

The Authority's Focus and Priorities

5 May 2011
Brent Layton, Chair

Welcome and introduction regarding the purpose of the breakfast function. The Authority intends holding functions in Wellington in November each year, and in Auckland in May/June each year.

Board Members



David Bull



Susan Paterson



Hon. Roger Sowry



Elena Trout

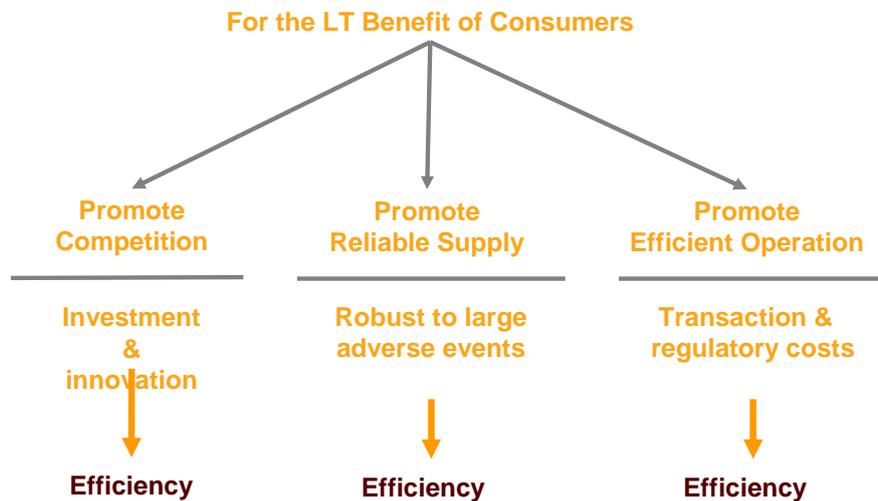
Introduce each Board member.

The Authority's Statutory Objective

Promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers

The statutory objective for the Authority is very clear and concise. The overriding goal is to deliver long-term benefits for consumers.

Interpretation of the Statutory Objective



The Authority finalised its Interpretation of s15 of the Act in February this year.

The focus on delivering long-term benefits to consumers means that its work on promoting competition has to be aligned with promoting investment and innovation. The end focus has to be on dynamic efficiency.

The focus on delivering long-term benefits to consumers means that its work on promoting reliable supply has to be shaped by the need to put in place regimes that are robust to large adverse events.

Code Amendment Principles

1. Lawful and consistent with the Authority's statutory objectives
2. There is demonstrable market or regulatory failure or efficiency gains
3. Quantitative CBA will be used wherever feasible to assess code amendment proposals
 - Tie-breaker 1: CBA is inconclusive about best option
 4. Preference for small-scale 'trial and error' options
 5. Preference for greater competition
 6. Preference for market solutions
 7. Preference for flexibility to allow innovation
 8. Preference for non-prescriptive options
 - Tie-breaker 2: CBA is inconclusive about any option being positive
 9. Risk-report

In addition to providing clarity around the Authority's interpretation of its statutory objective, the Authority has also published a set of Code amendment principles it intends to adhere to in assessing Code amendment proposals. A full description of these can be found on the Authority's website, in the Authority's Consultation Charter.

Regulatory Vision and Values

Vision

To be widely recognised as a world-class electricity regulator

Values

- **Progressive** – Innovative and forward looking
- **Open** – Transparent, engaged listener, informed, inclusive
- **Effective** – Credible, expert, fact-based, cost effective, timely, efficient
- **Professional** – principled, logical, considered, impartial, fair
- **Reliable** – predictable, robust, judicious

Outcome Indicators

Competition: Widespread **confidence** in the competitiveness of wholesale & retail electricity markets

Reliability: Widespread **acceptance** of efficient levels of supply reliability

Efficiency: Widespread **acknowledgement** that NZ's wholesale and retail markets are efficient mechanisms for coordinating production & consumption and facilitating timely and innovative investment

The above outcome indicators are in the Authority's inaugural Statement of Intent. They form the basis for the Authority's performance management framework.

Work Priorities and Progress To-Date

5 May 2011
Carl Hansen, Chief Executive

Key Functions

Section 16 of the Act specifies the functions of the Authority:

1. Register industry participants
2. **Develop and administer the Code**
3. **Monitor and enforce compliance** (NEW: Act and regulations)
4. Facilitate the market through provision of information, best-practice guidelines, model agreements etc.
5. **Contract for market operation services**
6. **NEW:** Promote customer switching, with a new \$10.5m fund
7. **NEW:** At the request of the Minister, undertake reviews and inquiries into the electricity market
8. **NEW: Pro-actively monitor market performance**

The core functions are written in bold font. Significant set of new responsibilities relative to the Electricity Commission. The compliance function covers not just the Code but also the Electricity Industry Act and regulations.

Promoting customer switching is a key new function, with \$10.5m made available to the Authority for a three year period. The Authority will be launching a media campaign later this month to promote customer switching. The primary focus is on increasing the propensity for customers to switch retailers when there is 'value on the table' for them.

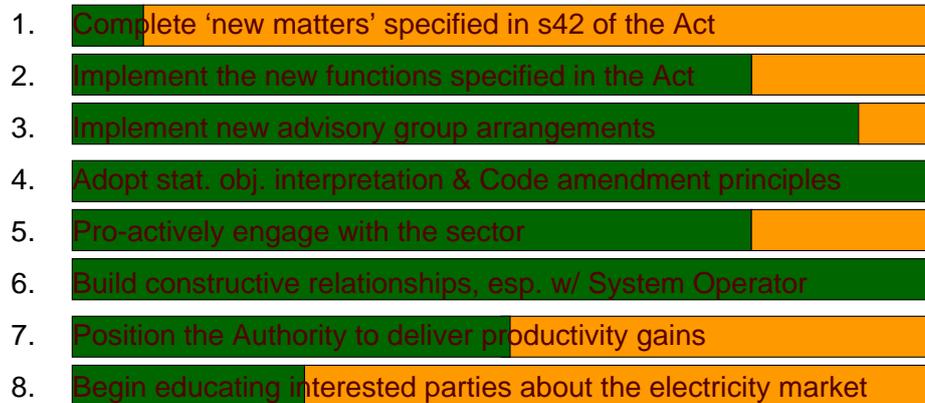
Pro-actively monitoring market performance has completely altered the complexion of the organisation. Significant additional focus on thinking about how to enhance market performance.

Strategic Focus for First Year

1. Complete 'new matters' specified in s42 of the Act
2. Implement the new functions specified in the Act
3. Implement new advisory group arrangements
4. Adopt stat. obj. interpretation & Code amendment principles
5. Pro-actively engage with the sector
6. Build constructive relationships, esp. w/ System Operator
7. Position the Authority to deliver productivity gains
8. Begin educating interested parties about the electricity market

The Authority Board adopted eight strategic priorities when it was established in November 2010.

Progress in First 6 Months



The above chart shows my assessment of the Authority's progress on the eight strategic priorities after six months of operations. The green colour denotes the amount achieved to-date and the mustard colour indicates further work to be done.

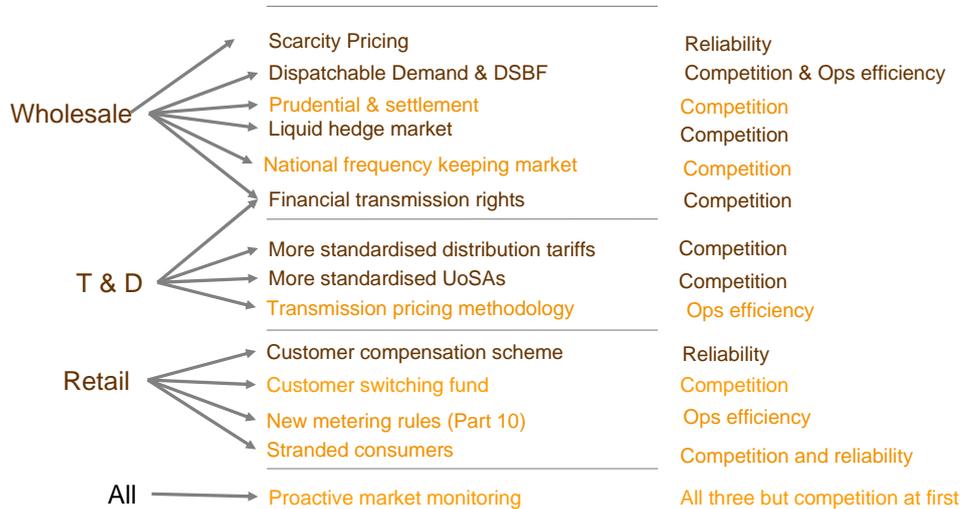
Only one of the seven 'new matters' in s42 of the Act has been implemented, but I'm confident we will achieve all 'new matters' by November this year.

The new functions are essentially implemented but there remains further work to finalise market monitoring arrangements. Advisory groups are almost fully implemented, with Board appointments of new members for WAG and RAG to be announced next week. The finalisation of the Authority's interpretation of its statutory objective and the Code amendments principles were completed in February this year.

The Board of the Authority has been pro-actively engaging with the sector, visiting both consumer and industry sites throughout NZ. The Board has also hosted several luncheons for key stakeholder groups and two breakfast functions. Staff are also pro-actively engaging with their counterparts.

The Authority believes it has a very constructive relationship with most parties, and in particular with the System Operator. The new organisational structure is now in place, but significant further work is required to achieve productivity gains for levy payers via better use of staff resources. The Authority is also pro-actively educating consumer groups on its market monitoring work and the electricity sector generally.

Top Priority Work Items

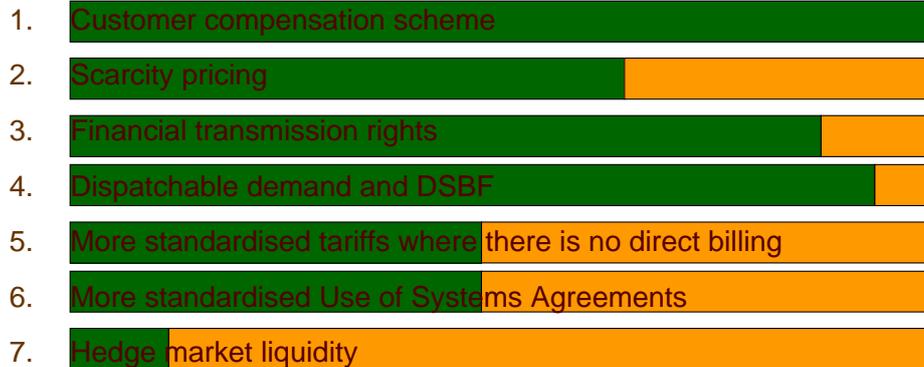


This slide shows the top Code development priorities for the Authority. The RHS column shows which of the three limbs of the Authority's statutory objective each project primarily relates to. Clearly the Authority's work programme is heavily focused on pro-competition initiatives. We believe the competitive landscape for the electricity sector will become substantially more intense over the next few years.

Having said that, the Authority does not necessarily believe greater competition means lower profits. Innovative firms can earn higher profits from finding new ways to deliver better value to their customers.

Progress on s42 ‘New Matters’

Progress with adopting Code amendments (excl. implementation)



The above chart shows my assessment of the Authority’s progress on the seven ‘new matters’ in s42 of the Act. The green colour denotes the amount achieved to-date and the mustard colour indicates further work to be done.

The Customer Compensation Scheme was implemented in the Code effective from 1 April this year. The scarcity pricing work is well advanced but there remains considerable further work (including another consultation round) before final decisions are made about any Code amendments on that issue.

The financial transmission rights regime is very close to completion in regard to Code amendments, and similarly dispatchable demand and the demand side bidding and forecasting (DSBF) work.

There is considerable further work to do on the “more standardisation” topics, which are running very tight against milestones. The hedge market liquidity work has just begun but it is a very concise set of work and Code amendments (if any are needed) can be in place before 1 November this year.

Consultation Timeline for s42 matters

	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	
Board meetings							8-9 Mar	6 Apr	4-5 May	1 June	6 July	3 Aug	14 Sept	5 Oct	2 Nov	
Customer Compensation Scheme - 42(2)(a)				Mandatory default options Closed 13 Jan			Announced 5 March	In effect from 1 April								
Scarcity Pricing - 42(2)(b)								Code change framework			final code					
Locational Price Risk Management - 42(2)(c)								final code								
Dispatchable Demand- 42(2)(d)										final code						
Demand Side Bidding and Forecasting - 42(2)(d)			SO provided timetable and cost in Dec.10							final code						
Standardised Tariffs & Contracts - 42(2)(e) & (f) (MUoSA and EIEPS plus scope extensions agreed 8 March)										1st round consult		Possible 2nd round consult		Gazetted by 27 Oct at latest		
Liquid Hedge Market - 42(2)(g)							Hedge disclosure improvements									
Hedge Market Liquidity									Hedge market survey carried out							

KEY

Consultations Completed	
Consultations Planned	
Consultations in train	
Code approval	

The above chart gives a broad indication of our consultation timeframes for the s42 'new matters'. The purple squares indicate the timeframes for completing Code amendments.

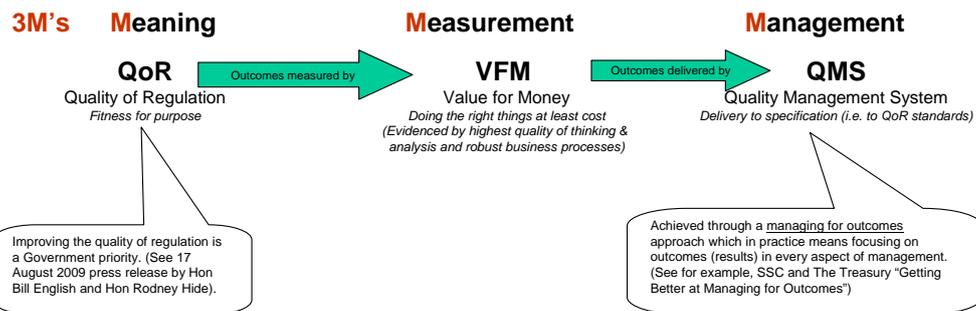
UTS Investigation: Process To-Date

- UTS decision out tomorrow
 - Can't discuss substantive matters today
 - EA appreciates lengthy timeframe is frustrating
 - But need to assemble all the facts and do rigorous analysis
- Key steps in the process so far
 1. **28 March**: EA receives first UTS claim; delays publication of final prices
 2. **31 March**: Preliminary report to the UTS Committee
 - Committee decides process and meeting schedules
 - Requests staff obtain further info from parties
 3. UTS Committee also met on
 - **06 April**: initial analysis of info received; further info request to Genesis
 - **14 April**: first substantive analysis of the allegations
 - **20 April**: further substantive analysis
 - **28 April**: further info requests to Contact Energy & MRP; refinement of decision document

The elephant in the room is the UTS. We can't discuss the substance of decision but I want you to be assured the Authority is rigorously following a well-defined process for assessing the UTS allegations. We appreciate the significance of the issue and the need to address it in a timely manner.

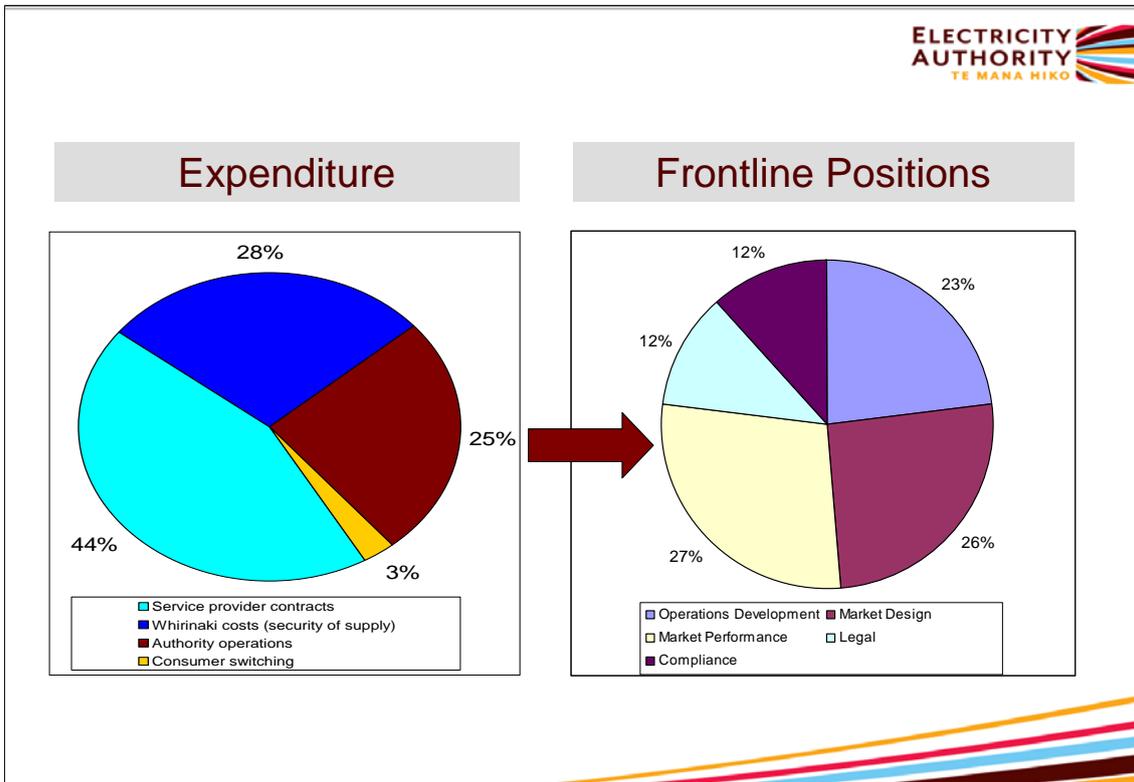
The UTS Committee will be meeting later today to finalise its decision document, which will be published tomorrow.

Path to World Class: Overview



The above slide is intended to provide an overview of work the Authority is undertaking to become a world class electricity regulator. The end goal is quality regulation, which has to be supported by a sound performance management framework comprising performance measurement and quality management systems.

We're now starting to put flesh on the bones of the 'world class' vision, but it will take beyond this year to get the performance measurement system in place.



The LHS pie chart shows the components of where the Authority spends its budget. 44% of the Authority's \$70m budget goes to service providers such as Jade, NZX and the System Operator. Another 28% goes to funding the availability of the Whirinaki power station and its running costs. A further 3% is spent on the customer switching activity.

Only 25% is spent directly on Authority activities. The RHS pie-chart shows where that 25% goes to in terms of front-line activity. Only a quarter of it goes on market design, as another quarter is spent on market performance and another quarter on operations development. 12% each goes to compliance and legal activities.

Senior Leadership Team



Ross Hill
Legal &
Compliance

Internal

Compliance
investigations



Bruce Smith
Market
Performance

Consumers

Ad-hoc & annual
market assessments



John Rampton
Market
Design

Advisory Groups

Develop market-
oriented rules



Kevin Lampen-Smith
Corporate
Services

Government

Govt accountability
& org. performance



Fraser Clark
Operations
Development

Service Providers
& SRC

Develop technical
rules

The new organisational structure was put in place in February this year. We have only just completed filling all GM posts, with the appointment of Fraser Clark to the GM Operations Development role.

Each GM has key stakeholder relationship responsibilities (middle row of text).

Questions?