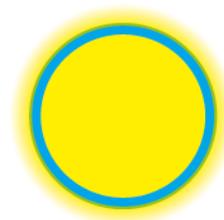


2 November 2012

Dr Brent Layton
Chairperson
Electricity Authority
PO Box 10041
Wellington

Sent by email to: submissions@ea.govt.nz



Dear Brent

Consultation paper – 2013/2014 Appropriations and Work Programme

Introduction

1. Powerco welcomes the opportunity to comment on the Electricity Authority's (Authority) proposed 2013/14 work programme, published on 24 September 2012.
2. The last two years have seen a significant period of policy change with major decisions being made and a large number of projects progressing to the implementation stage. We congratulate the Authority for completing the seven priority initiatives under section 42 of the Electricity Industry Act within the set timeframe and progressing the standardisation work (particularly the Model Use of System Agreement) and metering (Part 10) work towards implementation. While we do not agree with all the decisions that have been made and consider that, in some instances, undue haste has created problems, we recognise the challenges of working with multiple stakeholders with different objectives, and that many of the work areas that have been progressed have had unresolved problems for a long time.

Importance of considering the Authority's and industry participants' workloads and compliance costs

3. The Authority has promoted a rapid pace of change that has created a heavy workload for industry participants. This environment has stretched both the Authority's and industry participants' resources and, on occasion, has led to suboptimal final outcomes that have needed to be reworked. The volume of consultations has also made it difficult for some organisations, particularly the smaller ones, to consider and respond adequately to the Authority's proposals. We would recommend that the Authority prioritise quality over quantity by focusing on a smaller number of projects with high potential net benefits and devoting more time and resources to each one.

4. We are also concerned that the complexity of regulation and, consequently, the compliance costs that it creates, have been increasing continuously. We would suggest that the Authority prioritise a project to review elements of the Code to determine whether some requirements could be simplified or deleted.

Authority's engagement with the industry

5. We continue to welcome the level of industry engagement by the Authority in the last two years. Adequate and open-minded consultation is an essential part of the decision making process. In addition to formal engagement, our informal communication with the Authority on matters such as clarifying the information in submissions has continued to be positive and productive. We welcomed the opportunity to give the Retail and Network Market team a tour of our operations on their recent visit to Powerco's offices in New Plymouth. This helped the Authority staff to gain an appreciation first hand of how a distributor is managed and operated in practice, while also allowing Powerco staff to further their understanding of the Authority's current work.
6. The development of the Retail Advisory Group has also been a positive step and we support the use of the group where possible to lead initial industry discussions. The quality and thoroughness of the consultation papers published by the group should be commended as it helps ensure that future Authority work in this area is well focused and adequately evaluated.

Focus of 2013/14 priority projects

7. We note that the focus of the priority projects is primarily on the wholesale market and the competition element of the Authority's statutory objectives. We support this strategy, as significant work has already been conducted on the interaction of retailer and distributors and there are now multiple projects in the implementation phase. Reducing the number of projects with a focus on distribution will allow the sector to consolidate the work that has already been completed and fits with the Authority's market performance cycle model that anticipates a shift of focus on to market performance monitoring.

2013/14 Authority appropriations

8. Given the challenging economic climate and rising cost of electricity, it is vital that the Authority's expenditure is cost effective. Consequently, it is reassuring to see that the expenses of the Authority's operations will be held at the 2012/13 level and that inflation will be absorbed through cost saving measures. The Authority should continue to lever off the industry's abundant expertise when considering policy changes and we support the move to augment internal capabilities and reduce the use of external consultants.

Projects

9. Table 1 lists the projects (in no order of priority) that directly affect electricity distribution and that Powerco considers will deliver the most net public benefit (NPB)¹

Table 1

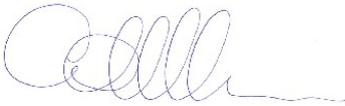
Project	Comment
<p>Hedge market development Monitoring industry progress and developing further market facilitation initiatives to improve the hedge market.</p>	<p>We consider this a high priority because of the lack of a liquid hedge market is the major gap in New Zealand's wholesale market arrangements.</p>
<p>Potential Research project – low fixed charges A potential research project looking into the effects on efficiency and competition of the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004.</p>	<p>A review of the low fixed charge tariff requirement is appropriate given that the regulations have been in force since 2004. Many distributors and retailers are concerned that the regulations do not meet the policy objective, as low electricity usage does not necessarily mean the customers concerned have low incomes. These regulations also create cross subsidies that promote inefficiency.</p>
<p>Research project – distribution company arrangements. Research project to review the efficiency of distribution network company arrangements.</p>	<p>Powerco fully supports this research. The “standardisation” work has not tackled the underlying problem, which is that there are 29 distribution companies in a country of 4.4million people.</p> <p>Powerco recommends that this research project include an analysis of the costs and benefits of consolidating the current 29 electricity distributors to a smaller number (e.g. five). If the net public benefit is found to be positive, the research should then:</p> <ul style="list-style-type: none"> • investigate the barriers to consolidation; and • recommend possible means by which to reduce the barriers.
<p>Responsibility for maintenance of consumer service lines Scope the work that may be required to establish a project to investigate options to resolve the consumer service line ownership issue.</p>	<p>Powerco supports completing this project in 2013/14. It is an area that needs clarification for consumers and distributors.</p>
<p>Efficient allocation of extended reserves (previously named AUFLS) market development) Investigate options for a move over time towards developing an AUFLS market (efficient allocation of extended reserves).</p>	<p>Changes to AUFLS will have widespread implications for distributors – both in relation to reviewing the feeders that could potentially be subject to AUFLS and the expense of installing new relays at substations.</p>

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

Demand aggregators also present a risk to meeting AUFLS requirements and clear guidance is needed. Robust consultation is essential if the best policy is to be developed.

10. Thank you for considering and points raised in this submission. Please contact me on 06 759 8574 if there is any aspect of this submission that you would like to discuss in more detail.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew McLeod', with a horizontal line extending to the right.

Andrew McLeod
General Manager Electricity

Submission: Electricity Authority 2013/14 Appropriations and 2013–2016 Work Priorities

Electricity Authority appropriations

Please send submissions to info@ea.govt.nz by 2 November 2012. Please note that late submissions will not be considered. If you do not wish to send your submission electronically, please send one hard copy of the submission to the address below:

<p><i>POST:</i> Submissions Electricity Authority PO Box 10041 Wellington 6143</p>	<p><i>COURIER:</i> Submissions Electricity Authority Level 7, ASB Bank Tower 2 Hunter Street Wellington</p>	<p><i>FAX:</i> 04 460 8879</p>
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Note about submissions for the electricity efficiency appropriation

This template is for the Electricity Authority appropriations only. Please send submissions relating to the **electricity efficiency** appropriation to: levyconsultation@eeca.govt.nz If you do not wish to send your submission electronically, please send one hard copy of the submission to the address below.

<p><i>POST:</i> EECA PO Box 388 Wellington 6140</p>	<p><i>COURIER:</i> EECA Level 8, 44 The Terrace Wellington</p>	<p><i>FAX:</i> 04 499 5330</p>
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Submitter details

Name:	Andrew Mcleod
Position in company:	General Manager Electricity
Company/ Organisation:	Powerco Limited
Telephone:	06 759 8574
Email address:	Andrew.McLeod@powerco.co.nz
Signature:	
Date:	2 November 2012

Authority appropriations

Comments are invited on the appropriations proposal:

<p>1. The overall proposed Electricity Authority appropriations as set out in table 1 of the consultation paper</p>	<p>The overall proposed increase in Electricity Authority appropriations between 2012/13 and 2013/14 is approximately 7.5%. We recognise that a significant portion of this is due to the funding of capital related to System Operator costs and we accept that funding in this area is required from time to time. However, we agree with the Authority that greater transparency of capital arrangements and proposed capital expenditure is needed to ensure that these costs are justified and unavoidable.</p> <p>Given the challenging economic climate and rising cost of electricity, it is vital that the Authority's expenditure be seen to be cost effective. Consequently, it is reassuring to see that the costs of the Authority's operations will be held at the 2012/13 level and that inflation will be absorbed through cost saving measures. This goes a significant way to offsetting the increase in System Operator and other service provider increases.</p>
<p>2. The proposed changes to Authority appropriations</p>	<p>No further comment.</p>
<p>3. Other key matters relating to the Authority's overall appropriations that you consider the Authority should address in the 2013–2016 timeframe</p>	<p>No comment.</p>

Authority strategic priorities, outcomes and outcome measures

Input is also sought on improving the Authority's non-financial performance information for its 2013–2016 Statement of Intent. (See pages 7 to 17 of the 2012–2015 Statement of Intent.)

<p>4. What changes in the Authority's operating environment do you consider need to be addressed in developing plans for 2013–2016?</p>	<p>Give greater consideration to the compliance costs created by the ever increasing burden of regulation.</p>
<p>5. What are the key issues you consider the Authority needs to address?</p>	<p>Please refer to Table 1 in the covering letter.</p> <p>Additionally:</p> <ul style="list-style-type: none"> • we recommend the Authority prioritise quality over quantity by focusing on a smaller number of projects with high potential net benefits and devoting more time and resources to each one, and • compliance costs are a key issue not currently being addressed.
<p>6. How should the Authority update its strategic priorities to reflect the environment and key issues?</p>	<p>By considering how to address the points identified above in question 5.</p>

7. How could the Authority improve its outcome measures? ²	By explicitly including the reduction of compliance costs as an outcome measure.
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Authority outputs, impacts and performance measures

Comments are invited on the following information set out in the 2012–2015 Statement of Intent (pages 18 to 28):

8. How could the Authority improve its output ³ and impact ⁴ measures?	It should include an estimate of the change to industry compliance costs that result from amendments to the Electricity Industry Participation Code as an explicit impact measure.
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Overall proposed Authority work priorities

Comments are invited on the overall set of proposed projects for 2013–2016 as set out in tables A to G of appendix E of the consultation paper.

9. Your level of support for the overall suite of proposed projects as outlined in the consultation paper.	<p>The Authority has promoted a rapid pace of change that has created a heavy workload for industry participants. This environment has stretched both the Authority’s and industry participants’ resources and, on occasion, has led to suboptimal final outcomes that have needed to be reworked. The proposed work programme for 2013/14 not only contains the same level of priority projects as previous years but also contains ten key implementation and review projects that will require significant industry participant resources.</p> <p>The volume of consultations makes it difficult for some organisations, particularly the smaller ones, to consider and respond adequately to the Authority’s proposals. We would recommend that the Authority prioritise quality over quantity by reviewing the number of priority projects it is committing to completing in 2013/14 and focusing on a smaller number of projects with high potential net benefits and devoting more time and resources to each one.</p>
10. The priorities assigned to proposed projects overall.	Powerco is generally supportive of the priorities assigned and considers the use of net public benefit to be a key assessment criterion.

² **Outcome** means a state or condition of society, the economy, or the environment, and includes a change in that state or condition. *s2 Public Finance Act 1989.*

³ **Outputs** (a) means goods or services that are supplied by a department, Crown entity, Office of Parliament, or other person or body; and (b) includes goods or services that a department, Crown entity, Office of Parliament, or other person or body has agreed or contracted to supply on a contingent basis, but that have not been supplied. *s2 Public Finance Act 1989.*

⁴ **Impact** means the contribution made to an outcome by a specified set of outputs, or actions, or both. *s2 Public Finance Act 1989.*

Question 11: Comments on specific projects

Comments are also invited on specific proposed projects for 2013–2016 as set out in tables A to G of appendix E of the consultation paper.

Project Name	
Your level of support for the proposed project as outlined in the consultation paper	Please see Table 1 in the covering letter.
Your views on the project regarding the: <ul style="list-style-type: none"> proposed priority; timetable and milestones; and the initial assessment of size and benefit. 	
Other comments	

Question 12: Other projects you consider the Authority should pursue

Please provide the following information for any other projects that you consider the Authority should pursue in the 2013–2016 timeframe.

Proposed project name	Review of the Code with a view to simplifying requirements and reducing compliance costs
Short description – what the project is about / the problem to be addressed	Examine the Code with a view to simplifying requirements and reducing compliance costs.
Rationale for the project – why it is important and the benefits it should deliver	The burden of regulation and its associated compliance costs has increased very significantly in recent years. It is likely that modified arrangements could achieve the benefit of lower compliance costs in some instances. The net present value of these benefits could be substantial.
Deliverables – things the project should do	Identify ways in which the Code could be simplified in order to achieve its objectives more efficiently by reducing compliance costs for industry participants.