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Dear Androula

Submission on Appropriations for Financial Year 2015/2016

Thank you for the opportunity to comment on the “2015/16 Levy-funded appropriations, Electricity Authority Work Programme” consultation paper dated 29 October 2014 (“the paper”).

We are pleased to see that, while still ambitious, the Electricity Authority’s (“the Authority’s”) work programme for financial year 2015/16 (“the FYE2016 work programme”) appears more targeted than previous years. An important aspect of any work programme is to ensure that it appropriately prioritised with projects that are likely to result in tangible value to end-customers in the near-to-medium term. Genesis Energy suggests that these types of projects should make the top of any list.

We appreciate the focus on improving market services, but we suggest more can be done to reduce the Authority’s own operational costs. We suggest that, in order for future projects to deliver real outcomes to end-customer while delivering cost-savings, the Authority must look to more actively leverage industry technical expertise.

Genesis Energy is pleased to see the Authority embracing its consumer education function and we suggest that the “Consumer Education Programme” needs to be elevated to a higher priority. The recent challenges to the electricity sector structure revealed a lack of understanding of how the market actually delivers value to end-customers. However, the Authority will need to consider whether its current resources are suited to delivering this type of project.

Focus on what really matters to consumers

The Authority work programme for FYE2016 consists of 34 individual projects (10 of which are implementing previous year projects). This is a significant commitment for any institution to deliver on. Whilst the Authority may be confident that it has the resources to effectively deliver on these projects, this has wider implications for the market.

The Authority's FYE2016 work programme includes a number of projects that may deliver tangible benefits to end consumers. We particularly welcome the focus on reducing unnecessary costs for retailers and improving spot market risk and risk management tools. But a number of projects remain that are either secondary, or should not be there at all. For example, we suggest that transmission pricing methodology review should be regarded as a secondary priority, particularly when compared to those projects focused on delivering more tangible value to end-consumers. Similarly, whilst we support a review of the stress-testing requirements for parties who purchase directly from the spot market, we are concerned that demonstrating efficient spot market risks to consumers is best left to the retailers who are providing these types of products. It is not the place of the market regulator to prove, or improve, the viability of any retail model.

Reduce cost to serve

The overall cost of the market continues to increase year on year, and although we appreciate the Authority's efforts to maintain a similar operational budget to last year, simply maintaining costs is not enough. Like all market participants, we suggest the Authority must constantly aim to reduce its own cost to consumers.

Cost savings are achievable through substantially better prioritisation of projects, improving the project development processes, as well as continually reviewing the need for existing regulation on retailers and other market participants. In particular, the Authority needs to become more effective in leveraging participant resources when developing new policies or Code changes. For example, the Authority and market participants have focused serious resources on reviewing and critiquing the Authority's Transmission Pricing Methodology (TPM) Review papers and processes. In our view, these resources would have been more wisely spent if the Authority had taken a more collaborative approach to developing their original TPM proposal.

A collaborative approach will not always resolve the issues, but it will enable participants to focus their resources more constructively and narrow any disagreement.

A significant part of the increase in the 2015/16 market costs is attributable to increased market operation costs. We support the Authority's ongoing efforts to better manage these increases, including a review of the current SOSPA arrangements and wider market services review.

Lack of programme or project costs

Genesis Energy suggests that the Authority must be more transparent about its own programme and project costs. We accept that estimating the overall potential benefits and costs of a policy programme or project is difficult, however, there should be no such difficulty in providing more transparency of its own expected project costs. It is impossible for the public to get an appreciation of the financial implications of the FYE2016 work programme without this level of information.

By way of an active example, the Energy Efficiency and Conservation Authority ("EECA") work programme contains an estimate of the cost to date, and expected future costs, of each of their individual projects and programmes. This information is essential to understand, and evaluate EECA's performance in delivering these projects – particularly over multiple financial years. The Authority has not provided a similar break-down for its own FYE2016 work programme. Rather, the Authority has simply provided the top level market development budget, and high level "size" indicators.

If you would like to discuss any of these matters further, please contact me on 04 495 3340.

Yours sincerely



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Regulatory Affairs Manager