

- 8 The Authority has made no changes to the four strategic directions for market development proposed in the consultation paper, but has made some relatively minor revisions to the strategic directions document, including clarifying the discussion of the challenges and characteristics influencing the electricity sector, to take into account submitter feedback.
- 9 The main issues raised by submitters were in the following areas:
- (a) the Authority's approach to the strategic directions
 - (b) the four strategic directions for market development
 - (c) the relationship between the Statement of Intent, the strategic directions and the work programme
 - (d) the regulatory strategy principles, particularly in relation to regulatory uncertainty
 - (e) the challenges and characteristics influencing the electricity sector
 - (f) the graphical representation of the relationships between projects and the strategic directions.
- 10 A summary of submissions is available on the Authority's website at: <http://www.ea.govt.nz/our-work/consultations/corporate/strategic-directions-for-market-development/submissions/>.

The Authority's approach to the strategic directions

- 11 The consultation paper explained the Authority's view that the regulator's focus should be on enhancing market processes rather than setting a vision, and that it should not present plans for market development ahead of undertaking rigorous problem definition analysis, option analysis and cost-benefit analysis. The Authority noted that the strategic directions avoid these traps, while providing consumers and participants with a clearer sense of the direction of the Authority's regulatory effort over the next decade.
- 12 Some submitters provided comments on the involvement of consumers in market processes, for example, that market enhancing processes themselves needed to be efficient and innovative, and that the Authority should develop policies to better enable customer participation in Code development.
- 13 The Authority retains its view that that the strategic directions should not be a blueprint for the electricity sector or regulation and that their purpose is to provide greater certainty in a constantly changing environment. The Authority considers consumer participation in Code development processes to be very important and utilises a number of methods to engage with consumers, including seeking written submissions, holding workshops and having one-on-one meetings with stakeholders.

The four strategic directions for market development

- 14 The Authority proposed four strategic directions to reflect the challenges facing the sector. These were:
- (a) reducing barriers, involving facilitating the entry, expansion and exit of parties from electricity markets
 - (b) facilitating consumer participation, involving facilitating consumers exercising choice of supplier and product
 - (c) providing efficient price signals, involving facilitating informed decision-making by disseminating price data and information
 - (d) promoting flexibility and resilience, involving facilitating the efficient operation of the electricity system and markets.
- 15 Many submitters broadly supported the Authority's strategic directions. A number of submitters made specific comments on ways to improve the strategic directions, such as reducing the number of strategic directions from four to three, or providing more detail in the explanations.

- 16 The Authority has decided to retain the four strategic directions because each strategic direction focusses on a different priority area. The Authority also considers the explanations of the strategic directions provide sufficient guidance on how the Authority will promote the competition limb of the statutory objective without including additional detail.
- 17 Some submitters considered the strategic directions should articulate the Authority's role in enhancing consumer confidence in the market, either by way of an additional strategic direction, or by recognising this concept in the challenges and characteristics section.
- 18 The Authority considers it has a role in building confidence in the market, but does not consider this should necessarily be a strategic direction for market development. Rather, building confidence is an outcome the Authority is seeking to achieve by effectively carrying out all its functions.

Relationship between the Statement of Intent, the strategic directions and the work programme

- 19 The draft strategic directions document set out the key elements of the Authority's strategic framework, and explained how the strategic directions would focus and guide market development in the medium to long term.
- 20 A number of submitters requested that the Authority provide further guidance about the link between the Statement of Intent (SOI), the four proposed strategic directions and the work programme. For example, some submitters considered that the Authority should provide additional detail on how the strategic directions will inform the development of the work programme, including how projects will be prioritised and the relationships between projects. Some submitters were also interested in how the Authority will report against the strategic directions.
- 21 The Authority has made some changes to the strategic directions document to reflect this feedback, but considers that the relationship could be more clearly shown by referencing the strategic directions when the work programme is developed and prioritised in future. The strategic directions have been embedded into the SOI as measures of the impact that initiatives have on the electricity market.
- 22 The Authority is considering holding a stakeholder forum towards the end of 2013 to discuss the strategic directions and potential ideas for market development which would help the development of the work programme. The intention would be to obtain the views of participants and consumers on any 'blue sky' ideas for market development.

Regulatory strategy principles

- 23 The draft strategic directions document included an explanation of the Authority's regulatory strategy principles, which are to:
 - (a) as far as possible adopt regulatory arrangements that move the problem over time to a situation where the first-best solution can be adopted
 - (b) where possible, avoid 'one size fits all' approaches to regulation when regulating parties that may exit the regulated activity
 - (c) adopt regulatory approaches that over time reveal more about the true nature of the problem and the true constraints on regulatory intervention, so that more effective regulation can be designed as the regulatory problem and regulatory constraints are better understood over time. The aim is to address the cause not the symptom
 - (d) avoid as much as possible the slippery slope of ever more intrusive interventions arising from poorly designed regulatory interventions

- (e) avoid regulatory interventions that are not likely to be credible when adverse events occur
 - (f) strive to achieve regulatory predictability because this is particularly important when regulating high capital investment industries such as electricity.
- 24 These regulatory strategy principles are designed to complement the Authority's overall approach to its role which places an emphasis on a coherent holistic market design, and competition and consumer choice to deliver efficient outcomes, supplemented by effective monitoring of market outcomes, and wide dissemination of information.
- 25 Most submitters had strong views on the Authority's role in promoting regulatory certainty, with many suggesting that the Authority should avoid proposals involving shocks or surprise impacts on the parties being regulated. Many submitters suggested including regulatory uncertainty as an additional challenge, while others suggested regulatory certainty should be an additional strategic direction.
- 26 Some submitters acknowledged the inclusion of regulatory certainty in the regulatory strategy principles (although the principles refer to regulatory predictability, which has slightly different connotations to regulatory certainty). Other submitters sought clarification on how the principles will interact with the strategic directions, and how they will be taken into account in establishing and prioritising the work programme.
- 27 The Authority considers that market development should be generally predictable, but cannot be certain, because this presumes against innovation, and adopting different regulatory options. Consequently, the Authority has made minor changes to the strategic directions document to give more prominence to the regulatory strategy principles, and to further explain their interaction with the strategic directions.

Challenges and characteristics influencing the electricity sector

- 28 The Authority identified three challenges or characteristics that are likely to influence the electricity sector in the coming 10 years or so: uncertainty; rapid development of technology; and changing consumer expectations. The Authority considered that these challenges provide a strong pointer towards where the Authority should focus when considering the development of market arrangements.
- 29 Most submitters commented on challenges facing the electricity sector. Some submitters suggested that the Authority should expand on the three challenges that it identified.
- 30 Many submitters commented on the Authority's inclusion of 'uncertainty' as a key challenge facing the sector, for example, that uncertainty was not a challenge in itself, but rather is a result of defined circumstances or is an underlying characteristic of the sector. Some submitters considered that regulatory uncertainty/risk, due to increasing likelihood of political intervention in the electricity market, should be included as an additional 'challenge facing the industry'.
- 31 As noted above, regulatory predictability is included as one of the Authority's regulatory strategy principles, which guide its approach to regulation.
- 32 The Authority has amended the 'technology is developing rapidly' and 'changing consumer expectations' sections in response to suggestions in submissions.

Graphical representation of the relationships between projects and the strategic directions

- 33 The consultation paper included a diagram showing the relationships between projects on the 2012/13 work programme and indicated which of the strategic direction(s) each project addressed.
- 34 Some submitters considered that the diagram was useful, although some submitted that it was 'clumsy' and could be improved by including a temporal dimension to illustrate dependencies, sequencing and indicative timeframes, perhaps treating the direction as work streams.

35 The Authority appreciates the feedback received and will further consider approaches to represent the relationships between projects on the work programme and between the strategic directions.