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

Strategic directions for market development

1. Vector welcomes the opportunity to respond to the Electricity Authority's (Authority) consultation paper *Strategic directions for market development*, dated 12 March 2013. No part of this submission is confidential and we are happy for it to be publicly released.
2. Vector's contact person for this submission is:
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3. The Authority is seeking feedback on its strategic directions for market development, which aim to help guide future work programme initiatives and priorities, by ensuring focus on competition, reliability and efficiency (CRE).
4. Vector supports the Authority's willingness to develop strategic directions to provide more guidance on its likely future areas of focus. Vector also appreciates the Authority's efforts to ensure that its statutory objectives are reflected in its strategic framework. However, in Vector's view the current proposal could be strengthened by including a strategic direction of *promoting industry confidence in the regulatory settings that underpin the industry*. This in turn would promote the Authority's proposed strategic objectives of reducing barriers and promoting flexibility and resilience, as industry participants (and potential industry participants) will have greater confidence that regulatory change will only be made where it is well justified and hence will be more willing to enter, expand and invest.
5. In particular, this strategic direction of promoting industry confidence in the regulatory settings should ensure that regulatory change is only made where it is

clear that it will deliver material long-term consumer net benefits, as required by its statutory objective. This would help alleviate industry concerns around regulatory uncertainty and the potential for large and costly changes to be made with little or no demonstrable long-term consumer net benefit.

6. The industry currently faces a regulatory environment where substantial and wide-ranging changes are being made in multiple areas. Regulatory confidence is not promoted by changes that have large and certain costs with small and uncertain benefits. It is not always clear what effect the changes will have, particularly when implemented as a package. This uncertainty affects investment incentives and participant behaviour. In the face of constant potential for change, the Authority needs to ensure it adequately considers its priorities and proposals to deliver only on those with material long-term net benefits to consumers, and not those only that merely address CRE – i.e. CRE needs to be *linked* to long-term benefits. This should be demonstrated through high-quality and well considered cost-benefit analysis for all proposals.
7. Vector also considers that the Authority's fourth strategic direction ("promoting flexibility and resilience, involving facilitating the efficient operation of the electricity system and markets") would be promoted by consideration of whether improved competition is most efficiently achieved through encouraging entry by new small retailers, or by encouraging more active competition amongst the established participants.
8. Vector **recommends** the Authority refocus its efforts to ensure that consumer benefits are not being left behind and surpassed by considerations of CRE. The hurdle for any change in future should be high, and only where long-term net benefits are material and clearly positive.

Yours sincerely,



Bruce Girdwood
Manager Regulatory Affairs

Appendix A: Vector's responses to Authority questions

	Questions:	Responses:
1	What are your views on the proposed purpose of the strategic directions?	Vector is supportive of their general intent, see paragraph 4 above.
2	How else might the Authority indicate how the work programme will evolve in response to emerging circumstances? Please describe your proposal.	The Authority could provide more guidance on how projects will be prioritised, how projects are allocated to working groups to consider, and which projects will be addressed fully within the Authority.
3	Do you agree or disagree with the Authority's assessment of the challenges facing the electricity sector in the coming 10 years or so? Please provide your reasons.	Vector considers that the regulatory uncertainty challenge is also key and should be addressed as part of the strategic directions, see above paragraphs 4 - 8 for further comments.
4	Do you agree or disagree with the proposed strategic directions? Please provide your reasons.	See Q3.
5	Do you consider there are other strategic directions for market development? Please provide your reasons.	See Q3.