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Submissions
Electricity Authority
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Via email: submissions@ea.govt.nz

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Strategic Directions for Market Development – Consultation Paper

Thank you for the opportunity to comment on Electricity Authority's proposal to introduce a strategic directions for market development document. No part of this submission is confidential.

Mighty River Power supports the Authority's intention to define and articulate an number of strategic directions for market development. We consider the consultation document provides a valuable starting point and make a number of suggestions as to how the proposed strategic directions could be re-organised and rationalised without losing the proposed intent.

The consultation documents attempt to articulate the wider strategic framework and how the proposed strategic directions will be integrated. Mighty River Power notes that as the Authority has evolved it has sought to provide further guidance on various criteria that it will have regard to in setting priorities and making decisions that advance its strategic objective.

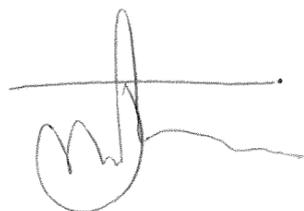
While this guidance has been welcomed, Mighty River Power notes that the strategic framework has become difficult for participants to understand and it is unclear how many of the disparate elements are integrated or what weighting they are given by the Authority in practice. An example of this is the Authority's regulatory strategy principles which are a valuable supplement to the Authority's Code Amendment Principles. Mighty River Power is not aware of these principles being explicitly referenced in the Authority's consultations nor used as criteria to evaluate the performance of existing regulation.

Mighty River Power would support greater rationalisation and clarity of the strategic framework being considered as part of the Authority's organisational development project workstream.

Further comments are provided to the consultation questions as an attachment to this letter.

Please direct any queries on this submission to myself on nick.wilson@mightyriver.co.nz or 09 580 3623.

Yours sincerely,

A handwritten signature in black ink, consisting of a large, stylized 'N' followed by a horizontal line and a small dot at the end.

Nick Wilson

Senior Market Regulatory Advisor

ATTACHMENT: RESPONSES TO CONSULTATION QUESTIONS

1. What are your views on the proposed purpose of the strategic directions?

We support the intent and focus on enhancing market processes rather than presenting plans for market development. However, the strategic directions should be specific enough to be meaningful and guide the identification of potential future work priorities.

2. How else might the Authority indicate how the work programme will evolve in response to emerging circumstances? Please describe your proposal.

The strategic directions approach is appropriate. The annual Statement of Intent (SOI) and Appropriation processes would appear to be the most logical and effective place for potential projects to be identified and allocated under the relevant strategic priority areas.

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.

While we generally agree with the assessment we note uncertainty is a very broad characterisation that applies universally to any outcome in the future. Further, the Authority's contention that uncertainty is a major challenge would appear to be somewhat undermined by subsequent comments that the industry largely deals well with uncertainty and has generally made efficient decisions around investment in generation and network for the long-term benefit of consumers. We support this view and consider that the current market approach has proven to be robust and there would appear to be little evidence to suggest material changes are warranted in short to medium term.

Another main challenge facing the industry is the transition toward privatisation and the increased levels and competitive tension this is likely to bring as well as external scrutiny from the wider investor community. Under such a future scenario the quality, robustness and responsiveness of the regulatory framework will increasingly be tested.

The section on the implications of uncertainty could be enhanced by highlighting that regulatory uncertainty can be among the most significant risks that electricity sector businesses face and is an area where the Authority has the most direct control. Ensuring regulatory interventions are subject to a high burden of proof and are in response to clearly demonstrated market or regulatory failures as well as effective consultation will become increasingly important for the ongoing confidence in the market.

The Authority has recognised that the recent pace of regulatory change has resulted directly from the need to expeditiously progress a significant number of pro-competitive reforms from the Ministerial review. We welcome the Authority's comments, highlighted in its response to comments received in the recent Appropriations process, that this has not been optimal in terms of workload and that it would seek to remove or defer operational projects with low net benefits in order to focus on a lesser number of projects but with higher quality of output.

Mighty River Power welcomes this outcome and the Authority's comments that it would be open to feedback on process improvements. We would support a formal consultation process or workshop to gather feedback from industry.

4. Do you agree or disagree with the proposed strategic directions? Please provide your reasons.

We don't disagree with the general strategic directions but suggest they could be re-categorised differently and rationalised without losing the intent. We suggest that the Authority reduces the actual number of strategic directions to three which is consistent with the number of market development focus areas in the current SOI and will make the application of the strategic directions to actual and potential projects easier. Our suggestions are highlighted in our response to the following question.

5. Do you consider there are other strategic directions for market development? Please provide your reasons.

We suggest the current strategic directions could be rationalised as follows:

1. Facilitating a competitive market

Both "reducing barriers to entry, exit and expansion" and "providing efficient price signals" could be considered as supporting competitive market outcomes and could be integrated as sub-themes within a single direction without losing the individual intent. This strategic direction could also highlight the importance of ensuring a stable, predictable and efficient regulatory approach consistent with the Authority's objective of becoming a world class regulator and its mission for the electricity market to be considered among the world most efficient and innovative.

2. Enabling active demand-side participation

This effectively retains the intent of the 'Facilitating consumer participation' but broadens it to also encompass larger industrial participation in the wholesale and hedge markets. For example, the Authority has aspirations to facilitate greater participation in the Futures market from industrial participants and is also working to deliver cost-effective mechanisms for demand-side bidding which would be captured under this strategic direction. Mighty River Power supports these aspirations and considers they could be better captured in the strategic directions.

3. Maintaining market confidence

This strategic objective could encompass the "flexibility and resilience" theme and also would address the need to ensure the integrity of the market is maintained in an environment of increasing competition. This has follow on benefits for attracting capital and ensure future investments are least cost.

This strategic direction would act as an appropriate counterpoint and 'check and balance' to the first strategic direction of facilitating competition. It would encompass the Authority's current projects on UTS revisions and the WAG's net pivotal review. It could also cover the ongoing development of key metrics as part of the Authority's annual review of market performance and consultation on process improvements.

We consider the Authority's role in providing an independent view on the efficacy of market reforms and 'championing' the market will become increasingly important. We welcome and support the recent analysis and public statements the Authority has made about market performance.