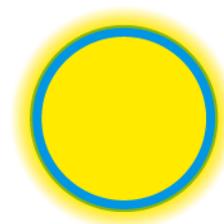


9 January 2012

Dr Brent Layton  
Chairperson  
Electricity Authority  
PO Box 10041  
Wellington

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



Dear Brent,

## **Consultation paper – 2012/2013 Appropriations**

### *Introduction*

Powerco welcomes the opportunity to comment on the Electricity Authority's (Authority) proposed 2012/13 work programme, published on 29 November 2011.

The Authority has made good progress establishing its new mandate and meeting the demanding s42 programme. We have welcomed the Authority's efforts to engage with the industry. For example, via the advisory group structure, the Board's visit to Powerco and workshops on delivering the Competition, Reliability and Efficiency objectives (CRE).

Given the challenging economic climate and rising cost of electricity, it is vital the Authority's expenditure is efficient. It is reassuring the operations budget and expenditure on external advice is proposed to reduce. The Authority should continue to lever off the abundant industry expertise in considering policy changes.

### *Minimal policy justification and the use of cost benefit analysis (CBA)*

Powerco agreed with the concerns raised in the letter from Nathan Strong, Chair of the Electricity Network Association's Regulatory Working Group, dated 11 November 2011. We were also concerned that some of the changes will make little contribution to the CRE objectives. As an example, the Consumer Guarantees Act (CGA) policy change had a net present value benefit estimated between \$0-\$200k. This is not enough justification to implement a change that will have major impacts on 29 businesses. The Authority must be careful that policies will not simply result in transfer payments from distributors to retailers, and contribute little to CRE.

Like many other participants, we agree a key strategic theme is post-implementation reviews of Code amendments. We welcome the development of documents, such as *Electricity Market in Review*, which will help ensure the Authority focuses on outcomes, rather than outputs.

### *Overlap with the Commerce Commission*

The "standardisation" work highlights how the Authority's work relates to regulation by the Commerce Commission. For example, the Authority's recent Code changes have introduced costs to distributors that we have little control over, such as increasing liability

under the CGA). The Authority has left distributors to resolve if these costs should be pass-through-costs with the Commerce Commission, rather than the Authority addressing the issue with the Commission before the Code was amended. It is vital there is coherent and consistent regulation. In the example above, the Commerce Commission should agree that these increasing costs are eligible as pass-through-costs before the Code is changed.

### Priority Projects

The table below lists the projects directly impacting distribution that Powerco considers will deliver the most net public benefit (NPB).<sup>1</sup>

Project	Comment
<p><b>Retailer default provisions</b></p> <p><i>Existing project reviewing arrangements for managing retailer default. Medium project with medium NPB. Proposed Code is amended by June 2013.</i></p>	<p>We agree this is a high priority, particularly as it was first raised as an issue by the Minister for Energy in 2009.<sup>2</sup></p> <p>The Authority's approach to lowering barriers to entry for retailers will not only increase the likelihood of retailer default, but the exposure of distributors.</p> <p>Consumers benefit by distributors receiving low rates in debt markets due to their low risk. If there are not effective retailer default arrangements, the cost of debt will continue to increase for distributors, increasing electricity prices.</p> <p>Given the recent collapse of E-Gas in the gas industry, it is vital there is a clear process that everyone understands. E-Gas showed that during retailer default as much certainty is needed as possible for consumers and industry participants.</p>
<p><b>Extending Consumer Guarantees Act to Transpower</b></p> <p><i>New project to consider extending indemnity to Transpower. Small project with low NPV, proposed Code is amended by June 2013.</i></p>	<p>This is a high priority for Powerco. The logic of requiring distributors to provide an indemnity to retailers fully transfers to Transpower. This anomaly must be addressed as soon as possible.</p>
<p><b>Distribution Company Arrangements</b></p> <p><i>New research project reviewing scale efficiency of distribution network company arrangements. Proposed to be completed by June 2013.</i></p>	<p>Powerco fully supports this research. The "standardisation" work has not tackled the underlying problem – that there are 29 distribution companies.</p> <p>Powerco recommends this research undertakes a CBA of consolidating from 29 to a smaller number (eg 5) of EDBs. If the NPB is found to be positive, the research should then:</p> <ul style="list-style-type: none"> <li>• investigates the barriers to consolidation; and</li> <li>• recommend methods to reduce barriers.</li> </ul>

<sup>1</sup> We have not commented on the priority of generation/ retail projects over distribution-related projects.

<sup>2</sup> Via the Government Policy Statement on Electricity, March 2009.

<p><b>Policies related to the System Operator (SO)</b></p> <p><i>Review of AUFLS/ frequency management. Range of existing high priority projects relating to AUFLS exemptions and the SO review of approach to cascade failure and frequency regulation.</i></p>	<p>Powerco supports the prioritisation of this work and related projects. We have been contributing to the SO Under Frequency Management Project.</p> <p>The SO has stated that investment in grid infrastructure, particularly the HVDC Pole 3, underlines the need for a review of the current reserve arrangements.</p> <p>Changes to AUFLS will have widespread implications for distributors – both in reviewing feeders available and the expense of installing new relays in substations.</p> <p>Demand aggregators also present a risk to meeting AUFLS and clear guidance is needed. Robust consultation is very important to ensure the best policy eventuates.</p>
<p><b>Transmission Pricing Investigation</b></p> <p><i>Existing project reviewing the allocation methodology, proposed Code amended by June 2013. Large project with high NPB.</i></p>	<p>Finalising an enduring Transpower Pricing Methodology is vital and we agree is a priority for 2012/13. A particular concern to us is the allocation method for the HVDC.</p>
<p><b>Research on the low fixed user charges</b></p> <p><i>New research project, reviewing the regulations by June 2013.</i></p>	<p>A review of the low fixed charges is timely given the regulations have been in force since 2004. Many distributors and retailers are concerned that the regulations do not meet the policy aim, as low electricity usage does not often correspond to low incomes.</p>
<p><b>EIEPs</b></p> <p><i>Existing project to finalise EIEPs work from 2011/12 that has not been completed. Small project with low NPB.</i></p>	<p>There are clear efficiency benefits from more standardisation of the way data is interchanged between retailers and distributors. Currently much resource is used to modify data for business purposes. The EIEP work still has a long way to go and should be a high priority to deliver tangible outputs by June 2013.</p>
<p><b>Maintenance of consumer service lines</b></p> <p><i>New future project to begin 2013/14, addressing the issue of consumer service lines. Will look at issues and long term solutions.</i></p>	<p>Powerco supports completing this project in 2013/14. It is an area that needs clarification for consumers and distributors.</p>

Thank you for considering and points raised in this submission and please contact me on 021 730 348 if there is any aspect of this submission that you'd like to discuss in more detail.

Yours sincerely,



Richard Fletcher  
GM Regulation and Government Relations  
Powerco Limited