0304

MARIA ANNUAL REVIEW

2004 saw the electricity industry transition from successful self regulation of specific parts of the industry, to a regulatory regime that encompasses all parts of the industry. The frameworks put in place by MARIA have been adopted by the new regime, and will continue to promote and facilitate competition and customer choice.

MARIA
Metering and Reconciliation Information Agreement

GUIDING PRINCIPLES

The first section of the MARIA Rules is a set of guiding principles. These aim to encourage customer choice and provide a framework for the rules themselves. Any proposals for new rules or for changes to existing rules must pass a critical test of meeting or furthering the guiding principles.

The guiding principles are:

A. Facilitate competition

These rules should facilitate effective competition and choice in electricity markets by creating an economically efficient and commercially practical regime to:

- Speedily effect the switching of end-use customers between competing retailers
- Measure physical electricity flows
- Reconcile physical electricity flows and contractual arrangements through an accurate, standardised and transparent process.

B. Information

These rules should ensure the availability and transfer, in a timely manner, of accurate information as required by the processes defined in these rules.

MISSION + MARIA promotes vigorous competition for all electricity consumers through effective, fair and efficient electricity trading arrangements

C. Unbiased and transparent evolution

The process by which these rules evolve should be transparent and not provide unjustifiable bias towards any person or practice, and in particular should limit the potential for any person to amend the rules in a manner which introduces unjustifiable bias.

D. Minimise transaction costs and barriers to entry

These rules should minimise the transaction costs of trading electricity and barriers to entry as they relate to the measurement and reconciliation of electricity flows.

E. Be robust and enforceable

These rules must be robust and enforceable by providing for and maintaining a supervisory body that is neutral, independent and has sufficient power to monitor and enforce these rules.

F. Lawful

These rules must comply with the Commerce Act 1986, the Electricity Industry Reform Act 1998, and all other relevant laws.

G. Allow transition[1]

These rules must facilitate an orderly transition to the new governance structure and operations under the Electricity Governance Board Rulebook, address outstanding compliance and other issues, and ultimately allow the termination of these rules.

[1] MARIA Participants approved this amendment to the guiding principles on 17 February 2003 as part of the MARIA termination and transition rule changes.

CONTENTS

23

There were nine MARIA Parties, including all the major retailers and generators, and 23 MARIA Distributors

MARIA PARTIES

ELECTRICITY TRADED

Approximately 21% of the volume of electricity traded in New Zealand was traded though MARIA

21%

MARIA EXPENDITURE

Total MARIA expenditure was $2,501,499, equivalent to 0.01 cents for every kW traded through MARIA

MGB AND WORKING GROUP MEETINGS

15

The MARIA Governance Board met 12 times and there were 15 working group meetings (not including sub-group meetings)

PROJECTS

The Model Distribution Arrangement Project finished its work, and work on the Profile Review and Historical Reconciliation Projects was largely completed. The draft model retail contracts developed by MARIA were provided to the Electricity Commission (EC). The work of the Reconciliation Implementation Project was passed to the EC

RULE BREACHES

The MARIA Conduct Committee considered seven breaches of the MARIA Rules and imposed $7,000 in fines and $26,898 in committee costs, MARIA Administration Manager costs and audit costs

PROJECT COSTS

One-off projects accounted for $455,456 of MARIA expenditure, covering the Model Distribution Arrangement Project ($58,190), the Reconciliation Implementation Project and the Historical Reconciliation Project ($175,881), the Model Retail Contract Project ($174,022), and the Profile Review Project ($47,363)

SERVICE PROVIDER COSTS

$1,541,881

Service provider costs totalled $1,541,881, split between the National Reconciliation Manager ($335,740), the Administration Manager ($1,125,917), and the Registry ($80,224)

COSTS RECOVERED

The costs directly recovered from Participants totalled $102,152. These costs included fees for test houses, the Annual Review, forward estimate audits, and market participant audits

$102,152

CUSTOMER SWITCHES

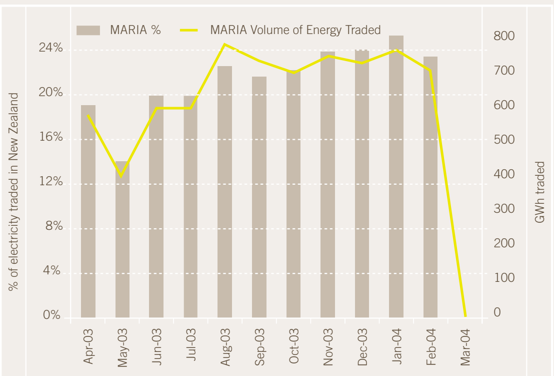
By the end of March 2004, after five years of full retail competition in New Zealand, 1,131,874 customers had changed retailer

RULE CHANGES

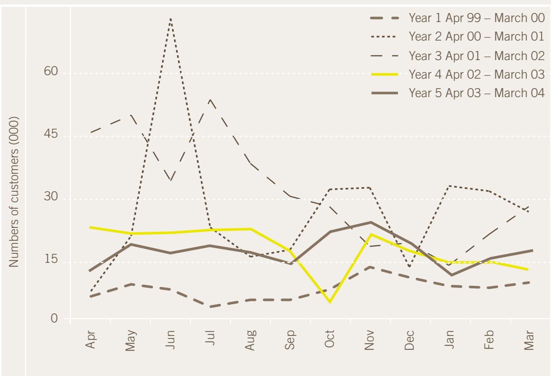
7

Seven rule changes were passed

ENERGY TRADED THROUGH MARIA



CUSTOMERS CHANGING ELECTRICITY SUPPLIER



This graph is a barometer of customer switching activity, and while not 100% accurate, is likely to reflect the trend. A change is recorded each time a consumer changes supplier, including if a consumer moves house and changes to a retailer other than the retailer already supplying that house.

CHAIRMAN'S REPORT

MARIA has always shown itself to be both responsive and flexible in an industry that has undergone major change in recent years. MARIA has itself been a focus for change, most particularly in the late 1990s. In particular, January 1999 saw the introduction of the revised MARIA framework that had developed out of a major review of MARIA begun two years earlier. Later that year, the introduction of full retail competition resulted in a shift in emphasis for MARIA, with a greater focus on the needs of consumers. Despite the changes and challenges, MARIA has continued to deliver real value for its members, and has significantly contributed to the successful operation and evolution of the electricity industry.

1 March 2004 saw another significant change, with the move from successful industry self-regulation of specific parts of the industry, to a regulatory regime under the newly established Electricity Commission (EC) that encompasses all parts of the industry. The market now operates under the Electricity Governance Regulations and Rules (EGRs). The EGRs, while not allowing for physical bilateral trades other than the Meridian arrangement, incorporate all the other key aspects of the MARIA Rules.

A major focus of MARIA's work in 2003/04 was on preparing for the transition to the new regime. In the lead-up to 1 March, MARIA provided briefings and regular updates to the Commission. In February a full handover report was provided, documenting the background and status of each MARIA workstream and the recommended next steps. It is pleasing to see that all of these workstreams have been incorporated into the Commission's work plan. Pending the transition to the Commission, MARIA also continued to progress its work plan. Good progress was made in a number of areas, including the development of a draft model retail contract and the finalisation of recommendations regarding the implementation of reconciliation process improvements.

Since 1 March, MARIA has continued to operate, although in a significantly reduced capacity. Two workstreams are currently being completed under the auspices of MARIA. The Historical Reconciliation Project will complete its work next month and its final report will then be provided to the Commission. The Phase 2 Registry data clean-up is expected to be complete by the end of July, with no Commission involvement required. The MARIA Governance Board (MGB) and the MARIA Conduct Committee (MCC) still meet as required. M-co and d-cypha continue to act as service providers under 26-month residual contracts.

The work undertaken by MARIA since its inception has been substantial, and often challenging and complex. On behalf of the MGB, I would like to express my thanks to all those individuals and organisations who have participated in MARIA over the past 10 years, either directly as members of the working groups and project teams, or through their participation in the rule change consultation process. I would also like to acknowledge the contribution made by the members of the MGB and the MCC. I would particularly like to acknowledge the contribution of Richard Rowley, who chaired the MGB from 1999 to 2003 and who oversaw all of the major achievements of MARIA. MARIA has also been well supported in its work by the three key service providers, d-cypha, Jade Direct and M-co.

Provision has been made to enable MARIA to continue to operate until May 2006 to deal with residual matters. However, if judged appropriate by the MGB, it may cease operating before this time. The final decision on the termination of MARIA will be made by a vote of market participants.

TOBY STEVENSON CHAIRMAN, MARIA GOVERNANCE BOARD JUNE 2004

KEY EVENT

1

MARIA'S FOCUS.
MARIA was established in April 1994 with an emphasis on specifying technical metering and reconciliation standards. Its focus changed in 1999 with the introduction of full customer competition.

The MARIA Rules and Codes of Practice govern the arrangements between MARIA members. The rules provide a mechanism for selecting the MGB, making rule changes and enforcing the rules. The Codes of Practice provide standards for meters and technical requirements around profiling, and outline the duties of the data administrators who gather and reconcile metering data for retailers. The rules continue to apply for the purposes of reconciliation and finalising any outstanding matters until MARIA and NZEM are terminated.

The formal process for changing or adding rules has involved consultation with MARIA members and sometimes a vote. Proposed changes to the MARIA governance rules have had to be approved by a two-thirds majority of Participants. Operational changes could be approved by the MGB unless a MARIA Participant with more than 25% of voting rights requested a vote.

RULE CHANGES PASSED BETWEEN 1 APRIL 2003 AND 31 MARCH 2004

Rule Change	Relevant Rule	Effective Date
Frequency and Timing of Wash-ups	Rule 4.71, 5.6, 5.7 and Schedule 5 of Chapter 2	1 September 2003
ISO Certification	Rule 4.2 COP 2 and Rule 6.1 COP 5	3 November 2003
Extension of Service Providers' Terms for Services during the Transitional Period	13.5.1 of Chapter 1	31 December 2003
Termination and Transition Chapter 1 Rule Changes	Guiding Principles of Chapter 1, 1.2.10, 2.2.11 – 2.2.12 of Chapter 1, 2.4.2, 3.2.6, 3.11.2, 3.12, 5.31, 12.2.3, 12.5.2, 18.5 of Chapter 1, Annexure 1	5 January 2004
Termination and Transition Chapter 2, Schedules and COP Rule Changes	Rule 1.26, 2.1, 2.3, 3.16, 4.12, 5.11, 6.9, 7.14 of Chapter 2, 1.4 of Schedule 4, Rule 5 of Schedule 9, Rule 6 of Schedule 12, 7.3 of COP 2, Clause 9 of COP 7	25 January 2004
Publication of GXP Quantity Information	Rule 4.10.2, 5.4, 5.5, 5.7.2, 5.8.2, 5.8.4 of Chapter 2 and 5.1 of COP 3	3 February 2004

KEY EVENT

2

ENERGY TRADED.
At the start of the wholesale market in October 1996, only 7% of energy was traded through MARIA. In August 1998 this rose to approximately 20% when the ECNZ contract with Comalco for the Tiwai aluminium smelter was put into MARIA. Later, the advent of full retail competition lifted the level as high as 30%.

PROJECTS

The MGB established project teams to deal with large one-off issues. The following projects were undertaken in the 2003/04 year.

THE MODEL RETAIL CONTRACT PROJECT

The Model Retail Contract Project Team (MRCPT) was established in July 2003 to develop a model retail contract for domestic electricity consumers. The model retail contract is intended to act as a guide for retailers to ensure their consumer contracts are fair and efficient.

The impetus for the establishment of the MRCPT was the February 2002 Government Policy Statement (GPS). The GPS stated that the Electricity Governance Board (EGB) should draw up a model contract for domestic consumers, in consultation with the Ministry of Consumer Affairs and consumer representatives. The September 2003 revised draft GPS passed responsibility for preparing the contract to the EC, with the requirement that the contract include:

- Transparency of charge components
- Frequency of billing
- Company-specific arrangements for dispute resolution
- Arrangements for consumer protection with respect to outages
- Use of bonds
- Arrangements regarding the availability of prepayment meters to domestic consumers at reasonable cost.

The project team began by confirming an overall policy framework and defining key issues for the retail sector in the context of the wider industry reforms. It also agreed the following guiding principles to steer its work:

- Meet consumers' requirements for electricity in a manner that is least cost to the economy as a whole and is consistent with sustainable development, as set out in the GPS
- Specify the rights and obligations of the contracting parties, and the means by which these may be changed over time, in plain English
- Ensure that the model retail contract encourages innovation and competition in the retail electricity market
- Incorporate features and obligations based on cost/benefit analysis
- Take into consideration other model agreements and codes of practice that have been developed for use within the electricity industry.

The project team also took into account:

- Domestic retail contracts already in use by electricity retailers around the country
- The model distribution contract developed by the Model Distribution Arrangement Project (MDAP) earlier in 2003
- The Electricity Complaints Commission's Code of Practice and review of the code
- Model contracts developed in some Australian states.

In order to cover all situations, the MRCPT developed two draft model retail contracts. The first covered interposed arrangements, where the lines company contracts with the retailer and the retailer contracts with the consumer. The second contract dealt with conveyance arrangements, where the lines company contracts directly with the consumer.

The two draft contracts were provided to the MGB in May 2004. The MGB accepted the project team's recommendation that the model contracts be referred to the EC to progress.

The MRCPT comprised consumer, retailer and distributor representatives, and an independent chair. The members were Tony Baldwin (Chair), Bill Boyd (replaced by Ian Burgess), Clive Bull, Graham Pinnell (replaced by Paul Doocey), Josephine Bartley, Mel Orange, Peter Rutledge, Scott Harnett and Steve Rawson.

THE RECONCILIATION IMPLEMENTATION PROJECT

The Reconciliation Issues Steering Group (RISG) was formed in January 2003 to consider the commercial issues associated with reconciliation and to place recommendations made by the Reconciliation Project Team (RPT) into a broader strategic context. The RPT had investigated how the accuracy, completeness and timeliness of reconciliation could be improved, and how to ensure that companies paid for the actual amount of energy they consumed. It delivered its final report to the MGB in April 2003.

Following a recommendation from the RISG, the Reconciliation Implementation Project Team (RIPT) was established to implement the RPT's recommendations. A project reference group, the Reconciliation Implementation Reference Group (RIRG), was also set up. The purpose of the RIRG was to act as a steering group and maintain the link between those with a broader strategic and commercial view, and the level of detail with which the RIPT would be dealing.

The RIPT now operates under the auspices of the EC and is called the EC Reconciliation Project Team.

The RIPT members were John Carnegie (Chair), Christine Burrows, Kevin Sharp, Nigel Purdy, Paul Troon, Rob Farrow, Tony Hooks and Tony McGeady.

The RIRG members were Dennis Jones, Nigel Barbour, Ron Beatty, Stephen Cross, Steve Rawson, Therese Thorn and Vince Hawksworth.

The RISG members were Ron Beatty, Stephen Cross, Therese Thorn, Vince Hawksworth and William Meek.

THE HISTORICAL RECONCILIATION PROJECT

At a Retailers' Forum[1] meeting in 2003, retailers agreed to implement a high-level voluntary reconciliation scheme to remedy reconciliation errors that had occurred in the past. This involved retailers in each network area providing their monthly as-billed sales data for both half-hour and non-half-hour customers in aggregate. The data would then be compared with the quantities that the retailer reconciled with the National Reconciliation Manager (NRM) during the same period to identify discrepancies. In 2003, the Historical Reconciliation Project Team (HRPT) was established by the RISG to complete this work.

The aim of the HRPT is to identify and inform the industry about discrepancies to assist with the reduction of discrepancies in the future. The team has analysed past reconciliation and allocation of Unaccounted for Energy (UfE)[2] practices within MARIA. In particular, it has assessed how much energy is not being measured or reconciled monthly, and compared sales data with reconciled data quantities reported to the NRM.

As the project aims to identify past reconciliation discrepancies under MARIA, the work is continuing under MARIA rather than being transferred to the EC. The final results of the project will also be provided to the EC in July 2004 as an input into the work of the EC Reconciliation Project Team.

The members of the HRPT are Therese Thorn (Project Leader), Anna Doerr, Chrissy Burrows, Dennis Quirke, Nigel Purdy, Ron Beatty and Sarah Judd.

PHASE 2 REGISTRY CLEAN-UP

The Phase 2 Registry clean-up is the final element of the Registry Project that was set up in 2001 with the aim of establishing the MARIA Registry as the database of Installation Control Point (ICP) information. The clean-up is intended to identify discrepancies in the ownership history of ICPs so that impacted parties can further their investigations into energy reconciliation and line charge shortfalls.

Work on the clean-up stalled in 2003/04, as MARIA's focus shifted towards issues with the 'core' reconciliation process. However, in recognition of its complementarity with the work of the HRPT, and the potential for the clean-up to enable the industry to improve its future performance by identifying and correcting past issues, the MGB contacted Participants to seek their commitment to completing the clean-up. Participants are now actively participating in the process, and the Phase 2 clean-up is expected to be complete in July 2004.

1 *A voluntary forum made up of electricity retailers, who discuss and deal with issues of common concern to retailers. Commercial managers attend the meetings. On occasion they are joined by the retail general managers and other people who have a specific interest in particular issues.*

2 *The difference between sales data and residual Grid Exit Point (GXP) volumes data for the incumbent (appropriately loss adjusted).*

THE MODEL DISTRIBUTION ARRANGEMENT PROJECT

The development of model agreements for the use of electricity distribution services by retailers was one of the requirements of the December 2000 GPS. The Model Distribution Arrangement Project Team (MDAP) was established in May 2002 to:

- Draw up non-mandatory model arrangements for use-of-system agreements consistent with the GPS guiding principles and which give equal weight to the interests of retailers, users and distributors
- Subsequently develop rules and include the terms and conditions for connecting distributed generation to local networks.

The MGB approved the MDAP's model principles for connection of distributed generation in June 2003. These model principles were intended to form the basis for a contractual arrangement between a distributor and a party wishing to connect generation equipment to a distributor's network. In September 2003, the MDAP was formally disbanded following MGB approval of model interposed and model conveyance agreements. In the MARIA handover package to the EC, it was recommended that:

- In September 2004, the EC review the uptake of the model distribution agreements (a year after their release to the industry)
- The agreements be regularly updated to evolve with best practice and to respond to developments in the industry.

The members of the MDAP were Brent Layton (Chair), Andrew Kincaid, Clive Bull, Graham Pinnell, John Walsh, Kerry Nickels, Paul Doocey, Rob Jamieson, Rod Crone, Scott Harnett and Steve Rawson.

THE PROFILE REVIEW PROJECT

The Profile Project Team (PPT) was established in September 2003 to investigate the use of profiles and any associated issues that had arisen since their introduction in 1999, and to advise the MGB on any alterations required to Code of Practice 7 to ensure the profiling rules adequately facilitated competition. The project's intended outcome was to ensure that the MARIA Rules offered Participants the flexibility to create profiles that accurately measured generic and niche consumer demand patterns, in a cost-effective manner.

The PPT focused on two questions:

- Were there any barriers in the current profile framework that, if removed, would facilitate a more effective use of profiles?
- Were there any gaps or omissions in the current framework that, if filled, would facilitate a more effective use of profiles?

From members' own knowledge and experience, the PPT identified a number of problems associated with profiles. In addition, MARIA Participants were surveyed on their opinions of and experiences with the profiling process. As a result, the following key issues were identified:

- Insufficient volume data and/or technical barriers to profiling controlled load
- High set-up and ongoing costs associated with developing some profiles
- Lack of industry knowledge regarding profiles
- Inadequate administrative processes and follow-up compliance
- Inadequate sharing of profile-related information among industry participants
- Existence of reconciliation process deficiencies, including specific issues around non-time-of-use generation and the application of loss factors.

The PPT expects to provide its final report to the MGB in July 2004, and it is likely to then be forwarded to the EC to progress.

The members of the PPT are John Carnegie (Chair), Kevin Palmer, Nigel Purdy, Ron Beatty and Shaun Hayward.

Working groups were appointed by the MGB to review proposed rule changes and to make recommendations to the Board. The MGB determined the membership following nominations from MARIA Participants. Members were appointed for a two-year term and were expected to represent industry interests not the organisation for which they worked.

THE CODE 6 REVIEW PANEL

The Code 6 Review Panel held two physical meetings in 2003/04, and addressed a range of issues via email and teleconference. The Panel approved Code of Practice 6 exemptions relating to GXP metering and considered rule changes regarding the following issues:

- The testing of transformers
- Meter accuracy
- Subcontracting of metering work
- Wiring of transformers.

The proposed rule changes were included in the MARIA handover package for the EC to be considered for inclusion in the EGRs.

The members of the Code 6 Review Panel during 2003/04 were John Campbell (Chair), Alan Borcoski, Craig Shepherd, Duncan Craig and Ron Beatty.

THE MARIA GOVERNANCE WORKING GROUP

The MARIA Governance Working Group (MGWG) met jointly with the NZEM Rules Structure Working Group three times over the financial year. The joint working group addressed the issue of termination of MARIA and NZEM, and the transition to the EC and the EGRs.

The members of the MGWG were Christopher Russell (Chair), Brian Furness, David Paye, Kerry Nickels and Paul Troon.

THE METERING AND RECONCILIATION WORKING GROUP

The Metering and Reconciliation Working Group (MRWG) considered all Chapter 2 and Code of Practice rule changes as requested by the MGB. It also worked with NZEM working groups on issues that related to NZEM.

The MRWG met nine times during 2003/04 and dealt with:

- Prepayment meters
- Frequency of meter reads
- Switching rules (Schedule 12).

Sub-groups of the MRWG met to progress specific issues, including:

- Distributor-retailer information exchange protocols
- Embedded networks
- Forward estimate audit guidelines
- Switching and reconciliation of distributed generation.

The MRWG also met jointly with the NZEM Clearing and Settlement Working Group to consider issues around the frequency and timing of wash-ups.

The MRWG members were Phil Hawkey (Chair), Dennis Jones, Eddie Sella, Laurence Best, Rod Boyte, Rod Crone, Ron Beatty and Tony McGeady.

KEY EVENT

3

FULL RETAIL COMPETITION.

In 1999, the implementation of profiling enabled the introduction of retail competition for all consumers. Profiling allows retailers to estimate how much electricity a consumer will use every hour. Customer switches have now topped one million.

MARIA GOVERNANCE BOARD

The MGB oversaw the operation of MARIA's self-regulating structure. It monitored and approved changes to the operational rules, and established working groups to consider changes to the governance rules. It also engaged the MARIA Conduct Committee (MCC) and Appeal Board when necessary.

The MGB met 12 times over the year and also dealt with a range of issues by email. It is continuing to oversee the work of the Historical Reconciliation Project and the residual work involved in the Registry clean-up. The MGB's final task will be to terminate MARIA, and this will be done via a vote of MARIA Participants when it is considered appropriate.

The MGB members are nominated by MARIA Participants and then voted on by Parties (four ordinary members) and Distributors (two ordinary members). The MGB Chair is required to be an independent person with no direct links to any electricity-related business.

THE MGB MEMBERS FOR THE PERIOD 1 APRIL 2003 TO 31 MARCH 2004 WERE:

Richard Rowley (Chair)
Richard was the independent Chair of the MGB until 5 December 2003. Richard is the Executive Director, New Zealand of Phillips Fox and was previously UnitedNetworks' General Manager Corporate Services. He holds a minor shareholding in Contact Energy Ltd and has no other employment, directorship or shareholder positions in the electricity industry.

Toby Stevenson (Chair)
Toby is the current independent Chair of the MGB. Toby is the Director of TWS Consulting Ltd and was previously General Manager Electricity Trading at Contact Energy Ltd. Toby is also the Chairman of the NZEM Rules Committee.

John van Brink
John is Commercial and Pricing Manager at Vector. He heads the team that manages and maintains network access agreements with retailers, as well as contractual interfaces with directly contracted consumers. John has been involved in a number of industry working groups.

Lindsay McLennan
Lindsay is currently Business Services Manager at Delta Utility Services, where he is responsible for relationships with electricity retailers, embedded generators and Transpower, line pricing, regulatory aspects of line businesses, and the provision of all corporate information services to the company. He also represented MARIA on the Electricity Governance Establishment Committee.

Peter Calderwood
As Strategic Business Development Manager, Peter is a member of TrustPower's executive team and is actively involved in its strategy development. Prior to this, he was TrustPower's Energy Trading Divisional Manager where he was responsible for energy procurement and all other aspects of the energy market.

Robert Reilly
Robert is currently Senior Advisor, Retail at the Electricity Commission. He has been a member of various industry working groups, including the MARIA Competition Enhancement Committee, the MARIA Retail Competition Committee, and the MARIA Rules Structure Working Group.

Stephen Cross*
Stephen joined Contact Energy Ltd in February 1999 and currently holds the position of General Manager, Trading. In this role he is responsible for all of Contact's revenue functions and for its fuels supply.

Steve Rawson
Steve joined Mighty River Power as Commercial Services Manager in April 2001. He is currently General Manager Retail Operations and Customer Support, and is responsible for all industry facing issues as well as all DA functions.

Steve has been a member of the MGB, the RIRG, the Maria Registry Upgrade Steering Group, the MDAP, and the Model Retail Contract Project. He has also chaired the Retailers' Forum. Steve is also a Director of NZ Oil and Gas.

Warwick Russell**
Warwick has held a number of senior financial roles during his career, including at DB Group, NZFP Pulp and Paper, Winstone Group and Freightways. Prior to joining Vector in 1999, he was Director of Finance at Tappenden Holdings. Warwick was the Chairman of the MARIA Registry Project.

Stephen Cross resigned and was replaced by Steve Rawson on 8 February 2004.
** *Warwick Russell resigned and was replaced by John van Brink on 9 July 2003.*

The independent MCC oversees compliance with the MARIA Rules and Codes of Practice, and imposes fines and awards compensation where there are breaches by Participants. The MCC's three members are self-selected from the NZEM Market Surveillance Committee (MSC) on an ad-hoc basis. The MCC will continue to operate until MARIA is terminated to deal with any residual compliance issues.

The current MSC members are:

- Sir Duncan McMullin (Chair)
- Arthur Muldoon
- Bill Lyttle
- Professor Lew Evans
- Quentin Hay.

MAIN COMPLIANCE FOCUS

In 2003/04, compliance activity focused on monitoring of the switching rules and the audit programme. The Administration Manager arranged the following audits:

- Metering audits
- Discrepancy report audits
- Profile audits
- Forward estimate audits
- DA audits
- Class A test house audits
- Class B test house audits.

Although many of these audits were required under the MARIA Rules, the Administration Manager adopted an educative approach. This meant the audits provided an opportunity for audited parties to implement remedial programmes to ensure future compliance with the rules.

REQUESTS FOR AUDIT

Under the MARIA Rules, a Participant was able to request an audit of the performance of another Participant. Audits were typically requested when Participants wished to identify losses and to explain differences between their records and those of the NRM. The Administration Manager received one audit request in respect of GXPs in the King Country region, and the findings were provided to the MCC for consideration. Three audits are awaiting finalisation of the HRPT process. The Administration Manager is also conducting a proactive audit of commercial metering installations.

MONITORING OF MARIA REGISTRY INFORMATION

The improved Registry reporting functions enabled more regular and sophisticated monitoring of the switching performance of MARIA retailers. In 2003/04 the Administration Manager's monitoring programme showed a general improvement in respect of apparent breaches in this area.

MARIA CONDUCT COMMITTEE

The MCC considered an admitted breach caused by late payment of an MCC invoice by a Participant, despite repeated requests from the Administration Manager and with no request for an extension being made. The MCC imposed a penalty of $2,000 and costs of $675, and penalty interest was also charged.

Following an audit of the Powerco region, the auditor reported a breach of the forward estimate rule. The Participant admitted the breach, and the MCC imposed a penalty of $5,000 and costs.

MARIA PARTICIPANTS

KEY EVENT

4

EMPOWERING DISTRIBUTORS.
In December 2000, the MARIA Rules were amended to give MARIA Distributors a vote on rule changes and to enable them to appoint two members to the MGB. A separate member class was created for Distributors, with their voting entitlements based on the number of consumers on their networks.

The MARIA Rules apply to all Participants, including direct customers (those connected directly to the national transmission grid), generators, retailers, distributors, service providers, the MGB, Transpower and the MCC. MARIA Parties and Distributors, the two voting 'classes', voted on the membership of the MGB and all rule changes. To be passed, a Chapter 1 MARIA governance rule change needed to be approved by a two-thirds majority in each class.

MARIA PARTIES

The MARIA Parties, the electricity retailers and generators, are allocated voting rights based on the amount of electricity they traded through MARIA. Each Party receives one vote for each complete 0.1% of energy traded through MARIA, averaged over the previous 12 months.

MARIA PARTIES' VOTING ENTITLEMENTS AT 31 MARCH 2004

Company	MWh (000)	Percentage	Votes
BHP New Zealand Steel	1,287	7.63%	76
Meridian Energy	9,311	55.19%	551
Mighty River Power	1,952	11.57%	115
Todd Energy	682	4.04%	40
TrustPower	3,638	21.56%	215
Total	**16,870**		**997**

Contact Energy Ltd, NGC Generation Holdings, Orion and Genesis Power were MARIA Parties, however as they were not actively trading through MARIA they had no voting entitlements.

MARIA DISTRIBUTORS

Distributors are allocated voting rights based on the number of ICPs on their network as recorded in the Registry. A Distributor receives one vote for each complete 0.01% of ICPs on its network as a percentage of the total MARIA Distributor ICPs. One Distributor vote is not directly comparable with one MARIA Party vote, as Distributors have a total of 9,830 votes compared with a total of 997 votes for Parties.

MARIA DISTRIBUTORS' VOTING ENTITLEMENTS AT 31 MARCH 2004

Company	ICPs	Percentage	Votes
Buller	4,182	0.23%	23
Counties Power	32,871	1.80%	180
Delta Utility Services	74,285	4.07%	407
Eastland Network	24,920	1.37%	137
Electralines	39,550	2.17%	217
Electricity Ashburton	14,676	0.80%	80
MainPower	28,898	1.58%	158
Marlborough Lines	21,875	1.20%	120
Nelson Electricity	8,551	0.47%	47
Networks South	40,049	2.20%	220
Network Tasman	33,241	1.82%	182
North Power	48,131	2.64%	264
Orion	173,061	9.49%	949
Powerco	284,931	15.63%	1,563
PowerNet	63,849	3.50%	350
Scanpower	6,608	0.36%	36
The Lines Company	23,161	1.27%	127
Top Energy	26,636	1.46%	146
Unison Networks	99,858	5.48%	548
Vector	636,308	34.90%	3,490
Waipa	20,858	1.14%	114
WEL Energy	74,328	4.08%	408
Westpower	11,667	0.64%	64
Total	**1,792,494**		**9,830**

The three main service providers to MARIA have been:

The Administration Manager
As Administration Manager, M-co has acted as the MGB's executive, providing it with analytical advice on the efficient and effective operation of the electricity market, and overseeing MARIA's day-to-day operation. It has also administered the MARIA working group process, assisted with dispute resolution, maintained membership lists of Participants and auditors, paid the MGB and MCC, and recorded all rule changes. Under a 26-month residual contract, M-co continues to be responsible for the administration of ongoing tasks under MARIA such as the Historical Reconciliation Project and the Phase 2 Registry data clean-up.

In 2003/04 the cost of administering MARIA, including the Administration Manager's fee, was $1,581,373. This comprised Governance and Rule Making ($1,125,917), the Reconciliation Projects ($175,881), the MDAP ($58,190), the Model Retail Contract Project ($174,022), and the Profile Review Project ($47,363).

The National Reconciliation Manager
d-cypha has facilitated the monthly reconciliation process and been responsible for reconciling metering data against a register of contracts and passing the data to industry participants. d-cypha continues to provide services to MARIA under a 26-month residual contract.

The National Reconciliation Manager (NRM) fees have been allocated between NZEM and MARIA based on the energy traded under each governance structure at the GXP level. For 2003/04, the aggregate NRM fees totalled $335,740 for MARIA Participants.

The Registry
Jade Direct provided the Registry database that identified every point of connection using an ICP, facilitating the customer switching process and the flow of information between retailers. The MARIA Registry ceased to exist on 1 March 2004.

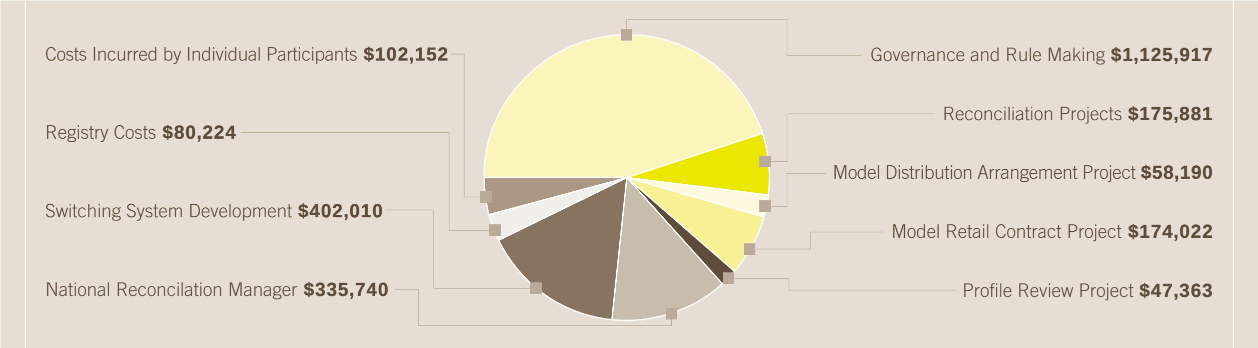
The Registry fees were shared between NZEM and MARIA, and were allocated according to the volume of energy traded. In 2003/04, MARIA Parties paid approximately 21% of the Registry's costs, totalling $80,224.

OTHER FEES
In addition to the recovery of service provider costs, a number of direct recoveries were charged to MARIA Participants for costs incurred on a user pays basis. These included fees for the Annual Review, forward estimate audits, and market participant audits, and totalled $102,152.

APPROVED PROVIDERS
In addition to the three key service providers, a number of other MARIA providers were approved by the Administration Manager.

- **MARIA-approved test houses** ensured that metering systems operated accurately. Class A test houses were able to work with all types of meters, and Class B test houses with only certain classes of meters.
- **MARIA-approved data administrators** were contracted to energy retailers and were responsible for gathering all metering information, preparing estimates for half-hour metering data, and aggregating metering data for reconciliation. The approval regime ensured that data administrators had processes in place to provide accurate and timely reconciliation information.
- **MARIA-approved auditors** examined the procedures, facilities and other relevant issues to confirm compliance with the MARIA Rules.
- **MARIA-approved arbitrators** were appointed by the MGB to resolve any disputes that could not be settled through the mediation process.

MARIA FEES



KEY EVENT

5

A NEW GOVERNANCE STRUCTURE.
On 1 March 2004, the Electricity Commission assumed responsibility for running the New Zealand electricity market. The market now operates under the Electricity Governance Regulations and Rules.

GLOSSARY

Data administrator: data administrators gather metering information, prepare estimates for half-hour metering data, and aggregate metering data for reconciliation.

Distributor: a company that manages the power lines that transport electricity on low-voltage local networks.

Electricity Commission (EC): the crown entity that, since 1 March 2004, has been responsible for overseeing the governance, operation and development of the New Zealand electricity market.

Electricity Governance Regulations and Rules (EGRs): the rules and regulations that have governed the New Zealand electricity market since 1 March 2004.

Generator: a company that generates electricity that is injected into the national grid and sent to distributors.

Guiding principles: the principles behind MARIA that encourage customer choice and act as a benchmark against which rule changes are assessed.

Grid Exit Point (GXP): a point of connection where electricity may flow out of the national grid.

Installation Control Point (ICP): a unique identifier for a point of electricity connection for reconciliation purposes.

MARIA Conduct Committee (MCC): the independent body that monitors and enforces compliance with the MARIA Rules.

MARIA Governance Board (MGB): the independent body that oversees MARIA.

National grid: the high-voltage network that transports electricity from major power stations to the power lines (local networks) operated by distributors.

New Zealand Electricity Market (NZEM): the trading arrangement under which, from 1 October 1996 to 1 March 2004, the majority of New Zealand's wholesale electricity was bought and sold.

Participant: any person bound by the MARIA Rules, including direct customers (those connected directly to the national transmission network), generators, retailers, distributors, service providers, the MGB, Transpower and the MCC.

Party: a buyer or seller of electricity – a retailer or a generator.

Profiling: a system that enables retailers to assess how much electricity their customers are using every 30 minutes.

Reconciliation: the process of matching the electricity supplied to customers by retailers with the contracts for supply these retailers have with electricity generators.

Registry: a national database that identified every point of electricity connection in New Zealand using an ICP.

Retailer: a company that sells electricity to customers.

Service provider: the NRM, Administration Manager, Registry and any other person appointed as a service provider by the MGB.

Working group: industry groups that addressed specific issues, and provided advice and recommendations to the MGB on rule change proposals.

KEY EVENTS SUMMARY

1 MARIA'S FOCUS

MARIA was established in April 1994 with an emphasis on specifying technical metering and reconciliation standards. Its focus changed in 1999 with the introduction of full customer competition.

2 ENERGY TRADED

At the start of the wholesale market in October 1996, only 7% of energy was traded through MARIA. In August 1998 this rose to approximately 20% when the ECNZ contract with Comalco for the Tiwai aluminium smelter was put into MARIA. Later, the advent of full retail competition lifted the level as high as 30%.

3 FULL RETAIL COMPETITION

In 1999, the implementation of profiling enabled the introduction of retail competition for all consumers. Profiling allows retailers to estimate how much electricity a consumer will use every hour. Customer switches have now topped one million.

4 EMPOWERING DISTRIBUTORS

In December 2000, the MARIA Rules were amended to give MARIA Distributors a vote on rule changes and to enable them to appoint two members to the MGB. A separate member class was created for Distributors, with their voting entitlements based on the number of consumers on their networks.

5 A NEW GOVERNANCE STRUCTURE

On 1 March 2004, the Electricity Commission assumed responsibility for running the New Zealand electricity market. The market now operates under the Electricity Governance Regulations and Rules.

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MARIA
Metering and Reconciliation Information Agreement

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