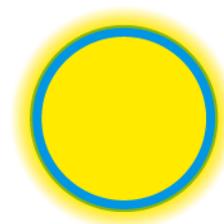


22 October 2013

Dr Brent Layton  
Chairperson  
Electricity Authority  
PO Box 10041  
WELLINGTON 6011

Sent by email to: [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)



Dear Brent

## **Consultation paper – 2014/2015 Appropriations and Work Programme**

### *Introduction*

1. Powerco welcomes the opportunity to comment on the Electricity Authority's (Authority) proposed 2014/15 Appropriations and Work Programme, published on 10 September 2013.
2. The appendix to this submission contains our detailed feedback on the Authority's 2014/15 Appropriations and Work Programme.

### *Focus of 2014/15 work programme*

3. We note that the work programme is primarily concentrated on the market development and competition elements of the Authority's statutory objectives. We support this focus as significant work on the interface between retailers and distributors has already been undertaken during the last three years.
4. We would recommend that the Authority cease further work on the transmission pricing methodology (TPM). Reviews of the TPM are now in their tenth year and independent analyses of the Authority's latest TPM reform proposal indicate that, if implemented, it would be more likely to produce net costs than net benefits. In our view the industry and consumers would gain greater benefit from certainty and stability in this area rather than further reform. If the Authority were to cease further work on the TPM the direct savings in Authority and industry resources would also be reasonably significant (probably c.\$0.5m p.a. for the Authority and c.\$1m p.a. for the industry). We understand that this work area is currently absorbing about 2.5 fulltime equivalents at the Authority. Ceasing work on reform of the TPM would free up these staff to work on higher value projects.
5. An issue of concern to many industry participants is the increasing complexity of regulation and the additional compliance costs that it creates. This is ultimately negative for industry participants and customers. 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.

*2014/15 Authority appropriations*

6. 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 expenses of the Authority's operations will be held at the 2013/14 level and that inflation will be absorbed through cost saving measures. We recommend that the Authority continue to lever off the industry's expertise when considering policy changes. We also support the move to augment internal capabilities and reduce the use of external consultants, which can be expensive. As noted above, the Authority could save resources or reallocate scarce resources to higher value projects by ceasing further work on the TPM review.
7. A significant portion of the 2.3% forecasted increase in appropriations between 2013/14 and 2014/15 is due to the funding of capital related to System Operator (SO) costs. We acknowledge the important role that the SO plays and support capital investment that will help ensure that the SO can continue to perform its role effectively. Nevertheless, we note that this year's forecast increase in total SO capital and operating expenses will bring the total percentage increase to 22.6% over four years. Given this high rate of expenditure growth, we fully support the Authority's proposed wide-ranging review of the system operator service provider agreement (SOSPA) arrangements to improve efficiency.
8. Thank you for the opportunity to comment on the Authority's 2014/15 Appropriations and Work Programme. Please contact Oliver Vincent, [oliver.vincent@powerco.co.nz](mailto:oliver.vincent@powerco.co.nz), ph. (06) 757-3397 or Ross Weenink, [ross.weenink@powerco.co.nz](mailto:ross.weenink@powerco.co.nz), ph. (04) 978-0522 in the first instance if you wish to discuss anything further.

Yours sincerely



Richard Fletcher  
General Manager Regulation and Government Relations

## APPENDIX

### Electricity Authority 2014/15 Appropriations and 2014–2017 Work Programme

#### Authority appropriations

<p>1. The overall proposed Electricity Authority appropriations as set out in table 1 of the consultation paper</p>	<p>Given the challenging economic climate and rising cost of electricity, it is vital that the Authority's expenditure be seen to be carefully considered and represent value for money. Consequently, it is reassuring to see that the costs of the Authority's operations will be held at approximately the 2013/14 level and that inflation will be absorbed through cost saving measures.</p> <p>We note, however, that the current review of the transmission pricing methodology is consuming significant resources (c.\$0.5m per annum and 2.5 fulltime equivalents) that could be redirected to higher value projects. Independent analyses of the Authority's TPM reform proposal indicate that, if implemented, it would be more likely to produce net costs than net benefits.</p>
<p>2. The proposed changes to Authority appropriations</p>	<p>See below.</p>
<p>3. Other key matters relating to the Authority's overall appropriations that you consider the Authority should address</p>	<p>A significant portion of the 2.3% forecasted increase in appropriations between 2013/14 and 2014/15 is due to the funding of capital related to System Operator (SO) costs. We acknowledge the important role that the SO plays and support capital investment that will help ensure that the SO can continue to perform its role effectively. Nevertheless, we note that this year's forecast increase in total SO capital and operating expenses will bring the total percentage increase to 22.6% over four years. Given this high rate of expenditure growth, we fully support the Authority's proposed wide-ranging review of the system operator service provider agreement (SOSPA) arrangements to improve efficiency.</p> <p>We also recommend that a draft capital investment plan (covering five years) for the SO be developed and consulted on. This would encourage wider industry participation to help ensure optimal SO investment and adequate justification of its long-term expenditure.</p> <p>Powerco is pleased to see that the appropriations breakdown indicates that the Authority has adhered to its commitment made last year to build on its internal capacity and become less reliant on external consultants, which are often expensive.</p>

## Proposed Authority work programme

<p>4. Your level of support for the overall work programme as outlined in the consultation paper</p>	<p>Powerco supports the overall work programme subject to the qualifications noted below. We do not support further work on the review of the transmission pricing methodology (TPM). Independent analyses of the Authority's latest TPM reform proposal indicate that, if implemented, it would be more likely to produce net costs than net benefits, which would be inconsistent with the Authority's statutory objectives. In our view the industry and consumers would gain greater benefit from certainty and stability in this area rather than further reform.</p> <p>The ultimate objectives and form of the review of distribution pricing also need to be clarified. The Authority should take account of and carefully manage the linkages between this review, the planned review of the effects of the low fixed charge regulations and the progressive introduction of smart meters and new energy services.</p>
<p>5. Comments on the overall programme</p>	<p><b>Focus of 2014/15 priority projects</b></p> <p>Powerco supports the Authority's focus on market development and the continued emphasis on the efficient operation of the electricity and ancillary service markets.</p> <p>It is important for the industry and consumers that the Authority's work be clearly aligned with Government Policy Statements and the Authority's statutory objectives. To date this has generally been achieved, although the Authority is struggling to demonstrate a net benefit from its work on transmission pricing. Although we recognise that it is sometimes difficult to demonstrate a quantifiable net benefit from a particular piece of work, we believe that it is essential that the Authority not proceed with any project that involves significant expenditure if it is unable to identify clearly, and in a way that is able to be independently verified, that the project is likely to deliver net benefits.</p> <p><b>Authority and industry participants' workload</b></p> <p>Since its inception the Authority has promoted a rapid, and justified, 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. Consequently, we are pleased to see a slight reduction in the number of projects in the 2014/15 work programme.</p> <p>Powerco recommends that the Authority continue to 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 to try to get them completed as quickly as reasonably possible.</p> <p>Additionally, we believe that some work areas that have been in progress for considerable periods may now be encountering diminishing returns to further effort. The review of transmission pricing, which is in its tenth year, is a prime example.</p> <p><b>Authority's engagement with the industry</b></p> <p>We continue to welcome the high level of industry engagement by the Authority when consulting on issues. Adequate, open-minded and legally robust consultation is an essential part of the decision making process. In addition to formal engagement, having the</p>

	<p>opportunity to informally communicate with the Authority on matters such as clarifying the information in submissions has continued to be a positive and productive aspect of our relationship with the Authority.</p> <p>The development of the Retail Advisory Group (RAG) 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 is commendable and it helps ensure that future Authority work in this area is well focused and adequately evaluated. The questions in the RAG consultation papers have recently become more focused and succinct which has positively contributed to the submission process. We would encourage the Authority to adopt this style in all its consultations.</p> <p><b>Compliance costs</b></p> <p>Powerco does have an ongoing concern about the complexity of regulation and the compliance costs that it creates, and the fact that these costs 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.</p>
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## Comments on specific programmes

Programme Name	Competition in retail markets
Your level of support for the proposed programme as outlined in the consultation paper	<p>Powerco supports this programme being a high priority for the Authority as we consider it has the potential to deliver substantial net benefits to consumers. However, as this programme includes a significant number of projects that will require the same industry participants to contribute resources, we recommend that the Authority stagger the work in this area by prioritising the projects by net public benefit and advancing only those with the highest expected net benefits in 2014/15.</p>
Your views on the programme, e.g. expected impacts, contributing projects, links and dependencies	<p><b>Research project: effects of low fixed charge</b></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. We understand that this work is being delayed until 2015, but would like to signal our support for this work to stay in the work programme and commence as early as possible in 2015.</p> <p><b>Research project: efficiency of distribution company arrangements</b></p> <p>The 'standardisation' work has not tackled the underlying problem, which is that there are 29 distribution companies in a country of 4.4 million people, and the current situation of not being able to clearly identify the efficiency of distribution company arrangements creates uncertainty within the industry. The outcome of this research project should help to resolve issues that the industry has debated at length and allow distributors and regulators to move forward. This work has the potential to deliver significant net benefits and, for this reason, we consider it should</p>

Programme Name	Competition in retail markets
	<p>be progressed as a priority project.</p> <p><b>Review of barriers to retail competition in MUoSA</b></p> <p>This is an example of a project that we believe has very limited potential to deliver net benefits, yet will consume significant resources. Powerco agrees that a review will eventually be necessary. However, at present the MUoSAs are still ‘bedding down’. For this reason, we believe that undertaking a review now would be premature and the results of such a review could be misleading. We recommend that this work be deferred until 2015/16.</p> <p><b>Improving access to retail data</b></p> <p>Who owns customer data is a question that is still to be resolved and we consider it would assist competition and distributor planning if half hour customer data were made freely available. This project should resolve these outstanding issues and help ensure that access to data does not restrict industry development or competition.</p> <p><b>Hedge market development</b></p> <p>We consider this to be a high priority work area because the lack of a liquid hedge market is the major gap in New Zealand’s wholesale market arrangements.</p>

Programme Name	Competition in wholesale markets including ancillary services
Your level of support for the proposed programme as outlined in the consultation paper	Powerco supports this programme of work subject to the comments below about so-called ‘extended reserves’ (AUFLS).
Your views on the programme, e.g. expected impacts, contributing projects, links and dependencies	<p><b>Efficient procurement of extended reserves</b></p> <p>Powerco supports the intent of this work. However, we consider that some fundamental practical questions need to be addressed before recommendations for change can be considered; in particular, the question of who owns the ability to control load and how this right is recorded and advised to the distributor responsible. This information can be critical in situations where a distributor ‘arms’ a feeder in the expectation that load could be shed if an AUFLS event were to arise, but, without advising the distributor, the customer has separately contracted the right to shed its load to a ‘demand aggregator. Clearly the same load cannot be shed twice, so this problem needs to be resolved. We recommend that, in the initial stages of this work, an investigation be undertaken to develop a central registry of load management rights.</p>

Programme Name	Efficient pricing
<p>Your level of support for the proposed programme as outlined in the consultation paper</p>	<p>We support the projects focused on improvements to the wholesale market. We also support, in principle, a review of Part 12 (benchmark agreement, connection code and grid reliability standards), subject to seeing the detail of the scope of the review. The wording of the current grid reliability standards has proved difficult to interpret and apply and the power factor provisions in the connection code are unworkable in practice and need to be amended. We recommend that any review focus on these sorts of known problems rather than attempting a fundamental redrafting of the documents.</p> <p>We do not support further work on the transmission pricing methodology (TPM). Reviews of the TPM are now in their tenth year and independent analyses of the Authority's latest TPM reform proposal indicate that, if implemented, it would be more likely to produce net costs than net benefits. In our view the industry and consumers would gain greater benefit from certainty and stability in this area rather than further reform. If the Authority were to cease further work on the TPM the direct savings in Authority and industry resources would also be not insignificant (probably c.\$0.5m p.a. for the Authority and c.\$1m p.a. for the industry).</p> <p>We support the distribution pricing preview in principle, subject to further clarification of its ultimate form and objectives. We agree that distributors should aim to align their pricing methodologies with the voluntary pricing principles introduced in October 2010.</p>
<p>Your views on the programme, e.g. expected impacts, contributing projects, links and dependencies</p>	<p>Reforming the grid reliability standards is directly relevant to grid investment decisions. Amending the power factor provisions in the connection code to make them workable in practice would remove the current need for Transpower to enter into non-compliance agreements with respect to these provisions.</p> <p>As noted above, ceasing further work on reviewing the TPM would benefit the industry and consumers by promoting certainty and stability, as well as freeing up industry and Authority resources that are currently devoted to this review. In our view, the likelihood of securing additional net benefits from further reform of the TPM is low.</p> <p>The ultimate objectives and form of the review of distribution pricing need to be clarified. The Authority should also take account of and carefully manage the linkages between this review, the planned review of the effects of the low fixed charge regulations and the progressive introduction of smart meters and new energy services.</p>

Programme Name	More efficient market operations
Your level of support for the proposed programme as outlined in the consultation paper	Powerco supports this work. These small 'tidy up' projects have many operational benefits for industry participants that will increase efficiency and ultimately benefit customers.
Your views on the programme, e.g. expected impacts, contributing projects, links and dependencies.	N/A