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Androula Dometakis
Electricity Authority
86 Customhouse Quay
Wellington

By email: submissions@ea.govt.nz

Dear Androula

Proposal to amend EIA to enable collection of fees

Thank you for the opportunity to provide a submission on the Electricity Authority's (the Authority) consultation paper, *Proposal to amend the Electricity Industry Act to enable collection of fees*, published 23 November 2012.

Two funding streams instead of one

To fund its functions the Authority is proposing to create a second cost-recovery system, via fee-setting, in addition to its current levy system. We agree that the Electricity Industry Act (the Act) contemplates that fees regulations may be made (section 115) and the provision that the Authority is entirely funded by levy (section 128) acts as a constraint. For both forms of funding to exist the Authority will need to go to Parliament to amend the Act.

The levy regulations are already a form of 'user-pays' administered cost allocation, including the costs of market operation services that the Authority contracts for. The proposal to create fees regulations risks being just another form of administered 'user-pays' allocation unless the Authority is contemplating that industry participants can decide what to pay (including to not pay) for a particular function of the Authority.

Fees may be useful for services to a defined sub-set of all participants (e.g. FTR market operation service), and we note the Authority's Chief Executive's recent comment in respect of FTR service being comparable with the ASX future's market. We see merit in this rationale.

Ultimately, the measure of efficiency gains will be whether delivery of the Authority's functions, including contracting for market operation services, can be met at lower overall cost.

Effective industry engagement

One of the stated benefits of fee funding is to enable 'more effective industry engagement'. However, if the Authority remains as the purchasing agent of market services we are not persuaded that there will be more effective engagement when compared with the current situation. We consider that new decisions about allocation of costs for the Authority's

procurement of market services will not be straightforward, and could open up time-consuming and costly debate on 'who benefits'.

We have responded to the questions at Appendix A. If you would like to discuss this submission please contact Micky Cave on (04) 590 7309.

Yours sincerely

A handwritten signature in black ink that reads "R Parry". The letters are stylized and cursive.

Ross Parry
Planning and Regulatory Manager

Appendix A – Responses to Consultation Questions

Question No.	Question	Response
1	<p>What comment do you have on the Authority's view that the introduction of fees could deliver efficiency gains as it would more readily support the introduction of efficient user-pays charges to recover some costs?</p>	<p>We agree with the Authority that a user-pays system is appropriate. However, the current levy system for funding crown entities is already a form of user pays. Fees regulations will just be another form of administered user pays.</p> <p>The Authority will now be administering two cost recovery systems to co-ordinate the overall quantum of fees and levies. The measure of efficiency gains will be whether delivery of the Authority's functions, including contracting for market operation services, can be met at lower overall cost.</p>
2	<p>What comment do you have on the Authority's view that the introduction of fees to recover some costs could deliver efficiency gains through the enhanced flexibility that a fee arrangement can provide relative to the rigidity of the annual Crown appropriations process?</p>	<p>The annual timing of the Crown appropriation process may constrain some contract processes, but it may be more productively efficient to retain this annual process rather than introducing another layer of fee administration processes. For flexibility the levy rate may be adjusted during the year if necessary.</p> <p>Further, the statutory requirements of the levy process ensures that a wide number of parties have an opportunity to scrutinise the Authority's procurement decisions.</p>
3	<p>What comment do you have on the Authority's view that the introduction of fees to recover some costs could deliver efficiency gains through more effective engagement between the Authority as purchasing agent and its "client" industry users on key issues relating to service provision and the engagement of service providers?</p>	<p>We consider the Authority already has the tools for effective engagement available under the current framework.</p> <p>The costs of services derived through a competitive tender process should already be efficient.</p>

Question No.	Question	Response
4	What other comments do you have on the Authority's proposal to seek an amendment to the Electricity Industry Act 2010 to allow for the Authority's activities to be funded by a mixture of fees and the industry levy?	No further comment.