

## WAG/RAG meeting minutes – 9 April 2014

### Members present:

#### **RAG Members**

Peter Allport (chair of RAG)

Sarah Free

Dean Biddlecombe

Sue Chetwin

Ewan Gebbie

Nathan Strong

James Munro

Apologies: Alan McCauley, Andrew McLeod

#### **WAG Members**

John Hancock (chair of WAG)

Bruce Rogers

Neal Barclay

Richard Spearman

Stephen Peterson

Graeme Everett

Alan Eyes

Chris Jewell

John Carnegie

#### **Also in attendance**

Lisa Dhanji (System Operator observer to the WAG)

John Rampton (Electricity Authority, General Manager Market Design)

Tim Street (Electricity Authority, Manager Wholesale Markets)

Richard Harrow (Electricity Authority, Adviser Wholesale Markets)

Craig Evans (Electricity Authority, Manager Retail and Network Markets)

Karen Smith (Electricity Authority, Adviser Retail and Network Markets)

Kate Townsend (Electricity Authority, Adviser Retail and Network Markets)

Bridget Moon (Concept Consulting Group, Consultant)

The meeting opened at 9:30am.

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#### **Welcome**

The RAG Chair welcomed members from both advisory groups to the meeting.

John Rampton from the Electricity Authority also welcomed members, and explained the rationale for the combined RAG/WAG meeting. He said the output of the meeting would go to the Authority's Senior Leadership Team, and would be presented to the Board at its June 2014 meeting.

The RAG Chair stated that the aim of the meeting was for members to identify any projects they considered:

- were missing from the Authority's draft work plan for 2014/15, which had been circulated before the meeting
- should be removed or given a different priority level
- would like the advisory group to be involved in.

Each member then introduced themselves and their position in the industry and provided their thoughts on the draft work plan. The WAG Chair documented the discussion on the whiteboard. From this exercise, members:

- expressed a concern about the complexity of the industry and suggested this in itself presented a key barrier to entry
- expressed a concern about the industry's poor reputation amongst consumers and suggested there was a need to educate and improve outcomes for end-users
- suggested a need to anticipate and prepare the industry for new technologies and ways of doing business
- suggested that some issues were being overlooked that could have a significant impact on end-user outcomes, while comparatively lower-value projects were given high priority.

The group considered what implications these concerns and suggestions might have on the Authority's draft work plan. The WAG Chair suggested the discussion could be summarised under four key themes, being:

- Work plan governance
- End customer outcomes
- Access and participation
- Education and transparency.

Some members suggested these themes did not adequately capture the need to simplify the industry. After some discussion, it was agreed that reducing complexity was part of "access", and that simplification in and of itself may not be an appropriate end-goal.

A more detailed summary of the discussion within each of these themes is included in the Appendix attached to these minutes.

At the end of the discussion, the WAG Chair suggested that, given the depth of the discussion, members ensure their concerns have been accurately captured in the draft meeting minutes when they are circulated. It was noted that the minutes would be made publicly available on the Authority's website.

*The joint RAG/WAG meeting concluded at 11:32.*

## Appendix A:

This appendix provides a summary of the issues, concerns and considerations that RAG and WAG members identified with regard to the Authority's draft work plan for 2014/15.

### Work plan governance

The group discussed a number of issues that pertained to the Authority's approach to developing its work plan, including:

- Concerns about how the Authority prioritises projects

A number of members expressed a concern that the Authority was pursuing a number of low-value, resource-intensive projects, while higher-value, quick-win projects were given low priority, and that the Authority was hence missing opportunities to add real value.

Members did not consider the priority of all the individual projects, but suggested a need for some simple criteria against which the priority of projects is assessed. One member suggested projects simply be assessed in terms of the extent to which they improve the industry's "license to operate" – i.e. in the eyes of the general public. Another member suggested that reducing complexity be an underlying goal, and another, that a strong filter is required and projects be prioritised based on a material cost-benefit analysis.

Some members also suggested that the Authority's competition, reliability and efficiency limbs of the statutory objective were too restrictive, or were interpreted too narrowly (specifically with regard to Efficiency and its exclusion of wealth transfers). It was felt that this may be impacting on the priority that is given to certain projects, and on the Authority's ability to make meaningful change. It was suggested a specific focus on prices may be appropriate.

- Concerns about the Authority's workload

Some members considered that the Authority is trying to do too much, and should focus its efforts on a few key projects that will add significant value.

The group discussed whether the Authority may be able to achieve more, more efficiently, if it resourced projects differently – for example, by having service providers take a more active role in addressing lower-priority/technical issues so that the Authority and advisory groups could focus on more high-level and fundamental topics. Lisa Dhanji suggested that there is scope for Transpower to take on a greater role on technical issues, up to the point of consultation.

The group also discussed whether there might be opportunities to encourage more participant-led change. One member suggested they would like to see the Authority work together more with outside groups such as the Smart Grid Forum.

- A pressing need to advance the conversation on the Low-user Fixed Charge Regulations

A number of members questioned why the Low-user Fixed Charge Regulations were not being addressed as a top priority, as they were widely considered to be a mistake – adding complexity, stifling innovation, and acting as a barrier to entry while providing no value.

Members suggested the Authority may consider it to be an issue for MBIE to address, but that the Authority could take some initiative to get the ball rolling and put its view to MBIE.

Members encouraged the Authority not to shy away from addressing issues that may be political.

- The allocation of projects to the advisory groups

Members expressed a view that the utility and expertise of the advisory groups was not being maximised, as they were not being engaged on projects addressing the real issues affecting the industry. They preferred to be involved at a high, strategic level, rather than being involved in a lot of technical detail that would be more appropriately dealt with by technical people.

Members used lines company consolidation as the sort of project that would be appropriate for RAG to be involved in. Other members disagreed, considering that any lines company consolidation project should be carried out by the Authority, not the RAG.

One member stated that win-backs are an important area on the retail side that could be a quick win, and questioned why it was not a higher-priority project involving the RAG.

One member questioned why the WAG was not involved in the transmission pricing methodology (TPM) project. John Rampton from the Authority explained that TPM had previously been considered by the Transmission Pricing Advisory Group, who had been unable to reach a consensus on a way forward.

- The need for post implementation reviews

A number of members suggested there was a need for the Authority to conduct post-implementation reviews of initiatives that it has completed (e.g. the stress testing regime, customer compensation scheme, demand side bidding and forecasting, and the high spring washer project).

It was considered that such reviews should consider the success of the initiatives, whether they are achieving what was intended, whether they need to be retained, or whether improvements could be made.

### End-customer outcomes

Members of the group expressed concern that the industry's poor reputation amongst consumers represented a significant risk to the long-term viability of the market, and resulted in the industry being used as a "political football". In this regard, it was suggested that it wasn't surprising that politicians got involved considering there had been 17 quarters of consecutive price rises, and security of supply events as recently as 2008.

The group considered there was a strong need to focus on outcomes for end-users. Specifically:

- A focus on lowering prices

Some members stated they would like to see an emphasis on what can be done to lower prices for end-consumers, and projects that would have such an impact. An example of such projects is Loss and Constraint Modelling, which was said to have the potential to drop prices by 2%, and has been on the project list for a number of years, but is consistently given a low priority. It was also suggested that consumers are not getting the full benefit of the must-run dispatch auction, required when supply is so high that prices approach \$0/MWh.

- A focus on optimising NZ's total energy resource use

Some members stated they would like to see an emphasis on New Zealand using its energy resources efficiently, and making best use of available technologies. They suggested the Authority take a more holistic approach with regard to its statutory objective – i.e. by also considering the effect of and impact on alternatives such as gas, wood-burners etc.

- The implications of fuel poverty

Some members suggested that while “fuel poverty” may not be an energy-specific problem, the industry ‘ignores it at its peril’, and that the Labour/Greens proposal demonstrates that fuel poverty is an issue that the industry needs to deal with.

Individual members suggested there is a need to:

- consider what can be done for customers that retailers don't want.
  - consider if the competitive model actually works for consumers, and will continue to work in the future
  - consider the extent to which society is willing to trade off price and supply security
  - ensure that the markets are continually improving, noting there are limits to what can be achieved, but that we should be seeking to maximise the potential.
- Customer friendliness and end-user experience

One member recounted their recent experience as a retail customer (rather than industry insider), remarking on how difficult it had been to move house and establish a new ICP when it appeared none of the parties involved were talking to each other. Members suggested there was a need for the Authority and those involved in the industry to make an effort to see things “from the outside” more often, and to ensure a better flow of information to consumers.

## Access and Participation

The complexity of the industry was a key discussion point through-out the meeting, with a number of members suggesting that simplifying the industry could significantly reduce barriers to entry in the market. Specifically, members identified the following areas as requiring attention from the Authority:

- Distributor arrangements

A number of members suggested that the number of lines companies, and the number of tariffs that each lines company has, adds significant complexity to the market and acts as a key barrier to entry. Members considered that addressing this complexity should be a high priority. Toward this end, a number of members suggested that addressing the Low-user Fixed Charge Regulations should be a top priority.

- Nodal arrangements

A number of members suggested that there would be significant benefits for the industry from consolidating nodes, as developing processes around each individual node was a considerable task for participants, and the large number of nodes provided little value.

- Code complexity

Some members expressed concern at the complexity of the Code – noting the number of pages it contains, and that it is difficult for someone without a legal background to understand and navigate, which acts as a barrier to entry.

- Transmission pricing (in/out)

A number of members stated that it is not clear what problem the TPM project is trying to fix, and that the theory may be getting ahead of what is practically possible. Some members suggested that the proposed SPD approach would significantly add to the complexity of the market, be difficult for most participants to understand and plan around, and ultimately have little effect on end-user outcomes.

For these reasons, these members considered that the TPM project should be abandoned, or be reassigned a low priority. Some members suggested that there were elements of transmission pricing that are worth addressing – specifically that addressing the HVDC side of TPM would be worthwhile – but other aspects should be left alone.

Other members considered the TPM project to be a high priority.

- Switching infrastructure

Some members suggested that Powerswitch should have been integrated with retail engines, and that it was being undermined by the What's My Number campaign using a different platform. It was suggested that more value could be obtained by focusing on a single platform.

Other concerns regarding access and participation included:

- A need to improve transactional efficiency in the market

One member suggested there was a need to address the efficiency of market processes and the exchange of information through-out the industry, noting as an example, the difficulties inherent in dealing with 29 different lines companies.

- A need to look toward integrated market models

A number of members suggested that the future of electricity markets has the potential to look very different, and that arrangements should be flexible enough to allow for innovation in business models and product/tariff offerings.

Members expressed support for the Authority's work in encouraging disruptive new entrants, and highlighted the need to ensure that such parties are able to enter the market, noting that the market will likely need to make changes to accommodate and incentivise them.

In a similar vein, one member highlighted a need for improved access to markets generally, for example, allowing for small sites to provide ancillary services, and improving demand-side participation in the market.

- Factors limiting the ability for some to participate in the consultation process

The group discussed the difficulty involved in ensuring end-user interests are being reflected in the Authority's work, as the demand side is often absent from the consultation process. In

this regard, it was suggested that the length and complexity of the Authority's consultation papers may be a hindrance to them providing their input. The resource involved in keeping up with the number of changes being proposed is also prohibitive for many parties.

The group discussed how this issue might be resolved, noting that it was not inappropriate for the consultation papers to be as detailed and involved as they are, and that this was more a reflection of the complexity of the market itself. One member queried whether short one-page summaries might be provided alongside consultation papers, which broadly outlined the problem and proposed solution.

- Integration and the effects of new technologies

A number of members suggested that there is a need for the Authority to consider new technologies such as solar, electric vehicles, and storage technologies. A number of angles on this perspective were brought up, including:

- the need to investigate the technical impacts of such technologies on the system, in a similar vein to the investigation on wind intermittency that was performed a number of years ago
- the need to ensure that investment in new technologies is as efficient as possible, specifically with regard to the recovery of fixed costs and the extent to which those costs are shifted on to other consumers
- ensuring that the Authority is taking a consistent approach to embedded generation, whether it is industrial cogeneration or a domestic PV system.

- Efficiency of distribution arrangements

Distinct from the complexity issues identified above, one member suggested they would like to see the Authority undertake an investigation into the effectiveness of the smart meter roll-out, and the structure of the market in this regard.

That same member questioned the need for the Model Use of Systems Agreement project, and the apparent urgency with which the Authority is wanting new agreements signed.

Another member also suggested a need to review the investment incentives of regulated businesses, and the extent to which shareholder risks are being passed on inappropriately.

## Education and transparency

The group discussed the difficulty faced in trying to improve the perception of the market, despite it being relatively successful. Members suggested there was a need to improve the transparency of the industry, and to educate the public about the electricity market generally. Specific areas where a need for transparency/education was identified include:

- transparency in consumer bills
- price transparency in terms of the fundamental drivers of electricity prices, from wholesale through to retail
- education around tariff structures and cost drivers (petrol prices being used as an example of where the public has developed a greater understanding of how prices are made up).