



MAJOR ELECTRICITY USERS' GROUP

12 December 2014

Androula Dometakis
General Manager Corporate Services
Electricity Authority

By email to submissions@ea.govt.nz

Dear Androula

Consultation paper – 2015/16 appropriations

1. This is a submission by the Major Electricity Users' Group (MEUG) on the joint Electricity Authority (EA) and EECA consultation paper¹ "2015/16 Levy-funded appropriations, Electricity Authority work programme, and EECA work programme", 29th October 2014. MEUG has made a separate submission to EECA on their proposal. MEUG members have been consulted in the preparation of this submission. This submission is not confidential.
2. MEUG agrees with the EA's aggregate proposed level of appropriations for 2015/16 of \$76.7m for electricity industry governance and market operations, carried over multi-year appropriation of \$6m over the 5 years 2012/13 to 2016/17 for security management and \$0.444m for the electricity litigation fund.
3. On the details of the budget and draft work programme MEUG notes:
 - a) The proposed increase in System Operator costs of 6.7% following increases of 8.3% and 4% in each of the prior years is partly a result of CPI adjustments allowed under the existing System Operator Service Provider Agreement (SOSPA). Nowadays service provider contracts would unlikely to include automatically indexed price increases. We encourage the EA and System Operator when re-negotiating a new SOSPA to come into effect 1st July 2015 to put the arrangement on a more commercial footing.
 - b) MEUG agrees with the observation in paragraph C.10 "the most pressing area to improve price signals is in the electricity network sector – transmission and distribution". In finalising its work programme next year MEUG suggest the details and timing of that work be co-ordinated with the Commerce Commission's review of Input Methodologies (IM) determined pursuant to subpart 3 of Part 4 of the Commerce Act 1986. Some of the IM are important parameters in how prices are set and the quantum of prices set by regulated monopolies. The Commerce Commission must make final decisions on any changes to IM by end of 2017 after

¹ Document URL <http://www.ea.govt.nz/dmsdocument/18636> at <http://www.ea.govt.nz/about-us/corporate-projects/201516-planning-and-reporting-consultation/#c14100>

consulting. We expect consultation by the Commerce Commission may commence early 2016 and therefore should be considered in the EA's planning for 2015/16.

- c) For the existing 2014/15 work project No. 2.17, demand side response review, MEUG suggests this reference the Commerce Commission's approval of \$8m for Demand Response (DR) expenditure by Transpower as part of the 5 year Individual Price-Quality Path commencing 1st April 2015. The Commerce Commission decision and reasons paper² of 29th August 2014 (paragraph 5.184) noted:

"We, along with the Authority, expect Transpower to act in good faith regarding the development of DR. This applies in the application of DR in electricity market, and as a developing area in its business operations. We encourage Transpower to continue to work with the Authority and other stakeholders to develop a programme for the development, consultation and finalisation of a DR protocol as set out by the Authority."

- d) Work project No. 2.11, spot market review, is part of the existing 2014/15 work programme: Competition in retail markets. Perhaps this should be part of the work programme: Competition in wholesale markets, because the outcome of the project should enable competition and efficient pricing in the wholesale market for all parties. That includes all types of spot purchasers and parties that trade financial derivatives linked to spot prices, not just small new entrant retailers.

4. We look forward to viewing the final work programme for 2015/16 in June or July next year.

Yours sincerely



Ralph Matthes
Executive Director

² Document URL <http://www.comcom.govt.nz/dmsdocument/12336> at <http://www.comcom.govt.nz/regulated-industries/electricity/electricity-transmission/transpower-individual-price-quality-regulation/transpowers-price-quality-path-from-2015-to-2020/>