



# MAJOR ELECTRICITY USERS' GROUP

20 December 2011

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Electricity Authority

By email to [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

Dear Kevin

## **Consultation Paper—2012/13 appropriations**

1. This is a submission on the Electricity Authority consultation paper “2012/12 Appropriations, Authority Path to CRE, and EECA work programme”, 29<sup>th</sup> November 2011<sup>1</sup>.
2. We have no comment on proposals to retain last year’s budget levels of \$3.5m for promoting and facilitating customer switching (funded by a levy on retailers on a per ICP basis), \$6m over five years for security management (only levied if a public conservation campaign is called), \$0.444m for a litigation fund and removal of Whirinaki power station related appropriations. MEUG and the New Zealand Business Roundtable have jointly made a separate submission to EECA opposing the proposed \$15.5m electricity efficiency programme set out in appendix E of the consultation paper.
3. The balance of this submission is on the proposed Electricity Industry Governance and Market Operations appropriation for 2012/12 of \$63.906m. The proposal is \$1.371m higher (+2.2%) than the 2011/12 budget of \$62.535m. The main reasons for the increase are s.42 Code Implementation Costs and a contractual CPI adjustment in the System Operator Service Provider Agreement (SOSPA).
4. System Operator related costs total \$34.030m or 53% of the proposed \$63.906m appropriation. As noted last year our primary concern with the overall proposed budget is the value and performance of the System Operator, the Market System Project and SOSPA. We welcome the proposed new research project in paragraph D.47 to investigate the efficiency of system operator arrangements. There are several issues that need to be investigated including whether use of a CPI linked escalator is reasonable and improving accountability of the System Operator for non-performance. MEUG notes that retraction of the statutory monopoly granted to Transpower to be the System Operator remains a feasible longer term option to solve performance and accountability problems.

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<sup>1</sup> <http://www.ea.govt.nz/our-work/consultations/corporate/proposed-appropriations-2012-3/>

5. A new concern is how costs associated with implementing s.42 New Matters are recovered through levies. In particular MEUG believes it is inefficient that FTR implementation costs are to be recovered from all consumers. In our view participants in the FTR market should pay for the start-up and ongoing operational costs of the FTR market in the same way participants in the ASX electricity futures market directly meet the costs of that market. In that case FTR and ASX market users' are highly incentivised and have the expert knowledge to ensure market service providers are efficient.
6. In terms of the proposed Authority outputs (appendix C) and draft path to competition, reliability and efficiency (CRE) (Appendix D) MEUG notes:
  - a) We welcome the Authority including an initial assessment of the net public benefit and project cost in the list of proposed projects in table 12. This is a good start towards our suggestion last year that "future proposals for appropriation need to include an analysis of the likely benefit for each programme or group of similar programmes."
  - b) More details are needed on how the Authority intends to achieve and be measured against the vision (paragraph D.2) "to be recognised as a world class electricity regulator." This will require a plan, resources and consultation.
  - c) The Authority is the agency most able to provide advice on the SOE generator partial privatisation programme and the policy test prescribed by Ministers<sup>2</sup> that "the Government would have to be satisfied that industry-specific regulations adequately protected New Zealand consumers". It is insufficient to argue the package of reforms arising from the Ministerial Review of 2009 and the partial privatisation programme will, because they were intended to increase competition, meet that test. A more pro-active assessment of whether the interest of consumers has been protected should be designed. For example unless we understand the current efficiency and profitability of the SOE generators relative to other large listed and privately owned suppliers, it will be difficult to assess if efficiency and profitability has improved and how post-partial-privatisation benefits are shared between the owners of those businesses and consumers. It is recommended the Authority develop metrics to allow an objective pre and post evaluation of the partial privatisation programme.
  - d) The manner in which engagement with all classes of consumers is undertaken needs to be reviewed. For example concerns on the remuneration of people serving on advisory groups was mentioned in the MEUG submission of 22<sup>nd</sup> December 2011 on proposed changes to the terms of reference for advisory groups.

The importance of the Authority taking an active role on behalf of consumers was highlighted in the categorisation of project size in paragraph D.35. Medium and large Authority work programmes are in the range of \$100,000 to \$500,000 and greater than \$500,000 respectively. MEUG, the largest specialist consumer representative entity, considers a project of over \$50,000 to be very large. In any one year we would undertake no more than two projects with a budget in excess of \$50,000 and very infrequently in excess of \$100,000. This highlights how lightly resourced consumers are compared to suppliers and hence the need for the Authority to in effect "step into the shoes of consumers".

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<sup>2</sup> Ministers of Finance and SOE media release, Ministers seek mixed-ownership model advice, 28<sup>th</sup> January 2011, refer <http://www.national.org.nz/Article.aspx?articleId=35026>

- e) Improving market information and price signals is one of five Paths to CRE (p30). We suggest that rather than focus this path only on "initiatives which increase efficiency and reliability through greater demand and supply responsiveness to tight supply situations"; that information is also an important facilitator of near term risk management and longer term investment decisions. The latter would include decisions by consumers to invest in and participate in dispatchable demand and or co-generation. Better real time through to investment cycle decisions facilitated by improved information will also allow improved competition as well as reliability and efficiency.
- f) On page 31 the consultation paper notes s.42 and other work will be subject to "post implementation review". Post implementation reviews are set out table 12 for several non s.42 projects. We suggest a similar timeline for post implementation reviews of s.42 New Matters be included in table 1 (p38).

MEUG is particularly critical of the rationale justifying the stress test Code amendment. We believe a post implementation review of the stress should be undertaken earlier rather than later because of the possible unnecessary compliance burden on just a fraction of the market relative to any welfare benefits of the intervention. Our view that this intervention may have limited durability is supported by the discovery that a sunset provision in the Code for the stress test was recommended by Authority staff but declined by the Authority Board<sup>3</sup>.

- g) There may be value in splitting Transmission Pricing (Table 7, p34) into reviews of HVAC and HVDC TPM. There is no necessary reason that these need to be linked. In our view there is greater opportunity for efficiency gains by reviewing the HVAC TPM than the HVDC TPM. Despite ongoing lobbying by South Island generators for the latter, the case for change is weak at best though clearly involves substantial wealth transfers.
- h) We assume there will be follow up surveys of consumer and industry representatives views. Those surveys could be added to the work programme.
- i) Following publication of the consultation paper, the AUFLS event of 13<sup>th</sup> December occurred. A review of that event will be undertaken this year. There may be post-review Code amendments or market briefings and education that spill over into 2012/13.

7. We look forward to the Authority considering this submission.

Yours sincerely



Ralph Matthes  
Executive Director

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<sup>3</sup> Electricity Authority staff memo to Board members, Scarcity pricing and stress test regime Code amendments, Annex 1-14, 4<sup>th</sup> October 2011