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Dear Sir or Madam

Electricity Authority 2013/14 Appropriations and 2013-2016 Work Priorities

Thank you for the opportunity to comment on the Authority's consultation paper on the 2013/14 appropriations and 2013-2016 work priorities. No part of this submission is confidential.

Level of Expenditure

The consultation paper indicates the appropriations associated with Authority's electricity governance and market operations will increase \$4.7m from \$63.9m in 2012/13 to \$68.6m in 2013/14. The majority of this cost increase relates to System Operator capital related costs and to service provider costs associated with the new FTR manager.

Mighty River Power welcomes the Authority's intention to look carefully at the significant and ongoing increases in system operator costs. Improving the transparency of such costs to levy payers will assist in reducing the uncertainty in the amount and timing of costs arising from capital investment.

We also note that the Authority intends to meet any inflationary pressures on its own operational costs via cost savings, particularly by developing internal capabilities rather than relying on external consultants. We consider that cost reduction could also be effectively achieved by greater refinement of work priorities through adopting a market vision and greater clarity around project materiality thresholds. These issues are discussed in more detail in the following section.

Strategic focus and longer term view on workload

While Mighty River Power welcomes the above efficiency focus on the EA's operational costs, the consultation paper indicates that the current programme represents a heavy project workload for the Authority and by proxy stakeholders. Our primary concern is how this increased workload will be managed to ensure quality proposals are progressed with adequate time allocated for consultation.

While it is considered that the current workload should lessen in subsequent years as the EA moves away from implementation to focus on ongoing performance of the industry, Mighty River Power considers the EA should more clearly illustrate to participants the pathway to this transition.

The consultation paper highlights there are currently 32 disparate projects of varying priorities for delivery in 2013/2014. While several of these are residuals of Section 42 reforms, it is apparent that additional matters have been added to the EA work programme in an incremental manner. We note the purpose of the reforms establishing the Authority was to avoid a similar lack of work plan focus that had emerged in its predecessor the Electricity Commission over time.

As advocated in its previous submissions, Mighty River Power considers that a proactive step the EA should take is to develop a coherent vision for the development of the market. This would clearly set out the key strategic priorities as supported by industry and other key stakeholders and then have various work programmes allocated under these priorities. This will help to focus and keep coherent the various regulatory work streams and provide greater regulatory certainty to participants.

By way of example, the Australian Energy Market Commission produce a strategic priorities document¹ for energy market development which is reviewed annually with stakeholders. Such an approach should be considered in New Zealand and would be important step in the achievement of the EA's objective to become a world class regulator.

The Authority has established an economic efficiency objective and requires any code amendments to proceed where net benefits can be clearly demonstrated or there is evidence of regulatory or market failure. Mighty River Power supports this approach and appreciates that quantifying efficiency benefits, especially those arising from dynamic responses into the future, can be an inherently uncertain exercise.

The consultation paper provides an indication of potential net public benefits associated with each project and ranks each into higher to lower priority categories. Mighty River Power appreciates that the appropriations document simplifies the net benefit analysis for ease of presentation. However we consider there would be value in a table that summarises the efficiency losses or net benefits for the various projects and also outlines the framework the EA uses to determine materiality as well as any qualitative commentary.

Comments on Proposed Priority Areas

Mighty River Power considers that the most significant issues for the market currently is ensuring a credible and robust consultation process around developing an enduring

¹ See <http://www.aemc.gov.au/market-reviews/open/strategic-priorities-for-energy-market-development-20123.html>

Transmission Pricing Methodology (TPM) and providing greater clarity around expected market participant trading behaviour, particularly in relation to net pivotal situations.

In terms of the TPM, we note the EA have not included reference to this project as a priority in 2013/14 on the basis that the currently proposed framework should be largely tracking toward implementation. We are currently reviewing the proposal put forward by the Authority and will provide more detailed feedback on process in that forum.

In terms of net pivotal pricing behaviour, Mighty River Power supports the intention to review the UTS provisions and the current review being undertaken by the WAG. We agree with the most recent WAG analysis that the materiality of net pivotal events, if left unchecked, could result in significant efficiency losses for the market and have implications for retail competition.

We consider the WAG review could usefully focus on emerging international experience in developing standards for electricity market manipulation and consider what regulatory measures might be relevant and efficient within the New Zealand context.

Maximising the effectiveness of Advisory Groups

We note that the EA's view is that it is not possible to have all interested parties represented on the various advisory groups, however we consider that the effectiveness of the groups would be improved through greater transparency. For example, Mighty River Power appreciated the recent opportunity to a present to the WAG Net Pivotal Pricing Review in regards to its views.

Where possible, we would support advisory group meeting papers being posted on the Authority's website at least a week before meetings so any interested market participants can actively monitor the work of the groups and provide timely input if appropriate.

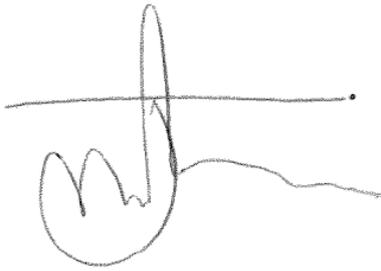
Interaction between the EA board and Industry

In April this year the Authority Board came to Auckland for an interactive session arranged with Mercury Energy and Metrix. The focus of the session was investigations and trials into innovative retail and metering products and services. We understand the Board also visited other retail and metering businesses as part of the Authority's ongoing commitment to keeping up to speed with industry developments.

Mighty River Power found the April session a useful opportunity to engage with the Board to highlight the impact of regulation on business strategy and market competition. Where possible, we would support future engagement with the EA board in this way across the industry and suggest that the Authority consider organising further meetings with market participants to deepen its appreciation of the issues and opportunities within the industry.

Should you have any queries in relation to any of the above please contact me direct on 09 580 3623 or nick.wilson@mightyriver.co.nz

Yours sincerely

A handwritten signature in black ink, consisting of a horizontal line with a dot at the end, and a stylized, cursive-like scribble below it.

Nick Wilson
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