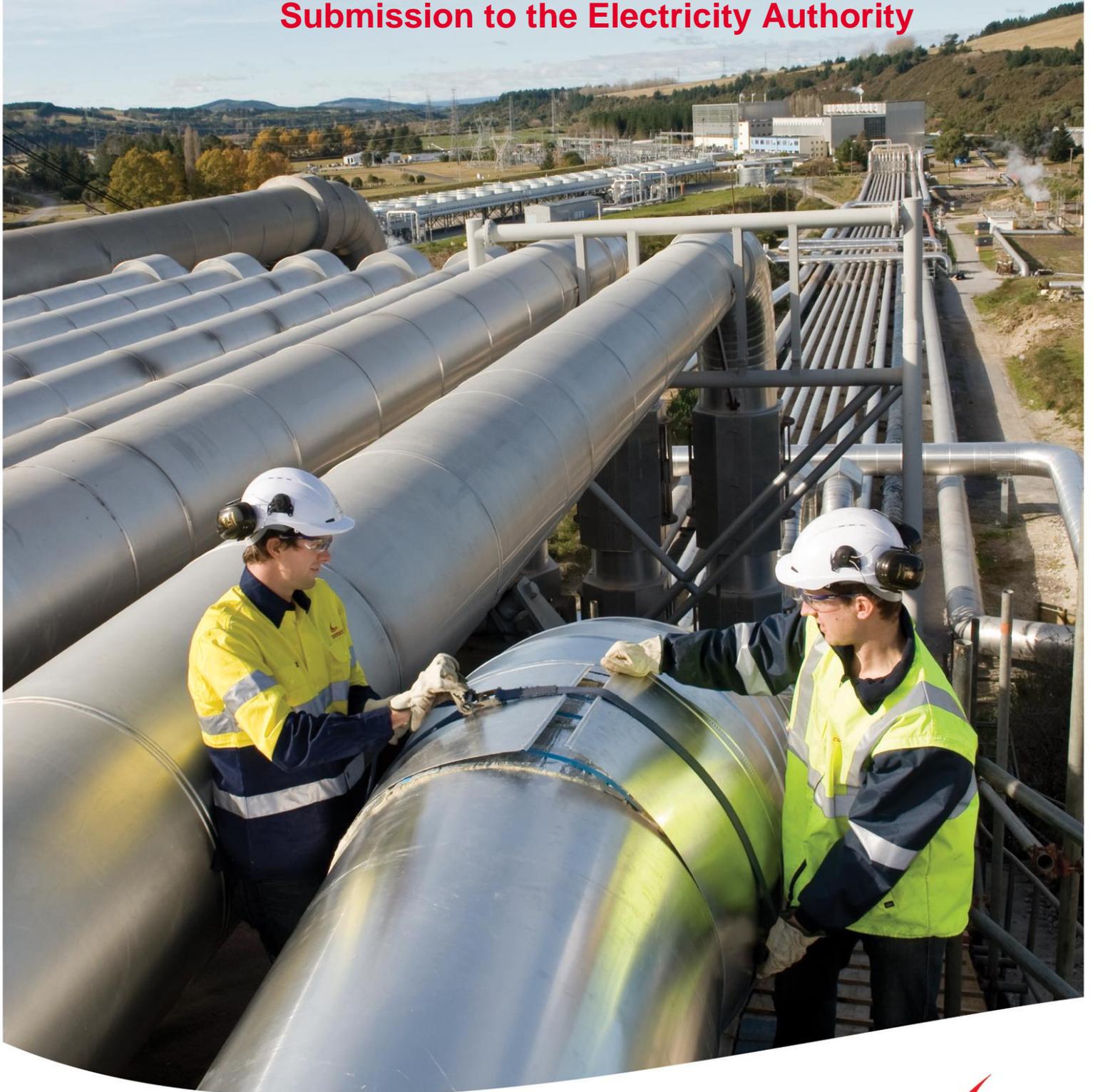


2013/14 Appropriations and Work Priorities

Submission to the Electricity Authority



Summary

Contact Energy (**Contact**) would like to thank the Electricity Authority (**Authority**) for the opportunity to provide feedback on the Authority's *2013/14 Appropriations and Work Priorities*.

Before we respond to the questions posed by the Authority, we would like to make some more general observations.

It's time to take stock – the work stream proposed by the Authority is ambitious and should be scaled back

Since the Authority's inception in November 2010, there has been a high level of activity resulting in a substantial workload for the Authority and its stakeholders. While a number of positive outcomes have been achieved for consumers (and the industry), we are concerned at the Authority's ongoing activity level, particularly when there appears to be no opportunity to review whether changes are effective before a further round of changes is implemented.

Focus on 'getting it right' – substance over quantity

In our view, the Authority's success will be determined by, and accordingly it should focus on, the quality of its outputs and thoroughness of its thinking, rather than the sheer volume of projects it undertakes. In our view, a handful of projects undertaken well will offer greater benefits to consumers and the industry than the 10 implementation and review projects, the 10 priority projects and the 22 second-and third-priority projects that the Authority currently proposes take place over 2013/2014.

Over the next 12 months we would like to see the Authority focus on concluding its current work streams and undertaking post implementation reviews of its work to date in order to assess whether these work programmes have been successful in achieving their stated goals or require further adjustment before another round of changes is embarked upon. Our favoured approach would enable a rolling plan of work which combines reviewing completed adjustments, work in progress and preparing for new areas of focus.

For any questions relating to our submission, please contact:

Louise Griffin | Competitive Intelligence and Regulatory Affairs Advisor
Contact Energy | DDI: 64-4-496-1567 Mobile: 64-21-243-1442

Level 1, Harbour City Tower, 29 Brandon Street, PO Box 10742, Wellington 6143, New Zealand

Response to specific questions

Authority appropriations

- 1. The overall proposed Electricity Authority appropriations as set out in table 1 of the consultation paper**
 - Given the level of information provided in table 1 and table 2 it is very difficult for Contact to comment on whether the proposed spend is appropriate. In particular we would be interested in understanding what is causing the Authority's personnel costs to increase by nearly \$1 million or 11% over FY13. Given the Authority's assertion that it has delivered on the seven priority initiatives, we would expect to see a decrease in staff numbers as opposed to an increase.
 - Additionally we would encourage the Authority to consider that for every \$1 million the Authority spends the industry has to spend that in multiples to catch up.
- 2. The proposed changes to Authority appropriations**
 - Please see our summary on page 1.
- 3. Other key matters relating to the Authority's overall appropriations that you consider the Authority should address in the 2013–2016 timeframe**
 - As highlighted in our summary the Authority should consider its proposed projects and appropriations through the lens of "must haves" rather than "nice to haves". The proposal to change the Transmission Pricing Methodology (TPM) will be a significant departure from current arrangements, and have such widespread impact across all participants that the Authority should focus its attention on this one new project throughout 2013-2016.

Authority strategic priorities, outcomes and outcome measures

- 4. What changes in the Authority's operating environment do you consider need to be addressed in developing plans for 2013–2016?**
 - Given the industry's current operating environment is one of belt-tightening, in our view the Authority should be trying to minimise both costs and workload.
 - Contact in its recent submission to the Commerce Commission on the Electricity Default Price Quality Path also noted that regulated lines company businesses need to review their operating budgets. In our view the Authority should look closely at the projects it is proposing to ensure that in constrained economic times it is focusing its resources on what is necessary.
- 5. What are the key issues you consider the Authority needs to address?**
 - In setting out its proposed projects it would be helpful if the Authority identified the outcome being sought, in the same way it does with its annual report; that is, would the proposed project be likely to improve competition, reliability or efficiency? In our

view, it is very difficult to ascertain whether a project should proceed on the basis of the project's size and net public benefit. We would also like to see projects ranked in order of priority. Given the current top priority project for market development is Efficient Allocation of Extended Reserves, we do not believe that this is currently the case.

- For further comments please refer to our summary.
- 6. How should the Authority update its strategic priorities to reflect the environment and key issues?**
- The Authority's strategic priorities should be amended to reflect that development of the hedge market has probably reached its potential. Further targeting of increased volume is unlikely to result in any significant benefits.
 - Additionally consideration should be given to reviewing projects which have been implemented as required by Section 42, to determine their effectiveness, for example Stress Testing.
- 7. How could the Authority improve its outcome measures?**
- Please see our summary on page 1.

Authority strategic priorities, outcomes and outcome measures

- 8. How could the Authority improve its output and impact measures?**
- As described above, we think the Authority's work plan is, at best, ambitious. We would like to see the Authority focused on delivering a small number of work streams effectively rather than trying to do everything at once.
 - In order to improve its outputs, the Authority needs to undertake post implementation reviews of completed projects. This should not just be a review of whether the code has been written or scheme has been implemented, but should be focused on whether the intended outcome is being realised.
 - In this regard, we feel the Authority has been generous in its interpretation of progress on section 42 matters, given the number of projects here that have been delayed or deferred. In our view, the Authority must drive projects to completion and cannot reward itself with a green light by, for example, blaming software changes on the NZX.

Overall proposed Authority work priorities

- 9. Your level of support for the overall suite of proposed projects as outlined in the consultation paper**
- Please see our summary. We reiterate our concern at the volume of activity proposed to be undertaken by the Authority over 2013/14 and would like to see the projects better prioritised.

10. The priorities assigned to proposed projects overall

- Please see our summary on page 1 and comments on specific projects below.

11. Comments on specific projects

Top priority projects

- We agree with top priority project **(4) Review of half hour switching rules**, with particular focus on smart meter switches.

Second priority projects

- We would like to see a change of scope for **(10) Review of Part 6 (pricing principles)**. In our view, if this is to be undertaken it should also revisit the distribution pricing principles.

Third priority projects

- We would like to see **(2) Breakdown of customer billings removed** from the work programme. We note this has been reviewed a number of times by the Authority and its predecessor without any conclusion being reached. As consumers generally choose their retailer based on the delivered retail price, not on the network or energy price (or any other pricing component), it should be left to the market to determine what is appropriate.
- We would like to see a change of scope for **(5) Research project – distribution company arrangements to include embedded networks**. In our view, the project should have a wider scope and higher priority. Our rationale for this is that there are now over 40 embedded network owners and around 100 embedded networks. Ultimately, local networks recover their loss of revenue (resulting from embedded networks), from other consumers. As a result, retailers incur significant costs of trading in embedded networks, which ultimately flows through to customers.
- We would like to see **(7) Review of use of profiles removed**. The Authority should leave market forces to determine the benefit of profiles. Once smart meters are widely deployed, all retailers will be in a better position to determine their strategy around submitting half hour data, profile data or accepting the default residual profile.
- We would like to see **(11) Review use of seasonal adjustment shape removed**. The reconciliation process already allows retailers to use their choice of shape for initial submissions at BD4, and shapes are required to be applied at BD13. Given settlement wash-ups are subject to use-of-money interest, there is no benefit in the Authority reviewing this area.

Future projects

- We would like to see **(1) Low fixed charges** given a **higher priority**. In our view, it currently creates distortions and significant cross subsidies in distributor and retailer pricing, and is not well targeted. Furthermore, the 15 cents per day (distributor) and 30 cents per day (retailer) maximum low-user fixed charges have not been revisited since the low fixed charge regulations came into force in 2004.
- We would like to see **(2) Optimisation of non-technical losses removed** as unaccounted for energy (UFE) is allocated in a fair and transparent manner (and if a UFE issue is identified then participants and/or the Authority should be actively seeking answers).
- We would like to see **(3) Responsibility for maintenance of consumer service lines removed** as, as far as we are aware, there is no issue.
- We would like to see **(4) Guidelines for secondary networks removed** as there is no work required. The guidelines were last reviewed in 2009, and there have been no changes that would mean they require alteration since.

Additional comments

- When the Authority next prepares its appropriations document, we would ask that it provides within the table a guide to the time and resource these activities are expected to consume. This will assist participants in planning their own work programmes and provide the Authority with a way of measuring at a later date what it is able to achieve against what it is proposing, and allow for a more sensible balance to be achieved in the future.