



# MAJOR ELECTRICITY USERS' GROUP

31 October 2012

Androula Dometakis  
General Manager Corporate Services  
Electricity Authority  
By email to [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

Dear Androula

## Consultation Paper – 2013/14 appropriations

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority (EA) consultation paper "2013/14 Appropriations and Work Priorities, and EECA Work Programme" published 24<sup>th</sup> September 2012<sup>1</sup>. Members of MEUG have been consulted in the preparation of this submission. This submission is not confidential.
2. MEUG welcomes both the more detailed information the EA has published for consultation and earlier timeframe for consultation compared to prior years.
3. Responses to the questions in the consultation paper follow:

Question	MEUG response
Q1. The proposed Electricity Authority appropriations as set out in table 1	See response on changes in Q2 below.
Q2. The proposed changes to Authority appropriations.	<p>MEUG agrees the Authority operations should remain constant nominal at \$20.225m. This approach reflects the business environment most MEUG members currently operate in where there is no margin for any cost increases.</p> <p>The proposed \$1.877m increase for other service providers is a consequence of committed new projects. We have previously submitted that the FTR development costs (\$1.199m share of the other service provider cost increase) should have been</p>

<sup>1</sup> <http://www.ea.govt.nz/our-work/consultations/corporate/appropriations-2013-14/>

Question	MEUG response
	<p>amortised and recovered from those parties participating in the FTR market. That view still stands.</p> <p>It is disappointing the system operator was not proactive in consulting ahead of this consultation round on its work programme as suggested by the EA (refer paragraph 2.3.2). The system operator work is crucial to the quantum of levies participants will pay and the increase in levies compared to last year. In 2011/12 system operator costs were 54% of the electricity governance and market operations appropriations. For 2013/14 those costs will be 56% of the total. Increasing system operator costs would be acceptable if there were at the least an equivalent lift in service. It is not obvious that has occurred.</p>
<p>Q3. Other key matters relating to the Authority's overall appropriations that you consider the Authority should address in the 2013–2016 timeframe.</p>	<p>From an overall appropriations and governance view, reassessing the system operator service provider agreement (SOSPA) is essential<sup>2</sup>.</p>
<p>Q4. What changes in the Authority's operating environment do you consider need to be addressed in developing plans for 2013–2016?</p>	<p>No comment.</p>
<p>Q5. What are the key issues you consider the Authority needs to address?</p>	<p>See response to Q9 below.</p>
<p>Q6. How should the Authority update its strategic priorities to reflect the environment and key issues?</p>	<p>The use of discussion forums when preparing SOI has in the past been useful and should continue.</p>
<p>Q7. How could the Authority improve its outcome measures?</p>	<p>No comment apart from a response in Q10 below on the need for metric to measure progress towards becoming a world class electricity regulator.</p>
<p>Q8. How could the Authority improve its output and impact measures?</p>	<p>No comment.</p>
<p>Q9. Your level of support for the overall suite of proposed projects as outlined in the consultation paper</p>	<p>Apart from one exception we support the overall suite of 20 highest priority projects listed in either Appendix E, section A, implementation and review projects, or section B, top priority market</p>

<sup>2</sup> Projects 6 "Research project - efficiency of system operator arrangements" and 8 "System operation alignment review", listed as second priority projects for completion in 2013.14, p31

Question	MEUG response
	<p>development projects. In particular MEUG members believe all of the following deserve a high priority ranking:</p> <ul style="list-style-type: none"> <li>• Dispatchable demand – implementation.</li> </ul> <p>Delays to implementation of Dispatchable Demand were noted in MEUG letter to Transpower dated 11<sup>th</sup> September 2012 where we stated<sup>3</sup>:</p> <p>“The immediate concern is potential delays to the implementation of dispatchable demand (DD). The Code provides for implementation of DD effective June 2013. We understand that because of problems within the System Operator that deadline may not be met. MEUG members view DD as an essential development to ensure better spot price discovery and allow for the first time since the market started in 1996 direct countervailing pressure from the demand side to offset supplier dominance. DD will also give the System Operator more certainty on demand from some otherwise difficult to predict GXP. Given all of these positive features of DD, and that it’s a section 42 New Matter listed in the Electricity Industry Act 2010, the prospect that implementation of DD may be delayed because of problems within the System Operator needs to have some urgency accorded to it at the highest levels within Transpower.”</p> <p>Since September Transpower and the Authority have undertaken intensive discussions on implementing Dispatchable Demand. We look forward to decisions that will ensure early implementation for the net benefit of consumers rather than be beholden to the requirements of service providers.</p> <ul style="list-style-type: none"> <li>• Transmission pricing investigation;</li> <li>• Various Under-Frequency Management projects, ie multiple frequency keepers, efficient allocation of extended reserves, national markets for ancillary services;</li> <li>• Wholesale market information;</li> <li>• Improving forecast and settlement prices;</li> </ul>

<sup>3</sup> Refer <http://www.meug.co.nz/includes/download.aspx?ID=123971>

Question	MEUG response
	<ul style="list-style-type: none"> <li>• Settlement and prudential security review; and</li> <li>• Hedge market development.</li> </ul> <p>The one exception that MEUG believes should have a higher priority is the distribution pricing review. This is also related to the review of Part 6 (pricing principles) listed in section C as second priority project and research project – distribution company arrangements listed as a third priority project for completion in 2013/14. The multiplicity, variability, inconsistency and lack of transparency of distributor charges are evident to MEUG members with sites throughout New Zealand. This must also be a problem for small new entrant retailers. MEUG suggests the EA re-bundle these distributor pricing related projects into a single higher priority item for 2013/14.</p>
Q10. The priorities assigned to proposed projects overall	<p>Apart from the response to Q9 on the proposed highest ranked priorities, with reference to Appendix E, MEUG notes:</p> <ul style="list-style-type: none"> <li>• Improvements to existing spot price process (section C, other projects for completion in 2013/14) could be incorporated into the top priority market development project “Improving forecast and settlement prices.”</li> <li>• Agreement that as part of the wholesale market information project some enhancements to red spider should be considered<sup>4</sup>. In considering any changes we recommend end consumers be consulted on what they would find useful. Relying on the system operator and EA to make changes on the belief they understand what MEUG members need is risky.</li> <li>• There needs to be a post implementation review of the stress test just as there are planned post implementation reviews of all other s.42 projects.</li> <li>• MEUG agreement that the data warehouse project should be an ongoing priority organisational development project (section G). If this were not listed in section G then we would recommend it should be listed as part of the wholesale market information project (section</li> </ul>

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<sup>4</sup> Table A, p26

Question	MEUG response
	<p>A).</p> <ul style="list-style-type: none"> <li>• Aspiring to be a world class electricity regulator<sup>5</sup> and having a project path (section G) to achieve that is agreed. There also needs to be some appropriate indices for levy payers to know if progress is on track.</li> <li>• In improving project management practices (section G) an assessment of the efficiency and opportunities to improve how working and technical groups operate should be undertaken. For example perhaps it would have been quicker to have established the Settlement and Prudential Security Technical Group earlier to progress detailed code changes.</li> </ul>

Yours sincerely



Ralph Matthes  
Executive Director

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<sup>5</sup> Refer EA strategic framework, figure 2, p15, the EA vision is “To be recognised as a world class electricity regulator, delivering long-term benefits for consumers and contributing to the New Zealand economy”