

# Summary of Submissions

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## 2014/15 Appropriations and Work Programme Information paper

December 2013





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## Executive summary

The Electricity Authority (Authority) has consulted on its proposed appropriations (its funding) and work programme (the projects we plan to carry out) for 2014/15.

Consultation on appropriations is required by section 129 of the Electricity Industry Act 2010 (the Act). The Authority will report in December 2013 to the Minister of Energy and Resources (Minister) on its recommended appropriations.

The consultation also informs the development of the Authority's Statement of Intent (SOI) and work programme. The draft SOI for 2014–2018 will be provided to the Minister in April and published in May 2014. The work programme is due to be published in June 2014.

Twelve submissions were received, from: Meridian Energy Limited (Meridian), Contact Energy (Contact), Nova Energy (Nova), Domestic Energy Users' Network (DEUN), Transpower New Zealand (Transpower), Powerco, Mighty River Power (MRP), Major Electricity Users' Group (MEUG), EnerNOC, Orion, Genesis Energy (Genesis) and Vector.

### ***Overall support for the proposed appropriations***

There is general support for the overall appropriations proposal. Several submitters supported the Authority's commitment to maintaining its own operating costs at the current level.

Section 5 of this report addresses the submission comments about the appropriations.

### ***Service provider costs control and transparency are urged***

A particular issue raised in respect to appropriations is the increases in service provider costs, in particular for the system operator. There was general acceptance that the Authority has to pass on service provider cost increases. Some submissions indicated a desire to see more cost-control pressure exerted on service providers. More transparency was also sought around the system operator projects and performance measures.

The Authority is undertaking a review of the system operator service provider agreement (SOSPA) contract as part of its 2013/14 work programme. It will be considering issues raised by submitters as part of this review. This issue is addressed further in section 5 of this report.

### ***Extensive feedback was received on the proposed work programme***

Extensive comments were received on the proposed programmes for 2014/15 and key projects within the programmes. The comments, and the Authority's initial responses, are set out in section 6 of this report. The submissions will be considered further as part of the development of the SOI and work programme.

Workload was a matter of concern in several submissions. Comments included that there are too many projects in the Authority's proposed work programme, there is too much demand on participants and services providers, and that consumers need a better voice. Some submissions suggested that the Authority should have a smaller and more focussed work programme.

Workload issues will be considered in development of the 2014/15 work programme, to be finalised in June 2014. However, it is also important to note that the planned projects are the Authority's core regulatory business. The Authority lists all projects in its work programme, even quite small ones, to provide maximum transparency to stakeholders about its work. Low priority projects are only progressed when resources become available.

Particular emphasis is being placed on competition in the retail market for 2014/15. Significant progress has been made in both the wholesale and retail markets since the Authority was formed but further progress in the retail market is required to enhance consumer confidence in the competitiveness of the market. The Authority considers there are substantial benefits to be had by a focus on retail competition.

***A range of other matters were raised in submissions***

Other matters were raised in submissions that are not directly related to the setting of 2014/15 appropriations, or refinement of the programmes and projects for 2014/15. These matters have been set out in section 7 of this report. The Authority will consider these submissions further in its planning process.

## Glossary of abbreviations and terms

<b>Act</b>	Electricity Industry Act 2010
<b>AMI</b>	Advanced metering infrastructure
<b>AUFLS</b>	Automatic under-frequency load shedding
<b>Authority</b>	Electricity Authority
<b>CBA</b>	Cost benefit assessment
<b>Code</b>	Electricity Industry Participation Code 2010
<b>CRE</b>	Competition, reliability and efficiency (components of the Authority's statutory objective)
<b>DD</b>	Dispatchable demand
<b>DEUN</b>	Domestic Energy Users' Network
<b>EA</b>	Electricity Authority
<b>EC</b>	Electricity Commission
<b>EECA</b>	Energy Efficiency and Conservation Authority
<b>FTR</b>	Financial transmission right
<b>LFC Regulations</b>	Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004
<b>MBIE</b>	Ministry of Business, Innovation and Employment
<b>MEUG</b>	Major Electricity Users' Group
<b>MFE</b>	Ministry for the Environment
<b>Minister</b>	Minister of Energy and Resources
<b>MRP</b>	Mighty River Power
<b>NPB</b>	Net public benefit
<b>NPV</b>	Net present value
<b>NZWEA</b>	New Zealand Wind Energy Association
<b>POCP</b>	Planned outage coordination protocol
<b>RAG</b>	Retail Advisory Group
<b>Regulations</b>	Electricity Industry (Enforcement) Regulations 2010
<b>SO</b>	System operator
<b>SOI</b>	Statement of Intent
<b>SOSPA</b>	System operator service provider agreement
<b>TPM</b>	Transmission pricing
<b>Transpower</b>	Transpower New Zealand Limited
<b>UFE</b>	Unaccounted for energy
<b>UoSA</b>	Use of systems agreement
<b>UTS</b>	Undesirable trading situation
<b>VoLL</b>	Value of lost load
<b>WAG</b>	Wholesale Advisory Group
<b>WITS</b>	Wholesale information and trading system

# 1 Introduction and purpose of this report

- 1.1 Submissions were sought on the proposed 2014/15 annual appropriations for the Electricity Authority (Authority), and those activities of the Energy Efficiency and Conservation Authority (EECA) that are funded by the levy on industry participants. The consultation period was 10 September to 22 October 2013.
- 1.2 In addition to appropriations information, the consultation paper included information about proposed Authority work programme and information about EECA's levy-funded electricity efficiency programme priorities for 2014/15.

## 2 Background

- 2.1 Section 129 of the Electricity Industry Act 2010 (Act) requires the Authority and EECA to consult on proposed appropriations for the coming year. Section 129 states:

### 129 Consultation about request for appropriation

- (1) The Authority and the Energy Efficiency and Conservation Authority must, before submitting a request to the Minister seeking an appropriation of public money for the following year, or any change to an appropriation for the current year, that relates to costs that are intended to be recovered by way of levies under section 128, consult about that request with—
    - (a) those industry participants who are liable to pay a levy under that section; and
    - (b) any other representatives of persons whom the Authority believes to be significantly affected by a levy.
  - (2) Each Authority must, at the time when the request is submitted, report to the Minister on the outcome of that consultation.
  - (3) The Ministry must consult in a like manner in respect of a levy to recover costs referred to in section 128(3)(g).
  - (4) This section applies to requests in respect of the financial year beginning 1 July 2011 and later financial years.
- 2.2 This report has been prepared to support the process of reporting to the Minister with the Authority's recommended appropriations to meet the requirement of section 129(2).
  - 2.3 Further analysis of submissions will be carried out as part of developing the Authority's 2014–2018 Statement of Intent (SOI) and 2014/15 work programme.
  - 2.4 EECA provides a separate report to the Minister on its proposed electricity efficiency appropriation.

### 3 Submissions

- 3.1 Twelve submissions were received, from:
- (a) Meridian Energy Limited (Meridian)
  - (b) Contact Energy (Contact)
  - (c) Nova Energy (Nova)
  - (d) Domestic Energy Users' Network (DEUN)
  - (e) Transpower New Zealand (Transpower)
  - (f) Powerco
  - (g) Mighty River Power (MRP)
  - (h) Major Electricity Users' Group (MEUG)
  - (i) EnerNOC
  - (j) Orion
  - (k) Genesis Energy (Genesis)
  - (l) Vector.

### 4 Consultation questions

- 4.1 The consultation paper included the following specific questions seeking feedback to assist with the development of the 2014/15 appropriations proposal, the 2014–2018 Statement of Intent (SOI), and the 2014/15 work programme.

#### ***Authority appropriations questions***

- 4.2 Comment was invited on the appropriations proposal:
- Question 1: The overall proposed Electricity Authority appropriations as set out in table 1 of the consultation paper.
  - Question 2: The proposed changes to Authority appropriations.
  - Question 3: Other key matters relating to the Authority's overall appropriations that you consider the Authority should address.

#### ***Work programme questions***

- 4.3 Comments were invited on the proposed work programme:
- Question 4: The level of support for the overall work programme as outlined in the consultation paper.
  - Question 5: Comments on the overall work programme.
  - Question 6: Comments on specific proposed programmes.

## 5 Analysis of responses relating to appropriations

5.1 This analysis follows the questions posed in the consultation paper, grouped according to the deliverables of the planning process ie the appropriations report to the Minister, the SOI and the work programme.

### ***Question 1: The overall proposed Electricity Authority appropriations as set out in table 1 of the consultation paper***

5.2 The following comments were provided in submissions.

We are pleased to note that the Authority is seeking to hold its operational costs constant for 2014/15. However, given that the bulk of the Authority's initial projects have been completed and implemented, we would expect to see a decrease in the amount required by the Authority for its ongoing operations in future years.

Contact

Nova supports the overall level of appropriations, including the principle that the EA holds its operational costs constant for 2014/15.

Nova Energy

We accept the proposed appropriations.

We consider that information about cost drivers would add context for the reasons for changes in service providers costs.

Transpower

We support the appropriation proposal. We welcome the intent by the Authority to hold its operating costs constant.

MRP

MEUG supports the overall level of appropriations proposed.

On 17th June MEUG wrote to Ministers and, inter alia, stated

“A well resourced, independent and innovative regulator is necessary to balance the interests of customers with the interests advocated by the well resourced and highly motivated monopolies.”

The above quote applies equally to the over-whelming resource and information advantage of large suppliers.

Engagement with customers has improved and we encourage the Authority to continue to innovate in this area.

MEUG

The overall proposed appropriations are appropriate.

EnerNOC

Vector supports the Authority's proposed 2014/15 levy rates.

Vector

## ***Question 2: The proposed changes to Authority appropriations***

5.3 The following comments were made in submissions.

Nova agrees that the customer switching appropriation should be reduced. The point has been reached where expenditure on switching awareness programmes must be having a marginal net benefit. A changing retail landscape also makes such campaigns increasingly less relevant as retailers tailor their products and services in a more targeted fashion. Smart metering, TOU pricing, bundling with other products and services are all innovations that make direct price comparisons more difficult in the future and new approaches will be required to ensure that consumers benefit from the offerings of the competitive market.

Nova

We accept these.

Transpower

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.

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.

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.

Powerco

We note the increase in system operator (SO) costs and appreciate the Authority is working closely with the SO regarding efficiency costs. We provide further commentary below on the need for greater coordination between industry, the Electricity Authority and SO.

MRP

The intention of the Authority to keep its own costs constant nominal is welcome.

MEUG

The proposed changes make sense.

EnerNOC

### ***Question 3: Other key matters to address relating to the Authority appropriations***

5.4 The following comments were made in submissions.

While it is useful to see a breakdown provided for electricity governance and market operation appropriations, it would be useful to understand the driver of the increased system operator costs. As the numbers are only provided at a high level it is difficult to assess if these costs are appropriate.

Contact

While the Electricity Authority itself is the ultimate consumer advocate by virtue of its policy objective; that may not necessarily be well understood by the public at large. Consideration should be given to how the Authority involves consumers or consumer advocates in the regulatory process including how consumers advocate participants are funded. Consumers that play a meaningful role in the regulatory

process are more likely to be supportive of the industry and its achievements.

Nova

DEUN continues to ask for a fair allocation of funds to concerns relevant to residential consumers. Residential users currently fund around one third of the Electricity Authority levies and are an important part of the market. DEUN wishes to see this level of funding reflected in spending on projects and initiatives which address the concerns of residential users.

DEUN

MEUG is encouraged by progress of discussions between the Authority and system operator to make SOSPA work better.

MEUG

While we appreciate the Authority's effort to maintain a similar operational budget to last year we consider that as market participants seek to shed costs to the benefit of end consumers so should the Authority. A focus on further savings, achievable through substantially better prioritisation of projects and improvement of project development processes, should be a clear focus.

Genesis

The Authority proposes to hold its operational costs constant. Vector supports this and is pleased to see the Authority effectively managing its costs - as illustrated by Figure 1 (page 7). We note that costs of the system operator and some other service providers are expected to increase and we assume the Authority is scrutinising these cost increases to ensure they are reasonable.

Vector

## ***Authority response: Appropriations***

### ***Appropriation levels***

5.5 The Authority notes that there is a reasonable level of support for the overall appropriation levels sought.

### ***Facilitating consumer participation***

5.6 The Authority has proposed new funding for facilitating consumer participation to replace the current appropriation that ends on 30 April 2014.

- 5.7 The funding proposal is subject to further consideration by the Authority in light of the results of the reviews by the Retail Advisory Group and Ministry of Business, Innovation and Employment.

#### ***Cost control for Authority operations***

- 5.8 Several submitters supported the Authority's commitment to holding its own operating costs constant.

#### ***Service provider costs***

- 5.9 Several submitters supported increased efforts to ensure value for money / cost control and increased transparency of service provider costs, in particular for the system operator. As discussed in the consultation paper, service provider costs account for a significant proportion of the Authority's costs.
- 5.10 On-going cost-control for both the Authority and its service providers is a key priority for 2014/15 and out-years.
- 5.11 The Authority has work underway to review the system operator contract, and this is expected to include changes to the capital funding arrangements.
- 5.12 The contestable nature of the other service provider roles is expected to ensure the delivery of these services remains cost-effective. In addition, the Authority is undertaking a strategic review of these systems and services to ensure they will remain fit-for-purpose into the future.
- 5.13 These reviews address value for money, quality, risk and project management and whether the services are delivering the required outcomes.

## **6 Analysis of responses relating to the SOI and work programme**

### ***Question 4: The level of support for the overall work programme***

- 6.1 The following comments were made in submissions.

When Contact commented on the 2013/2014 Appropriations Consultation last year we said it was time for the Authority to take stock, and that the work stream proposed by the Authority was ambitious and should be scaled back. We continue to hold this view...

...we are ... pleased to see the Authority's ... emphasis over 2014/2015 will be on the retail market.

Over half the items on the Authority's work programme appear to be projects that are to be designed and/or implemented over 2014/2015. As we have said before the speed and complexity of the changes proposed creates real issues for market participants. The Authority should focus on clear problem definitions and a work programmes supported by compelling cost benefit analysis. We also note (as we

have said previously), that for every \$1 million the Authority spends on projects, the industry has to spend that in multiples to catch up.

... we think that the Authority should focus on:

- clarifying which problems it is trying to solve; and
- tightening up its problem definitions.

Contact

We generally support the work programme outlined in the consultation paper.

We consider that it is right to focus on enablers of effective retail competition. In practice the NZ market remains a challenging environment for independent retailers. Vibrant competition in the retail market, in particular from independent retailers, provides choice, can drive innovation and exert demand side pressure on costs.

- TPM working papers – problem definition and options.
- Data analysis and models to evaluate market initiatives to date.

Transpower

Meridian is broadly supportive of the proposed programme of work that has been proposed, subject to the suggestions we detail below...  
...regarding the Authority progressing certain projects earlier, the programme allowing for other important work to be undertaken, and the coverage of certain detailed elements.

Meridian

Powerco supports the overall work programme subject to the qualifications noted below.

Powerco

We welcome the Authority responding to feedback from ourselves and other participants and developing strategic directions for market development.

We offer qualified support for the overall work programme.

MRP

MEUG supports the overall work programme.

MEUG

We support the overall work programme.

EnerNOC

We broadly support the Authority's overall work programme as outlined in the consultation paper. However, as we point out in our cover letter, we do consider prioritisation is needed.

Genesis

### ***Question 5: Comments on the overall work programme projects***

6.2 The following comments were made in submissions.

...the Authority should prioritise:

1. progressing its review of the Transmission Pricing Methodology (TPM) and other key work streams already underway.
2. reviewing programme implementation to date in order to determine whether these work programmes have been successful in achieving their stated goals or require further adjustment before another round of changes is embarked upon.
3. retail initiatives that are well thought through and based on the needs of a representative sample size of retail consumers.

Contact

DEUN asks for a contestable fund for projects/innovations/education relevant to residential consumers. Furthermore DEUN requests that independent consumer advocates including itself, be allowed to set some of the agenda.

DEUN also requests funding for a website to highlight issues of interest to residential and small commercial users. This would include both practical issues in energy efficiency, new technologies, conservation, and behaviour change in the household, and also discussions on regulatory issues including pricing and opportunities to benefit from smart meters.

DEUN

The programme is very full – at last count there are 48 separate initiatives some of which, e.g. the TPM investigation, are significant undertakings.

We consider that it is right to focus on enablers of effective retail competition. In practice the NZ market remains a challenging environment for independent retailers. Vibrant competition in the retail market, in particular from independent retailers, provides choice, can drive innovation and exert demand side pressure on costs.

We support the direction of the 2014-17 work programme (which we acknowledge has been informed by joint planning with the SO). We note, however, that in some cases the timelines indicated for project implementation are tighter than is currently contained in the joint work plan

We were surprised, given the importance of compliance to the success of regulatory interventions, that no projects are identified in the Compliance programme.

Transpower

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.

Powerco

We congratulate the Authority on the completion of the majority of the s42 competition matters and support the intent to undertake post-implementation reviews.

We welcome MBIE conducting an evaluation of the impact of projects funded from the customer switching fund. We look forward to seeing the results of this work and encourage the Authority to consider prioritising further independent evaluations of whether existing programmes are contributing to the achievement of the Authority's statutory objective.

MRP

The phrase "increasing compliance" is used in paragraph c.4.2 and figure 4 describes a key operational programme. That phrase can be interpreted as meaning 100% compliance no matter what the cost. MEUG suggests achieving 100% compliance no matter what the cost is a less desirable outcome than having an optimal or efficient level of compliance. Describing the programme as say "efficient compliance" recognises that compliance requirements for different parts of the Code

and implementation of those by participants, service providers and the Authority can be at various stages of maturity and expectations of what is optimal or efficient may not be for an absolute level of 100%.

MEUG

Overall, we remain of the view that the Authority is seeking to do too much, too quickly and without sufficient attention to the likely benefits (or downside) of projects, the detrimental impact on participants or the interaction of the various projects either with those others on the go, or those previously completed.

We agree that the work programme needs to be flexible so that the Authority can be responsive to market developments. However, the ability for new projects to appear without any clear scope or an initial assessment of likely benefits and costs is worrying, not to mention the residual impact on us. It does not promote regulatory certainty.

Orion

### **The Authority needs to prioritise its work projects, creating focus provides value for money**

We would like to see the Authority focus more on the programmes which could deliver higher value for money and improve electricity market performance while turning off those projects that have little value in the face of a quickly changing market. The Authority's proposed market development programme for 2014/15 is ambitious. 48 key projects are outlined for the indicative project development stage. For any business four to six key projects would be deemed a stretch and we question if the Authority can deliver this number of projects on time and on budget.

Genesis

## ***Authority response: overall work programme***

### ***Cost benefit assessment***

- 6.3 Some submissions provide comments about cost effectiveness and costs to participants.
- 6.4 The Authority takes the costs to all affected parties into account in its cost benefit assessment and only spends money on projects when they show net benefits to consumers, recognising the costs to all participants.

### ***Workload***

- 6.5 Several submissions commented that there were too many projects in the Authority's proposed work programme. Concerns were raised about the capacity

of stakeholders to provide meaningful input at the design stage, and implement Code amendments once completed.

- 6.6 Other relevant comments were made about the Authority's planning and prioritisation process. These are contained in section 7 of this report.
- 6.7 The Authority is cognisant of the concerns about workload. However, it is also important to note that the planned projects are the Authority's core regulatory business. The Authority lists all projects in its work programme, even quite small ones, to provide maximum transparency to stakeholders about its work.
- 6.8 Although the Authority has many projects on its work programme it is not progressing all of these at once. They are prioritised. Lower priority projects are progressed when resources become available.
- 6.9 The Authority notes that its proposed work programme will be further assessed in light of the submissions and prioritised to ensure value for money and a focus on optimising positive impacts. The workload concerns will also be addressed as part of finalising the work programme.

### ***Residential consumer focus***

- 6.10 Submissions suggest a variety of possible initiatives with a residential consumer focus.
- 6.11 The Authority already has contestable funding for projects/innovations/education relevant to residential consumers. For example, the consumer participation programme and its core element – the What's My Number campaign – are funded through a contestable tender process and are designed to inform/educate consumers on the benefits that can be obtained from 'shopping around' for electricity. When appropriate the Authority will explore options for contestable funding for projects/innovations/education relevant to residential consumers.
- 6.12 The Authority does not intend to fund a separate website to highlight issues of interest to residential and small commercial users. The Authority is currently updating its own website and we believe that this is the appropriate web-based vehicle to highlight issues that fall within the Authority's statutory area of responsibility.

### ***Compliance***

- 6.13 The Authority notes the comments about its compliance output. Since the formation of the Authority, there have been several projects to improve the compliance processes and operations, including a review of the Authority's compliance framework in 2012/13 and a review of the Electricity Industry (Enforcement) Regulations in 2013/14. The Authority considers it has an efficient compliance operation and in 2014/15 the focus is on business as usual compliance operations.
- 6.14 The Authority is seeking ongoing improvements in its operations and the level of participant compliance with the Act, regulations and Code as part of the Authority's business as usual operations. Although the Authority would like to achieve 100% compliance this is not realistically achievable and it would not be efficient.

### ***Evaluation of impacts***

- 6.15 The Authority notes the comments evaluating the impacts of its completed projects. As shown in our proposed work programme for 2014/15 the Authority is expecting to ramp up its evaluation programme, beginning with key section 42 projects that have been in place for sufficient time to enable meaningful evaluation to take place.
- 6.16 The Authority considers monitoring sector developments and the impacts of its work are essential parts of delivering its statutory functions. The information from monitoring and evaluation provides vital feedback for the planning process. Impact measures were published in the 2013–2016 Statement of Intent (SOI) and these will be reviewed and updated for the 2014–2018 SOI.

## ***Question 6: Comments on specific programmes***

### **Programme: Competition in retail markets**

#### ***Comments provided in submissions***

- 6.17 The following comments were made.

We request that the Authority confirms that the implementation of new retailer default arrangements will be completed in advance of the 2014/15 financial year, as is assumed by the EA's proposals.

Concluding work on retailer default arrangements, and the response to Consumer Law reforms is important.

Since the consultation paper and current work programme are unclear on this point,

Meridian would appreciate confirmation from the Authority that its future work programme allows for the development of clear, timely guidance to industry on implications of Consumer Law Reform legislation. In line with feedback provided as part of previous submissions, required work will in our view fall into three parts: consideration of the need for consequential changes to minimum t's and c's, investigating changes to incorporate Transpower into indemnity provisions in the Code, and consideration of how a co-ordinated approach can be taken with the Commerce Commission to investigations into new requirements.

We also request that the Authority confirms that the implementation of new retailer default arrangements will be completed in advance of the 2014/15 financial year, as is assumed by the EA's proposals.

Meridian supports the decision by the Authority to propose a programme of work that incorporates the project to examine the effects of low fixed charges.

Proposed key project C8 – Improving access to retail data: We submit it is important that uptake around MEP data aggregators, and the impact this has had in terms of improving data access from the perspective of

customers, is taken into consideration as part of cost benefit analysis undertaken as part of the initial stages of this project.

Proposed key project D9 – Review of retail competition on embedded and customer networks: It is important in our view the proposed review considers in detail interactions with use of systems agreements and, in particular, the types of responsibilities to distributors retailers can have in terms of the relationships with embedded networks. We note that Meridian remains of the view that a model use of system agreement for embedded networks should be developed.

Proposed key project D2 – Research project: effects of low fixed charges: Consistent with the feedback provided in our 2012 “Appropriations” submission, Meridian strongly supports the Authority’s proposal to examine the effects of the low fixed user charge. We consider it is important the project addresses concerns listed by the Authority in their 14 August 2013 Project Brief to the RAG and considers, as part of this, the need for clarity around interactions with DG charging (e.g. in the case of solar panels that export excess generation into a network).

Meridian

We are supportive of increased competition in the retail market.

The Authority should prioritise retail initiatives that are well thought through and based on the needs of a representative sample size of retail consumers.

...we are ... pleased to see the Authority’s comment in the consultation paper that its emphasis over 2014/2015 will be on the retail market. In this regard we believe the best outcomes for consumers will be achieved by the Authority better understanding consumers’ needs. In our view, this can only be achieved by the Authority talking to a wide range of consumers, engaging regularly with consumer groups, and undertaking market research of a representative sample size; for example, how much transparency do consumers want on a bill and is a one-size-fits all approach going to offer the best solution? From our perspective, change driven by evidence will also lead to increased support from market participants.

We are supportive of increased competition in the retail market. However, we recommend the Authority:

- is clear about the problems it is trying to solve with proposed developments before it embarks on change;
- undertakes market research of a representative sample size to ascertain what it is consumers need and to determine whether a one-size-fits-all approach will be appropriate.

In order for the Authority to achieve its desired goals, the Authority must better understand what it is that consumers need and want. In order to do this the Authority must undertake research of a representative sample of consumers and engage with consumer groups.

Contact

Do not support C4 Improving transparency of consumer electricity charges. A number of submissions on this topic highlighted the fact that there is little evidence that providing greater detail in consumer electricity accounts are desired by or useful to consumers. Placing requirements on Retailers to present fixed and uncertain costs across their whole range of customer tariffs in a consistent way is likely to result in a reduction in pricing options for consumers rather than an improvement in competition.

Nova does not support C8: Improving access to retail data. Nova believes that this programme, as outlined, will have the opposite effect to that intended. For instance, one milestone in the current work programme is: “standardisation of price formats.” Imposition of standardised pricing data stifles innovation. Competition arises from Retailers seeking competitive advantage through innovative offerings to target markets. For instance; Powershop’s success based on such innovation.

It would be counterproductive to ‘straightjacket’ Retailers into particular data formats for the convenience of the regulator

High priority for D2 Research project: effects of low fixed charges. It is Nova’s view that the low fixed charge regime is creating significant inefficiencies across the retail market, including acting as a barrier to competition and causing increased costs to residential consumers overall.

In addition it is doubtful that the primary objective of assisting low income users of electricity is being achieved as it is not always the case that low income consumers are low users of electricity and nor is that the case that high income users are always high users of electricity. In fact in some instances the policy may actually be harmful to low income users rather than of assistance.

Nova

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.

**Research project: effects of low fixed charge:** 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.

**Research project: efficiency of distribution company arrangements:** 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 be progressed as a priority project.

**Review of barriers to retail competition in MUoSA:** 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.

**Improving access to retail data:** 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.

**Hedge market development:** 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.

Powerco

MRP supports this programme.

We note there has been a significant increase in the number of projects in this workstream in response to the Authority’s view that there are likely material gains in focusing on retail competition.

We welcome the Authority’s research project into the effects of the low fixed charge tariff regulations on competition, pricing innovation and

overall effectiveness in achieving its statutory objectives. We would like to see this work programme prioritised ahead of other low priority projects.

While we welcome the Authority's intent to develop the FTR market further, we consider the recent proposals for significant expansion of FTR products needs further consideration.

There could be potentially negative implications for long term benefit of consumers if the implementation of multi-point FTR market is rushed. In the near term, we consider the focus should be on improving the revenue adequacy and capacity availability of existing FTR products prior to expansion of the market. Unless FTR products offer an effective hedge to all forms of basis risk they are unlikely to be an attractive option for new entrant retailers and therefore lead to appreciably more competitive outcomes in the market.

We support the Authority undertaking enhanced retail market analysis, particularly to provide clarity around the drivers of electricity prices over time. We consider this high priority work and understand the Authority has already made progress and intends to release details of its research shortly.

We encourage the Authority to consult with stakeholders further on the scope and extent of the national retail price database for electricity and gas to ensure customer confidentiality issues are managed appropriately.

We support the Authority's work in relation to domestic contracting arrangements, particularly in relation to improving arrangements in relation to medically dependent and vulnerable consumers.

MRP

- “(C4) Improving transparency of consumer electricity charges” may have morphed a little, but it is still a topic that has been done to death over many years. Yet the Authority is carrying on. Last year, when this was called “Breakdown of customer billings” it was categorised as a low-cost, low-benefit project. After a further round of consultation on a paper from the RAG, which largely covered old ground, it is still low-benefit but no longer low-cost.
- “(C8) Improving access to retail data” is a recent addition, but looks to be a very major piece of work. The Authority seems to have identified a problem, but it is not clear to us what it is. The Authority's June 2013 work programme update noted that the first stage of this project is a plan and a cost-benefit analysis, and that certainly seems a prudent first step. However the paper seems to assume the project will proceed as it describes it in some detail, and indicates on going activity for the following two years as well. If the Authority does proceed with this project, we hope it will reflect on the very poor conception and

execution of the standard distributor tariff codes project. The retail data project appears considerably more complex, and with even more risk of stifling innovation. We urge extreme caution.

- “(C19) Review of barriers to group switching and mass market aggregation”. Again it would appear that a problem has been identified, but again we are not sure what it is. There is group switching (eg buying groups such as CRT, ATS, government agencies) and mass market aggregation (eg the recent Grey Power Electricity deal). We are not sure what if any threshold is being applied by the Authority in deciding whether a topic is worthy of project status, but it would appear to be a very low one.

- “(E2) Research project: efficiency of distribution company arrangements” is a project that cropped up in last year’s comparable paper. In relation to that, we suggested that the scope was very unclear, which made comment difficult. The scoping was to be completed in 2012/13. As far as we know it wasn’t. The Authority’s June 2013 work programme update (which confusingly codes this as “D8”) had this on hold with work (presumably the draft scope?) due to start later in 2013. Now the paper implies work on this will not start until 2014/15, and the description of the project has been reduced to a statement of the general legislative context for such reviews. How can something be a key project when no one is clear what it is? We submit this is insufficient information on which to base a project, let alone seek an appropriation for it. Moreover, the legislative reference is to sections of the Electricity Industry Act (s 45 and 46) that imply intrusive, comprehensive and quasi-judicial information gathering. This might be appropriate, but given the lack of clarity about what is being contemplated, it seems worryingly specific.

Orion

In our view, for the Authority’s market design programme, we consider that:

- developing an effective hedging market is key to facilitate retail competition;
- developing a national market for instantaneous reserve could be a good opportunity to minimise costs to the market;
- improving the existing spot pricing process is central to create confidence in wholesale trading; and
- reviewing the transmission pricing methodology (TPM) and distribution pricing is important given they are direct costs to the end consumers’ electricity bill.

Therefore, we consider that the Authority should only focus on 8 of its 32 proposed activities with the following projects to be high priority:

- (D1) hedge Market Development
- (B5) Within-island basis risk (WIBR)
- (E7) Short-term hedge instruments
- (D8) Offer and dispatch code development
- (B7) Alignment of forecast and settlement prices
- (D6) Improvement to existing spot pricing process
- (C6) Distribution pricing review
- (B10) TPM review.

Genesis

9. Vector also supports the review of improving transparency of consumer electricity charges (C4), and the research on effects of low fixed charges (D2). However, with work on low fixed charges already underway and the issues with the regulations being well known already, we consider that the report to the Minister could readily be delivered in 2014/15. We recommend the delivery date for the report to the Minister is brought forward on the work programme.

10. Vector notes the Authority intends to conduct an ex-post review in 2014/15 of barriers to retail competition in the MUoSA (C18). It is unclear whether or how this differs from the monitoring programme put forward in the Authority's Information Paper and Summary of Submissions when the MUoSA was finalised, which emphasised the need for transparency and monitoring over time, and the light-handed nature of the MUoSA. We do not see any clear reason for the Authority to depart from this previously published monitoring plan.

11. The Authority has previously recognised the time and resources required for parties to update their UoSAs and considered a 2-5 year time frame reasonable. The industry is currently one year into that time frame, and come 2014/15 we will only be two years in. Furthermore, the Authority has previously indicated that any monitoring or reviews of MUoSA uptake will look at both efficiency improvements and retail competition. The C18 project specifically focuses on retail competition, which seems to suggest the Authority has reached the view that there are no efficiency concerns with the implementation of the MUoSAs.

12. Vector considers that the Authority's annual MUoSA reviews should continue over the 2-5 year implementation period, and the Authority should refrain from undertaking other formal review projects before the end of this period.

Vector

### ***Authority response***

- 6.18 Most submissions indicated support for the Authority's competition in retail markets programme. However, some submissions raised concerns about the need for, or scope, of several of the proposed key projects.

- 6.19 Some submissions also encourage the Authority to understand what consumers need and want, and to provide appropriate evidence of a problem, particularly when an initiative is intended to affect retail competition by affecting consumer preferences or expectations.
- 6.20 The Authority is placing a particular emphasis in 2014–2018 on promoting competition in retail markets by undertaking initiatives to facilitate consumer participation and to reduce barriers to entry, exit and expansion, which are two of the Authority’s strategic directions for market development.
- 6.21 The Authority believes there is considerable potential to deliver long term benefits to consumers by increasing the propensity of consumers to exercise choice of supplier and service and by lowering the barriers for retail entry and expansion. In particular, the Authority considers substantial efficiency gains may be achieved by making sure consumers have the information they need to make decisions and by reducing the costs of making decisions.
- 6.22 Consequently the Authority intends considering initiatives that have the primary purpose of facilitating consumer participation, such as:
- (a) The project to improve transparency of consumer electricity charges will examine what information consumers require to make decisions about their retailer. Consumers are more likely to have a positive perception of retail competition and to be more prone to compare and switch retailers when they have relevant and easy-to-understand information.
  - (b) The project to improve access to retail data will examine whether improved access to retail pricing and consumption data will facilitate the development of innovative tools that would reduce the cost to consumers of making a decision (e.g. choosing a new retailer) and acting on a decision (e.g. to switch).
- 6.23 Similarly, the Authority intends considering initiatives that have the primary purpose of reducing barriers to entry and expansion:
- (a) A project on more standardisation of use-of-system agreements (UoSA). This project has been placed on the 2014-15 work programme because the Authority has become concerned that new UoSAs were being developed or executed that departed materially from the model UoSA, which may inhibit retail entry and expansion in distribution areas.
  - (b) A research project on the effects of the Low Fixed Charge (LFC) Regulations. This project examines the effects on competition and efficiency and considers alternatives for achieving the objectives of the LFC Regulations.
  - (c) Improvements to the hedge market, including an expansion of the FTR market to more nodes. The Authority disagrees with the views opposing the expansion of the FTR market. Following the FTR markets’ expansion we will monitor its performance. If there is evidence that the expanded market is not promoting the Authority’s statutory objective, we will submit a proposal for a variation to the FTR plan to the FTR manager.

- 6.24 Consistent with its legislative requirements, and those in its foundation documents, the Authority will provide its analysis of market/regulatory failures and the net benefits expected from an initiative when it is consulting on Code amendment proposals or market facilitation measures. Further, the Authority will continue to use surveys of consumer preferences and expectations of the electricity sector to inform market development.
- 6.25 The Authority has been contributing to the development of the Consumer Law Reform legislation, including making a submission in person to the select committee considering the matter, and will assess the full implications once the legislation is finalised.
- 6.26 The Authority confirms that it has commenced the implementation of the arrangements for managing retailer defaults (as per the recently completed Code amendments) and expects this to be completed within the current financial year.

## **Programme: Competition in wholesale markets including ancillary services**

### *Comments provided in submissions*

- 6.27 The following comments were made.

Meridian supports the decision by the Authority to propose a programme of work that incorporates a project to review gate closure rules.

We also strongly welcome the proposed investigations into national markets for frequency keeping and instantaneous reserves, consideration of a short-term market for hedge instruments (such as, for instance, a day ahead market), and the review of participant audit requirements.

Proposed key project E7 – Short-term hedge instruments: Meridian endorses the Authority's proposal to commence work on this project in the 2015/16 financial year.

Proposed key project B3 – National market for frequency keeping: Meridian agrees with the Authority's categorisation of this project as offering high net benefits and strongly supports its inclusion in the Authority's programme of work for 2014/15 and beyond.

Proposed key project B4 – National market for instantaneous reserves: Refer comments regarding proposed project on National market for frequency keeping.

Proposed key project D8 – Offer and dispatch Code development: Meridian continues to strongly support a review of gate closure rules, having indicated our support for further work in this area in our previous "Appropriations" submission and in a number of forums. We also note the Authority has in the past suggested this to be a small project with the potential to deliver high net public benefits.

Meridian

We are supportive of increased competition in the wholesale markets, however we recommend the Authority:

- Is clear about the problem it is trying to solve before it embarks on change
- Has a clear understanding of the benefits, costs and priorities.

Changes will be required to the market system tools as a result of the work programme. There must be a clear upgrade plan of what is required so that costs can be minimised and costly ad hoc SPD changes reduced.

Contact supports the development of a national reserve and frequency market due to the benefits it would bring. Accordingly we believe it would be more efficient for the Authority to focus on the national reserve and frequency market and drop the intermediate project D4. With the HVDC technically able to provide national products from the end of 2013, the Electricity Authority work programme is now key to the programme's completion.

Finally reducing the gate closure would appear to be a simple change that would improve dynamic efficiency and provide positive benefits.

Contact

Powerco supports this programme of work subject to the comments below about so-called 'extended reserves' (AUFLS).

Efficient procurement of extended reserves

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.

Powerco

We strongly support this programme.

The work on reserves arrangements (D4), a market for extended reserves (B8), and clearer treatment of reserves offers (D8) seems particularly important. We remain sceptical of the benefits of the dispatchable demand modified option (C1).

EnerNOC

### ***Authority response***

- 6.28 The Authority notes the general support for projects within the competition in wholesale market including ancillary services programme.
- 6.29 The Authority has stated in its current work programme that national markets for frequency and instantaneous reserves are top priority projects.
- 6.30 The Authority notes that parties have reiterated their desire for the spot market gate closure period to be reviewed. The Authority will soon publish a report from the system operator on that matter, and then progress further developments in this area as a high priority.
- 6.31 The Authority acknowledges that the project on the efficient procurement of extended reserves is a challenging one. The Authority will continue to interact closely with stakeholders on this initiative, such as building on the valuable advice received via the recent workshops. This will allow parties to further submit on the high level options and issues before detailed Code amendments are developed.
- 6.32 Contact Energy has commented about the changes that will be required to the system operator's market system tools as a result of the work programme. The Authority agrees that a number of projects, if implemented, will require changes to the system operator's scheduling, pricing and dispatch (SPD) model. The Authority works closely with the system operator to address these matters. In conjunction with the system operator, the Authority has prepared a Joint Development Plan that is published on the Authority's website. The purpose of the plan is to ensure the coordination of Code and market system development activities. The Authority will continue to work closely with the system operator to ensure that software development is undertaken in an efficient way.

## **Programme: Efficient pricing**

### ***Comments provided in submissions***

- 6.33 The following comments were made.

Meridian continues to support the Authority prioritising work on concluding its review of transmission pricing methodology.

Meridian

...the Authority should prioritise progressing its review of the Transmission Pricing Methodology (TPM) and other key work streams already underway.

Contact supports the alignment of forecast and settlement prices, improvements to the existing spot pricing process and progressing the review of the TPM.

As the TPM work stream will consume significant resources, other initiatives should be co-ordinated to reduce overlap as much as possible.

Contact

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 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.

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.

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. The ultimate objectives and form of the review of distribution pricing 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.

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.

Powerco

MRP supports this programme.

We welcome the Authority's intent to consult further on and potentially materially alter its TPM proposal. In response to the recent clear industry feedback on the CBA working paper, we would support the Authority undertaking an additional step by consulting on a working paper on problem definition for the TPM.

MRP

Last year MEUG suggested a review of distribution pricing should have a higher priority. We welcome the Authority lifting the priority on that work this year and following through into next year.

MEUG

EnerNOC supports this programme.

We are concerned that the work on alignment of forecast and settlement prices (B7) will not go far enough: it seems unlikely to us that forecasts can be improved sufficiently to stop forecasting errors from being a significant impediment to demand-side participation. Introducing firm ex ante prices would be much more effective, and we believe that the Authority could best serve consumers by initiating a project to design and implement a change to the market which would achieve this.

We support the work on distribution pricing (C6 and E1), as we believe that there is great potential to introduce tariff structures that provide much more effective price signals.

EnerNOC

Vector is pleased to see the inclusion of the Part 6 pricing principles review (E1) and would fully support this being progressed quickly. We note that the distribution pricing review (C6) has already commenced and, if these workstreams are to be combined, would recommend that the Authority incorporate the Part 6 review as soon as possible to help ensure that the distribution pricing review work is able to give it full and proper consideration.

Additionally, if the Authority decides not to include it, Vector recommends that the Part 6 pricing review remains a key project on the work programme and that the two distributor related reviews are not undertaken in isolation from each other.

Vector

### ***Authority response***

- 6.34 The Authority notes the divergent views of submitters on the merits of continuing to undertake the transmission pricing methodology (TPM) review. The Authority intends to continue with the TPM review as a high priority project in 2014/15. Potential changes to the TPM have been identified that may better deliver long-term benefits to consumers.
- 6.35 The Authority notes the support for the distribution pricing review and the review of the Part 6 pricing principles.
- 6.36 The concern that the scope of the project on alignment of forecast and settlement prices will not “go far enough” will be addressed when the Authority scopes the project. The Authority is currently considering incorporating this project into a broader review of the wholesale electricity market, aimed at identifying whether the operation of the spot market can be changed to facilitate further development of the hedge and retail markets.

## **Programme: Reliability**

### ***Comments provided in submissions***

- 6.37 The following comments were made.

Contact is generally supportive of the reliability projects.

National multiple frequency keeping should be prioritised over C22.

Following the Huntly triggered AUFULs event we see Project D3 as a priority.

Contact

### ***Authority response***

- 6.38 The Authority will consider these issues of prioritisation when we review the proposed work programme in the first quarter of the next calendar year.

## **Programme: Provision of models and data**

### ***Comments provided in submissions***

- 6.39 The following comments were made:

The Authority should prioritise 2. reviewing programme implementation to date in order to determine whether these work programmes have been successful in achieving their stated goals or require further adjustment before another round of changes is embarked upon.

Contact

Mighty River Power supports the Authority taking an increased role in the public reporting of industry performance. We would like to see the timing of this work stream clarified as soon as practicable and consider it a high priority. There would also appear to be linkages with the workstream on reporting the drivers of retail pricing.

MRP

The Authority states in its 'Strategic Directions for Market Development 2013' that: 'Ultimately, competitive electricity markets are only sustainable in the long term if supported by consumers. The Authority and the electricity sector need to create an environment that allows consumers to see and understand the benefits of competition.'

Unfortunately, it seems from the level of support that the Labour and Green Parties have attracted for their NZ Power policy that the Authority is not making sufficient gains in this area. While it is not the Authority's role to provide policy advice to government, it is urgent that the Authority provide a credible explanation for historical price trends and confidence that the electricity market in its current form can be expected to meet consumers' expectations.

Nova

### ***Authority response***

6.40 The Authority will consider targeting the provision of models and data to be more accessible to consumers generally, as well as participants and existing users. This includes more emphasis on monitoring and retail competition, via access to better data.

## **Programme: Fit-for-purpose market services**

### ***Comments provided in submissions***

6.41 The following comments were made:

MRP supports this programme.

We note there is current uncertainty around the timing and sequencing of a number System Operator capital expenditure projects. We support the intention to review the SOPSA and would support an industry workshop process to enable the Authority, System Operator and market

participants to define more clearly the priorities and sequencing for future work and focus the current work programme.

There is little clarity as to how many of the current market and industry development projects have been identified as priorities. For example, from Mighty River Power's perspective a key issue we would like to see progressed is providing greater accuracy of demand forecasting in the market system as this would improve the efficiency of least cost dispatch.

MRP

MEUG is encouraged by progress of discussions between the Authority and System Operator to make SOSPA work better .

MEUG continues to support a change to the Act to allow the Authority to charge fees for specific services that would allow, for example, FTR market participants to pay FTR market costs rather than those being socialised in general levies.

MEUG

### ***Authority response***

- 6.42 As discussed in section 5 above, the Authority is undertaking a review of the system operator contract which is expected to include measures to improve the processes and transparency of the capital expenditure arrangements.
- 6.43 The Authority notes that the system operator's capital programme includes a project to improve demand forecasting that is being funded through the grid owner.
- 6.44 In relation to MEUG's support for changes to the Act that enable fees to be charged for specific services, such as participation in the FTR market, the Authority notes that it has completed the necessary work. The MBIE is currently awaiting a suitable legislative vehicle, such as an omnibus Bill.

## **Programme: More efficient market operations**

### ***Comments provided in submissions***

- 6.45 The following comments were made:

Concluding work on the Part 10 post-implementation review is important.

We request that the Authority confirms that the post implementation review of Part 10 will be completed in advance of the 2014/15 financial year, as is assumed by the EA's proposals.

Participant education and information / Review of existing operational guidelines: It is important in our view this considers the need to ensure appropriate alignment between retailer and distributor guidelines, given

potential detrimental flow-on impacts from inconsistencies for consumers. We consider guidelines on the new Part 10 connections process to be one area where conflicts can arise.

Review of participant audit requirements: Meridian welcomes the Authority's proposal to review participant audit requirements. We would, however, like to understand more about the proposed scope and motivations for the work. In our view it will be important for the project to include consideration of whether the process can be streamlined for participants who consistently demonstrate high levels of compliance.

Meridian

Powerco supports this work.

These small 'tidy up' projects have many operational benefits for industry participants that will increase efficiency and ultimately benefit customers.

Powerco

### **Part 10 implementation review**

Vector also suggests that the Authority consider undertaking a review of the challenges with the implementation of the new Part 10, with the view of identifying lessons learned from the process of implementing a complex and wide-ranging Code change. The aim would be to learn from the Part 10 experience to improve the implementation of future substantive Code changes. This suggestion does not imply that the Part 10 implementation process was inefficient, but there will always be lessons that can be learned from reviewing such projects.

This review should be undertaken soon, while the Part 10 implementation process is still fresh in people's minds. As such, it may not be directly relevant to the 2014/15 work programme but we consider it useful to suggest this review as part of this submission process.

Vector

### ***Authority response***

- 6.46 The Authority recognises that the implementation of the new Part 10 was a major initiative for the industry, and it is important that the implementation process is reviewed to see if improvements in project delivery and coordination can be identified for future initiatives. Project C25 on the 2013/14 work programme is a review the Part 10 implementation process. The Authority is currently in the process of contracting with an independent party to undertake the review, and expects engagement with participants to commence shortly. A review of the effectiveness of the new Part 10 arrangements will follow at a later date, once these have had the opportunity to become established.

- 6.47 With respect to industry guidelines, the Authority is undertaking a stock-take of these documents to identify priorities and gaps. The Authority agrees that it is important that these guidelines are consistent for the different classes of participant, and this will be a consideration as the documents are reviewed and updated.
- 6.48 The proposed project to review participant audit requirements is intended to ensure that the processes being applied are efficient and robust. This is expected to include consideration of whether these arrangements are consistent with recognised good practice for audit processes, and measures to incentivise compliance and good performance. More information will be provided in the proposed 2014/15 work programme when this is presented to stakeholders.

## 7 Other matters raised in submissions

- 7.1 Other matters were raised in submissions that are not directly related to the setting of 2014/15 appropriations, development of the SOI, or development of the work programme. These matters have been set out below.

### *Authority response*

- 7.2 Where these comments impact consideration of the appropriations proposal, these have been considered as part of developing the recommendations to the Minister.
- 7.3 Most of the comments that follow will be addressed in the development of the work programme for 2014/15. Others will be addressed in the normal course of business.

## ***The consultation process***

### *Comments provided in submissions*

- 7.4 The following comments were made:

Changes to the way information is presented as part of the consultation are a step in the right direction but further improvements are needed.

Meridian welcomes the Authority's new approach to "group" projects in the consultation paper in a way that provides greater clarity on their intended outcomes.

Meridian recognises that the proposed programme of work that has been suggested reflects a snapshot in time. We submit, however, it would be helpful to all participants if there were to be greater dialogue and transparency on adjustments to accommodate new projects and revisions to project timeframes, particularly in instances where industry implementation work may be involved.

Meridian also requests the Authority provides better information on the expected phasing of projects within the year. Having information made available on whether a particular project is expected to be completed in July, relative to, for instance, June the following year is important,

particularly where work is needed to implement the changes at a cost to industry.

Meridian

### **Authority's engagement with the industry**

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 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.

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.

Powerco

We agree that the work programme needs to be flexible so that the Authority can be responsive to market developments. However the ability for new projects to appear without any clear scope or an initial assessment of likely benefits and costs is worrying, not to mention the residual impact on us. It does not promote regulatory certainty.

Orion

The Authority's structured approach to its appropriations proposal is clear and helpful although once again it appears ambitious and unfocused.

Genesis

One tidy up issue the Authority should consider is the change to the consultation charter...in December 2012 where new sub-paragraph 2.1 (e) under the heading "General consultation principles" was included:

“interested parties can not complain if they do not avail themselves of the opportunity to provide feedback.”

While this may be consistent with case law where individual interested parties have resources to manage their own property rights; this is an unrealistic principle for most customers.

A review by the Electricity Authority as to the parties that have responded to consultation papers over the last year split into sectors (eg generator, transmission, distribution, retailer and consumer) might provide some insight into improvements that may be able to be made to the consultation process.

MEUG

5. Vector appreciates the Authority’s early and ongoing engagement on its annual work programme, and its willingness to incorporate feedback from this consultation in its detailed work programme in 2014.

6. This year’s paper does not include an indication of the priority areas (unlike previous years) and information on the key projects is limited. Therefore, it is difficult to comment on the Authority’s proposed work programme.

Vector

### **Authority response**

- 7.5 The Authority has been steadily improving its planning, programme management and project management practices. Development of the work programme includes consideration of feedback from this consultation process, and also more detailed assessment of projects: their purpose, the problem definition, the intervention logic (how the project will address the problem), the intended impacts, scope, timetable, resources, cost/benefit etc.
- 7.6 Once included in the work programme, any medium-large projects will have more comprehensive project management discipline applied, including identification of stakeholders and how input will be sought during the life of the project. In addition, the Authority has set out its working principles (eg consultation processes and Code amendment principles) and intended practice in its foundation documents.
- 7.7 The Authority also has a commitment to keeping interested parties informed and seeking appropriate input in its work. The Authority provides comprehensive information via its website, weekly market briefs advising of events, holds regular meetings with sector stakeholders to provide project-specific and more general work programme briefings, regularly publishes calendars setting out expected consultation processes and decision dates, actively involves affected parties in the design and implementation stages of its projects, and publishes quarterly reports on progress against the overall work programme.

- 7.8 The Authority's Retail Advisory Group (RAG) and Wholesale Advisory Group (WAG) will continue to have a key role in addressing initiatives. We note the positive feedback on these groups.
- 7.9 In general the Authority considers it operates in an open, transparent and inclusive manner. However, we will continue to seek to improve our practices.

## ***The level of detail provided in the consultation process***

### ***Comments provided in submissions***

- 7.10 The following comments were made:

Table 1: As suggested in previous submissions, Meridian would welcome further details on actual expenditure to date for the current financial year.

Table 3: indicative levy rates: Meridian remains of the view that further information should be made available on how this table reconciles with the total appropriations set out at Tables 1 and 2, such as, for instance, details on assumptions made on generation volumes and the number of ICPs.

Meridian

We note a change, compared to previous years, in the way the paper presents the projects. Specifically, the Authority has previously ranked each project according to its size and net public benefit, but this ranking is now being done at the programme level (for example at the bottom of page 18 for the "Competition in retail markets" programme). We submit that this is a step backwards as it reduces the ability of stakeholders to assess the merits of individual projects, and it effectively means any new project added can be deemed to have a high net public benefit because it is part of a programme that is deemed to. This clearly cannot be correct. Indeed, there are projects in the programmes that, only last year, had a low or medium benefit, but which are now effectively deemed to have a high benefit. If this is a response to concerns expressed last year that some of the low benefit projects should not be progressed, it is not the response we had in mind. Moreover the "Notes to the programme information..." on page 17 suggest that the public benefit assessment is still part of the project process, but this is contradicted by the way the projects are presented later in the paper.

Orion

4. Vector notes that the Authority has not yet prepared a detailed budget for 2014/15 (paragraph 2.2.3). Vector suggests that in future the Authority might like to develop its detailed budget before consulting

on its appropriations. This would help to better inform submitters of how the Authority proposes to use its funding.

Vector

### ***Authority response***

- 7.11 The Authority is endeavouring to make its planning process, and in particular this consultation process, more meaningful and useful to stakeholders. The concept of a more strategic, programme-based approach, as discussed at a regulatory managers' forum in August was reasonably well supported at that time.
- 7.12 The Authority appreciates that by presenting the proposed work programme at a programme level there is less detail on the specific projects. However, the Authority also cautions that detailed specification of project milestone and budgets at this early stage of planning would be very approximate and may not provide the certainty and specificity that some submissions seek. These details will be developed, reviewed and assessed as part of finalising the work programme.
- 7.13 It should be noted that even after finalisation of the work programme, the nature of the work involved means that the work programme is reviewed and updated during the year to ensure it is as up-to-date and accurate as possible.
- 7.14 The Authority considers that the level of budget detail provided in the consultation paper is appropriate. The same level of detail is provided in the published SOI and annual reports.

## ***Quality of regulation***

### ***Comments provided in submissions***

- 7.15 The following comments were provided.

Steps need to be taken to ensure the Authority's extensive programme of work is progressed in a manageable way

To assist industry participants, it will be important for the Authority to apply some caution in progressing the extensive set of projects proposed. As part of this, we request the Authority adopts Meridian's previous suggestions around:

- Ensuring its consultation calendar is kept up to date;
- Ensuring "peaks" in consultations are avoided, such as the week of 20 August 2013 where industry was asked to respond to four different regulatory topics that included a 350 odd page consultation on wholesale prudential and settlement reforms;
- Packaging together related projects where possible with a view to limiting major (retail and wholesale) market changes to one per year; and

- Continued appropriate use of technical and other working/advisory groups.

Meridian

We support the Authority's vision is to be a world class regulator but recognise that it is easier said than done.

The following attributes and practices are demonstrated by well-regarded regulators:

- adopting regulatory 'principles' to which the regulatory authority will hold itself and be willing be held accountable to by others
- deploying 'best practice' regulatory policy development frameworks including to manage tensions between policy objectives, risk, uncertainty (and so on)
- using a consistent and structured approach to cost benefit analysis
- publishing decision papers containing the reasons for individual decisions
- reviewing established regulation to verify whether it has had the intended effect, and whether it should revise, retain or remove the regulation.

These attributes and practices help create robust decisions and an ecosystem or virtuous circle of enhanced regulatory quality, reduced dispute and rework (and associated cost and stress). These benefits make the Authority's aspiration a worthy one that warrants dedicated resources and Board level attention on an on-going basis.

Transpower

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.

Powerco

Better quality control is needed for policy development process, which would enhance saving for the Authority.

As the Statement of Intent stated, the Authority is working toward being a "... World class electricity regulator that is efficient, effective and progressive...". To successfully achieve that statement, in our view, the following improvements should be a clear focus:

- better and more effective early engagement with industry stakeholders;
- the provision of high quality cost benefit analysis at the initial consulting stage in order to create less confusion and mitigate the possibility of repeating work;
- presentation of alternatives for consideration in the early stages of consultation; and
- the value of a conference-type forum to enable stakeholders to present their views directly to the Authority Board.

Ultimately, improving the current policy development process will enable the Authority and stakeholders to avoid unnecessary costs and delays to projects going forward. This will enable resources to be used elsewhere to deliver benefits to consumers.

Genesis

### ***Authority response***

- 7.16 The Authority is undertaking a broad programme of work to achieve its vision of being a world class electricity regulator. We welcome the comments provided by stakeholders that will assist us on this journey.
- 7.17 The Authority has placed an emphasis on stakeholder engagement, and the Board and senior staff intend to continue to engage regularly with customers and participants. The Authority is most appreciative of the stakeholders that have hosted the Board and staff over the past year or so.
- 7.18 The Authority appreciates the suggestions made to improve the Authority's regulatory practices and performance. The Authority places significant importance on ensuring that its approach to regulation-making is robust and transparent. We will consider the suggestions put forward, especially those relating to how we can more effectively engage with stakeholders.

### ***Comments provided in submissions***

- 7.19 The following comments were provided.

The Authority needs to respond to the appropriation consultation feedback.

Some of the key points made above have been raised in previous years' submissions on appropriations. For example, prioritisation of ambitious programmes has been consistently raised by Genesis Energy Limited, and others, in previous years. Accordingly, we are disappointed prioritisation remains an issue. We consider that consultation on the appropriations will become redundant if the Authority does not respond to the consultation feedback.

Genesis

We welcome the Authority responding to feedback from ourselves and other participants and developing strategic directions for market development.

MRP

### ***Authority response***

- 7.20 The Authority responds to feedback from this consultation process. It publishes all submissions, a summary of submissions and the analysis of submissions as they apply to the proposed appropriations.<sup>1</sup>
- 7.21 Further detail from submissions, including the matters raised above, are addressed in the more detailed planning that develops the SOI and work programme, both of which are published. Programmes and projects are carefully prioritised, and reviewed and reprioritised as necessary during the year. For example, in the current financial year we prioritised projects into three general categories of projects. The top priority projects are the focus of the Authority's market development programme. Some of the lower priority projects are not being progressed currently. Accordingly, the Authority believes that there is a misconception held by some parties that the large number of projects on the Authority's work programme equates to a lack of prioritisation. This is not the case.
- 7.22 The Authority publishes quarterly reports that set out progress with the work programme, including any reviewed priorities.
- 7.23 The Authority goes well beyond its statutory obligations to consult stakeholders in the development of its work programme and to make information available about the progress it is making. The Authority does not necessarily agree with all suggestions made in submissions, this should not be confused with a lack of consideration.

### ***Authority planning and prioritisation***

#### ***Comments provided in submissions***

- 7.24 The following comments were provided.

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<sup>1</sup> The summary of submissions and report to the Minister for 2013/14 is available at: <http://www.ea.govt.nz/our-work/plans-and-reports/2013-16/>

There are in Meridian's view several important areas that the Authority should commit time to. The first of these relates to continuing the practice of proactive engagement with the public on positive market developments and responding, where appropriate, to external commentary on the functioning of the market. We also consider it is appropriate the Authority investigates in detail the range of different consumer advocacy measures adopted by overseas jurisdictions, and whether current engagement practices are appropriate for the New Zealand context. Finally, the programme needs to be designed in a way that enables the Authority to continue to dedicate sufficient time and resources to market monitoring activities.

Meridian

We offer qualified support for the overall work programme.

As evidenced in the Authority's report to the Minister of Energy and Resources for the 2013/14 appropriations, many submitters raised the issue of high workload associated with the proposed work programme. This point was accepted by the Authority who committed to revise the workload priorities in the finalised June 2013 work programme.

It is not immediately apparent to Mighty River Power how such revisions were implemented. In fact the Authority is proposing to introduce a number of new retail competition projects to its work programme. While we support these projects and agree they should be afforded high priority our preference is that lower priority projects are removed or deferred.

Now that the Section 42 matters are largely complete we would encourage the Authority to move away from the propose /respond model that has characterised engagement with industry to date and focus on a much more refined set of project with potential high net benefits that are progress following a robust problem definition, development of options and quantitative and qualitative assessment of costs and benefits.

It would be valuable to participants if the Authority included a reconciliation against the previous work programme submitted in June each year against the proposed appropriations and how project timings or resources may have shifted.

MRP

We reiterate our concern at the volume of activity proposed to be undertaken by the Authority over 2014/15 and would like to see:

- projects ranked in order of priority;

- a guide to the time and resource these projects are expected to consume to assist us in planning our own work programmes, specifically resourcing and budgets;
- a review of the low-user fixed charges given a higher priority. In our view this currently creates distortions and significant cross subsidies in distributor and retailer pricing, and is not well targeted. Furthermore, the 15 cents per day (distributor) and 30 cents per day (retailer) maximum low-user fixed charges have not been revisited since the low-user fixed charge regulations came into force in 2004.

Finally, we would like to see the Authority focus on tightening its problem definitions. We believe better results can be achieved if the Authority is clear about the problem it is trying to solve.

Contact

The Authority has a very full work programme – at last count there are 48 separate initiatives some of which, e.g. the TPM investigation, are significant undertakings. We support an ambitious and motivated regulator however we are all too aware that, in pursuing a large number of interdependent initiatives in an evolving market, priorities can change dynamically.

We encourage the Authority to continually reflect on the value of existing initiatives to ensure current prioritisation is appropriate and to cull or defer low value initiatives. This exercise should take account of the implications of each initiative for affected parties – in the development and implementation stages - recognising many initiatives are competing for the same resources. Deprioritising or culling low value initiatives will also assist decision quality. The reality is that the Authority has limited resources and if it attempts to do too much there will inevitably be degradation in quality. An overstretched Authority will also struggle to retain a strategic view of opportunities and risks

Transpower

MEUG continues to support a change to the Act to allow the Authority to charge fees for specific services that would allow, for example, FTR market participants to pay FTR market costs rather than those being socialised in general levies.

MEUG

### **Authority and industry participants' workload**

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.

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.

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.

Powerco

### ***Authority response***

- 7.25 The comments above also apply.
- 7.26 As discussed previously, the Authority prioritises its projects and will continue to do so on the next financial year.
- 7.27 The Authority recognises that a number of significant projects will be progressed in 2014/15 and that this will impose demands on stakeholders. However, the countervailing concern is that the Authority needs to continue to make improvements to the New Zealand electricity market to achieve long-term benefits for consumers.
- 7.28 The Authority notes that the high-level budget is prepared for consultation purposes, and this is prepared nearly 10 months prior to the commencement of the budget year. The detailed budget will be completed following the consultation process and prior to the setting of the levy rates in May 2014.
- 7.29 To the extent that it can the Authority plans its projects and consultation processes to avoid 'peaks' in consultation. Unfortunately, because of particular circumstances and events it is not always possible to avoid the 'peaks'.
- 7.30 The Authority notes its proposal for service-specific fees is on hold awaiting a suitable legislative vehicle.