in which to submit a proposed transmission pricing methodology to the Commission. The amendment inserted in rule 7.1 the words “(or such longer period as the **Board** may allow)” after the words “90 days”. Thus, rule 7.1 now reads as follows:

7.1 Transpower to submit methodology

Transpower must submit a proposed **transmission pricing methodology** to the **Board** within 90 days (or such longer period as the **Board** may allow) of receipt of a written request from the **Board**. The **Board** may, after **publishing** the process described in rule 6.1 and the guidelines described in rule 6.2, issue such a request.

- 42 The Commission proposes, for the purpose of consultation, that the amended rule 7.1 of section IV of part F of the Rules (as amended by the Minister on 24 March 2005, following the Commission’s recommendation), be retained and not be revoked, replaced, or amended.

Reasons for the proposal

- 43 Prior to the amendment to rule 7.1 of section IV of part F of the Rules made by the Minister on 24 March 2005, Transpower had a maximum of 90 days to submit a proposed transmission pricing methodology if requested to do so by the Commission.
- 44 Following the Commission’s request to Transpower under rule 7.1 on 1 February 2005, Transpower advised it would be unable to meet the 90-days time limit. This prompted the Commission to make a recommendation to the Minister that rule 7.1 be amended to allow Transpower more than 90 days, at

the discretion of the Commission, to submit a proposed transmission pricing methodology as requested by the Commission on 1 February 2005. Transpower submitted a proposed transmission pricing methodology as requested on 27 May 2005, within the extended period allowed by the Commission, in its discretion, in accordance with the amendment made to rule 7.1.

45 The Commission considers that its proposal (paragraph 42) is appropriate for the following reasons:

- It is conceivable that 90 days only may not be sufficient for Transpower to submit a proposed transmission pricing methodology in future, if requested to do so by the Commission, particularly if there are further changes to the part F framework in the Rules which impact on the preparation of the transmission pricing methodology. If Transpower submitted a proposed transmission pricing methodology within a prescribed period of time, without the possibility of a time extension, and it reasonably required more time, the proposed transmission pricing methodology might be below the standard required by the Commission to properly consult on and consider. In this case the Commission might decline to consider the proposed transmission pricing methodology or refer it back to Transpower (see rules 7.3 and 8 of section IV of part F), which might have been avoidable if Transpower had had more time. If Transpower required more time to submit a proposed transmission pricing methodology and was not able to be granted an extension, it would be in breach of the Rules.
- It would ensure that the time provision in rule 7.1 of section IV of part F of the Rules is consistent with other timing provisions in Part F where, typically, the Minister has a discretion to extend the period by which a relevant process must be completed.
- By giving the Commission the discretion to determine an extension of time (instead of the Minister), it maintains the appropriate relationship between the Commission and Transpower and between the Commission and the Minister with respect to the Commission's function to administer the Rules.

Reasonably practicable options

46 Section 172F(1) of the Act requires the Commission to seek to identify all reasonably practicable options for achieving the objective of the rule.

47 The Commission has identified the following four reasonably practicable options:

- *option 1* - retain the amended rule 7.1 of section IV of part F of the Rules (as amended by the Minister on 24 March 2005), thus allowing the Commission to decide whether or not Transpower should be allowed more than 90 days to submit a proposed transmission pricing methodology (this is the Commission's proposal (see paragraph 42));¹³
- *option 2* - revoke the amended rule 7.1 (as amended by the Minister on 24 March 2005) and revert to the original (pre-amendment) rule 7.1

¹³ The reasons for this proposal, and, therefore, for the Commission preferring option 1, are discussed below.

whereby Transpower would have a maximum of 90 days only to submit a proposed transmission pricing methodology if requested by the Commission;

- *option 3* – replace or amend the amended rule 7.1 (as amended by the Minister on 24 March 2005) to remove the Commission’s discretion to allow Transpower an extension of time (beyond the maximum 90 days) but increase the maximum number of days, say, to 120 days; and
- *option 4* - replace or amend the amended rule 7.1 (as amended by the Minister on 24 March 2005) to remove the Commission’s discretion to allow Transpower an extension of time (beyond the maximum 90 days) and instead bestow upon the Minister the discretionary power to allow Transpower an extension of time (beyond the maximum 90 days).

Assessment

48 Section 172F of the Act requires the Commission to assess:

- the benefits and costs of each reasonably practicable option, including the proposal;
- the extent to which the objective of the proposal (paragraph 40) would be promoted or achieved by each option; and
- any other matters that the Commission considers relevant.

49 The Commission’s assessment of the four options, having regard to the criteria in section 172F of the Act (paragraph 48), is set out as follows.

Option 1: Retain the amended rule 7.1 (Commission has discretion)

50 The inclusion in rule 7.1 of section IV of part F of the Rules of a prescribed maximum number of days only, i.e. without the flexibility to extend the maximum number of days (e.g. option 2) except by implementing an amendment to rule 7.1, may not provide sufficient time for Transpower to submit a proposed transmission pricing methodology if requested to do so by the Commission, particularly if changes to the part F framework in the Rules are made which impact on the preparation of the transmission pricing methodology.

51 If Transpower submitted a proposed transmission pricing methodology within a prescribed period of time, without the possibility of a time extension, and it reasonably required more time, the proposed transmission pricing methodology might be below the standard required by the Commission to properly consult on and consider. In this case, the Commission may decline to consider the proposed transmission pricing methodology or refer it back to Transpower¹⁴, which might have been avoidable if Transpower had had more time. If Transpower required more time to submit a proposed transmission pricing methodology and was not able to be granted an extension, it would be in breach of the Rules.

52 Conversely, retaining rule 7.1 (as amended by the Minister on 24 March 2005) would increase the likelihood that the objective of the proposal would be

¹⁴ See rules 7.3 and 8 of section IV of part F of the Rules.

promoted or achieved. The Commission sees at least four other benefits from implementing option 1.

- 53 Firstly, it would ensure that the time provision in rule 7.1 of section IV of part F of the Rules is consistent with other timing provisions in Part F where, typically, the Minister has a discretion to extend the period by which a relevant process must be completed under part F.
- 54 Secondly, by giving the Commission the discretion to determine an extension of time (instead of to the Minister, as under option 4), the appropriate relationship between the Commission and Transpower and between the Commission and the Minister with respect to the Commission's function to administer the Rules is maintained.
- 55 Thirdly, the maximum number of days (90 days) remains. The only change in regard to timing is that the Commission would have the flexibility, at its discretion, to allow Transpower more than 90 days to submit a proposed transmission pricing methodology to take account of specific unanticipated circumstances that may arise once the Commission has issued a request to Transpower under rule 7.1.
- 56 Fourthly, any transaction costs that would be incurred by the Minister revoking, replacing, or amending the current rule 7.1, upon a recommendation from the Commission, would be saved.
- 57 The Commission acknowledges that, by allowing the amended rule 7.1 to be retained, and, therefore, supporting the notion of a rule change, creates some uncertainty about the amount of time Transpower will have to submit a proposed transmission pricing methodology each time it is requested to do so by the Commission. There is also, arguably, the opportunity for Transpower to "game the system" to its advantage. However, the Commission considers that these potential negatives would likely be outweighed by the benefits, discussed above, from allowing flexibility to extend, where necessary, on a case-by-case basis, the amount of time allowed to Transpower.
- 58 The Commission considers that its proposal (that the amended rule 7.1 be retained and not be revoked, replaced, or amended), as embodied in option 1, meets the objective of the proposal (paragraph 40), in that it balances the need for timely delivery of a proposed transmission pricing methodology and the need for flexibility to extend the prescribed time if required.

Option 2: Retain the 90-days period only (revert to pre-amendment rule 7.1)

- 59 The principal benefit of option 2 is that it provides certainty around the development of the transmission pricing methodology. It sends a firm signal that the maximum 90 days provided in rule 7.1 will not be easily changed in future, and that Transpower likely will have to work within the 90-days limit. It also mitigates the potential for Transpower to game the system.
- 60 Moreover, it could be argued that, having been through the exercise once, Transpower is now much more attuned to the processes and resources required to submit a proposed transmission pricing methodology and the Commission's expectations. Accordingly, having gained experience, Transpower should, arguably, be more efficient in submitting proposed transmission pricing methodologies in the future.

- 61 However, on the other hand, not addressing any genuine obstacle that Transpower faces in preparing a proposed transmission pricing methodology at the request of the Commission is likely to result in inefficiencies.
- 62 Another disadvantage of retaining the 90-days period only is that the time provision in rule 7.1 is not consistent with other timing provisions in Part F where, typically, the Minister has a discretion to extend the period by which a relevant process must be completed under part F.
- 63 The Commission considers that option 2 meets the objective of the proposal (paragraph 40) only to the extent that it may ensure that Transpower submits a proposed transmission pricing methodology to the Commission in a timely manner. However, the option does not balance the need for timely delivery of a proposed transmission pricing methodology and the need for flexibility to extend the prescribed time if required. Accordingly, this option only partially meets the objective of the proposal.

Option 3: Remove Commission's discretion but increase maximum days

- 64 Option 3, which increases the maximum 90 days (say, to 120 days) but removes any discretion (either by the Commission or the Minister) to extend the fixed number of days, has, like option 2, the advantage of providing certainty about how much (fixed) time Transpower has to submit a proposed transmission pricing methodology. (However, admittedly, it is possible to argue conversely that certainty in the future might be diminished somewhat by the willingness to now increase the maximum number of days from 90 days.)
- 65 In addition, under this option, the maximum number of days may be increased significantly (say, by a third or 30 days) to give Transpower a bigger "comfort zone" to deal with potential exceptional circumstances (such as having limited resources at the time the Commission makes a request under rule 7.1) where, say, a maximum of 90 days would not be anywhere near reasonable or realistic.
- 66 The Commission considers there are at least three disadvantages if option 3 were adopted. Firstly, option 3 fixes (potentially) a much longer time period for Transpower to submit a proposed transmission pricing methodology and may, arguably, give Transpower an incentive to take significantly longer time to make its submission than is necessary (e.g. 90 days may, on average, be more than sufficient time).
- 67 Secondly, rather than the longer fixed time (say, 120 days) being sufficient, it may, on some occasions, not provide Transpower enough time to submit a proposed transmission pricing methodology (in the absence of Commission or Ministerial discretion written into rule 7.1 or an amendment made to rule 7.1 under the Act).
- 68 Thirdly, it would mean that the time provision in rule 7.1 is not consistent with other timing provisions in Part F where, typically, the Minister has a discretion to extend the period within which a relevant process must be completed under part F.
- 69 The Commission considers that option 2 meets the objective of the proposal (paragraph 40) only to the extent that it may ensure that Transpower submits a proposed transmission pricing methodology to the Commission in a timely

manner. However, the option does not balance the need for timely delivery of a proposed transmission pricing methodology and the need for flexibility to extend the prescribed time if required. Accordingly, this option only partially meets the objective of the proposal.

Option 4: Bestow discretionary power upon the Minister

- 70 Option 4 is similar to option 1. The difference between them is that instead of the Commission having the discretion to increase the 90-days limit in rule 7.1, the Minister would have that discretion. Therefore, it may be assessed similarly to option 1.
- 71 However, the Commission has some reservations about recommending the adoption of option 4 on the basis that it disrupts the existing relationships established by the Rules (and which would be maintained under option 1) whereby there is a clear relational demarcation between the Commission and Transpower and between the Commission and the Minister with respect to the Commission's function to administer the Rules. In addition, it is likely that the transaction costs would be higher if the Minister, rather than the Commission, were required to consider an urgent time extension, since the Minister would probably require the Commission's input into the decision-making process.
- 72 Whilst options 1 and 4 are similar, and, therefore, the objectives of the proposal (paragraph 40) may be achieved by both options 1 and 2, the Commission believes that the disadvantages of option 4 (as discussed in the previous paragraph) make option 1 a more attractive option.

Conclusion on assessment of options

- 73 On balance, having had regard to the assessment criteria (paragraph 48), the Commission considers, for the purpose of consultation, that the preferred option should be option 1.

Other means to achieve the objective

- 74 The Commission considers that the objective of the proposal (paragraph 40) is unlikely to be satisfactorily achieved by any reasonably practicable means other than by the amendment made to rule 7.1 by the Minister on 24 March 2005.

E. List of Questions

75 The following is a list of the Commission's questions for parties intending to make submissions on this consultation paper. However, submissions need not be confined to these questions.

Question 1: Do submitters agree with the Commission's interpretation of the objective of the proposal (paragraph 40)? Why, or why not?

Question 2: Do submitters agree with the Commission's conclusion that option 1 is the preferred option and, therefore, with the Commission's proposal that the amended rule 7.1 of section IV of part F of the Rules (as urgently amended by the Minister on 24 March 2005) be retained and not be revoked, replaced, or amended (paragraph 42)?

Question 3: Do submitters agree that the Commission has identified all reasonably practicable options (option 1 to 4) for the purposes of this consultation (paragraph 47)? Why, or why not?

Question 4: Do submitters agree with the Commission's assessment of the identified options (paragraphs 48-73)? Why, or why not?

Question 5: Do submitters agree that the Commission has properly considered its objectives and specific outcomes provided in the Act and GPS (Appendix 2)? Why, or why not?

Appendix 1: Format for submissions

Paragraph Reference	Issue/Question	Comment

Appendix 2: Consideration against objectives and outcomes

Objectives	Response
Objectives: Under section 172N of the Act, the principal objectives of the Commission are:	
<ul style="list-style-type: none"> To ensure that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable, and environmentally sustainable manner; and To promote and facilitate the efficient use of electricity 	<p>The Commission, at its discretion, would be able to allow Transpower additional time to submit a proposed transmission pricing methodology. The transmission pricing methodology provides for, among other things, fair and efficient transmission pricing. Accordingly, sufficient time needs to be allowed for optimal decision making; a rushed development of a proposed transmission pricing methodology could risk sub-optimal decisions being made.</p>
Outcomes Under section 172N of the Act, the Commission's specific outcomes are as follows:	
<ul style="list-style-type: none"> Energy and other resources are used efficiently 	<p>The transmission pricing methodology has an important role in supporting this objective. Sufficient time needs to be allowed for optimal decision making; a rushed development of a proposed transmission pricing methodology could risk sub-optimal decisions being made.</p>
<ul style="list-style-type: none"> Risks (including price risks) relating to security of supply are properly and efficiently managed 	
<ul style="list-style-type: none"> Barriers to competition in the electricity industry are minimised for the long-term benefit of end-users 	
<ul style="list-style-type: none"> Incentives for investment in generation, transmission, lines, energy efficiency, and demand-side management are maintained or enhanced and do not discriminate between public and private investment 	<p>Along with other tools, the transmission pricing methodology is an important mechanism for providing signals. Incentives for investment in generation, transmission lines, energy efficiency and demand-side management are maintained or enhanced on a non-discriminatory basis. It is important that Transpower has sufficient time to consider these important issues and interactions in preparing a proposed transmission pricing methodology; otherwise, there could be a risk of sub-optimal decisions being made.</p>
<ul style="list-style-type: none"> The full costs of producing and transporting each additional unit of electricity are signalled 	<p>A properly considered transmission pricing methodology has an important role to play in facilitating this specific outcome. Sufficient time needs to be allowed for optimal decision making; a rushed development of a proposed transmission pricing methodology could risk sub-optimal decisions being made.</p>

Objectives	Response
<ul style="list-style-type: none"> Delivered electricity costs and prices are subject to sustained downward pressure 	<p>The transmission pricing methodology has an important role in supporting this objective. Sufficient time needs to be allowed for optimal decision making; a rushed development of a proposed transmission pricing methodology could risk sub</p>
<ul style="list-style-type: none"> The electricity sector contributes to achieving the Government's climate change objectives by minimising hydro spill, efficiently managing transmission and distribution losses and constraints, promoting demand-side management and energy efficiency, and removing barriers to investment in new generation technologies, renewables and distributed generation 	<p>The Commission, at its discretion, would be able to allow Transpower additional time to submit a proposed transmission pricing methodology. The transmission pricing methodology provides for, among other things, fair and efficient transmission pricing. Accordingly, sufficient time needs to be allowed for optimal decision making; a rushed development of a proposed transmission pricing methodology could risk sub-optimal decisions being made.</p>
<p>Transmission Objectives: Under paragraph 80 of the GPS, the Government's objectives for the provision of transmission services are that:</p>	
<ul style="list-style-type: none"> the services are provided in a manner consistent with the Government's policy objectives for electricity 	<p>The transmission pricing methodology has an important role in supporting this objective. Sufficient time needs to be allowed for optimal decision making; a rushed development of a proposed transmission pricing methodology could risk sub</p>
<ul style="list-style-type: none"> the services should be provided at the standards of power quality and grid reliability required by grid users and consumers as determined by the Commission 	
<ul style="list-style-type: none"> the efficiency of transmission services should be continuously improved so as to produce the services grid users and consumers want at least cost, and 	
<ul style="list-style-type: none"> the services are priced in a manner that: <ul style="list-style-type: none"> is transparent fully reflects their costs including risk facilitates nationally efficient supply, delivery and use of electricity promotes efficient investment in transmission or transmission alternatives promotes nationally efficient use of transmission services by grid users and consumers. 	