

Friday, 12 December 2014

Electricity Authority
P O Box 10041
Wellington

By email: submissions@ea.govt.nz

Dear Sir / Madam

Re: Consultation paper-2015/16 appropriations

Pioneer Generation (Pioneer) welcomes the opportunity to make submissions on the Electricity Authority's (Authority) proposed appropriation for 2015/16. We note that these costs are ultimately paid for by all electricity consumers.

Pioneer appreciates the detail provided in this consultation paper on the Authority's strategic themes and proposed work programme. The Authority's Briefing to the Incoming Minister provided further insights.

We support the Authority's strategy of 'reducing barriers' with the 2014-18 impact measures described as:

- a more level playing field for new and expanding retailers
- reduced set-up costs for new retailers¹

Our views also resonate with the Authority's view that

*"New entrant and growing retailers are critical drivers of competition and innovation in the retail market. They need to be confident they are operating on a level playing field."*²

In our view, new entrants will never face a level playing field when the complexity of the rules and operating environment imposes significant costs on new entrants who do not have the scale to absorb these costs in the way that the larger incumbent operators can.

The proposed work programme includes projects that, in our view, continue to create more complexity and cost for the industry and particularly new entrants, for example the transmission pricing methodology review and the retail data project, which conflicts with the Authority's strategic themes.

¹ Consultation Paper - 2015/16 appropriations, pg 20

² Briefing to Incoming Minister October 2014, pg 21

If projects that create complexity were dropped from the work programme, and/or replaced with projects that promote simplicity, the amount required from electricity consumers to fund the Authority would decline over time.

The obvious simplicity-promoting project in the work programme is the research project to investigate the effects of the low fixed charges regulations and their impacts on competition and efficiency. Pioneer strongly supports the Authority undertaking this work which has the potential to simplify the tariff structures for residential consumers (and note the Commerce Commission also support this review). We agree with the Authority's reason for undertaking this project that "the current duplication of tariffs and restrictions on some tariffs may be harming retailer innovation and competition".

Pioneer recommends the Authority's work programme include three key projects that, in our view, would promote simplicity and significantly reduce the costs associated with complexity for all electricity retailers, including new entrants, which should flow into more efficient prices for consumers:

1. rationalise the several thousand network company tariffs and pricing structures: The Authority's 'distribution pricing review' (project 1.11) has an initial focus on "the implications for efficient distribution pricing of disruptive technologies" with other issues to be considered subsequently³. Our concern is that this review may end up mirroring the Authority's work on the transmission pricing review.

Contact Energy has made a similar call for more simplicity – made in their submission on increasing transparency:

*"For regulated transparency of charges to be effective it is Contact's view that there should be a regulated obligation on distributors to publish distribution and transmission tariff rates (at least for mass market consumers) that are billable and able to be passed through without repackaging."*⁴

2. reduce the number of spot price nodes in the wholesale market that are used for market reconciliation: Our suggestion is one node is selected to provide the price paid by retailers for electricity delivered to customers within that specific region. We have undertaken some preliminary analysis which shows there is mostly minimal deviation in half hour prices for nodes that are geographically close, however a retailer has to manage the data and price risk for each individual node within a region when setting retail prices once they have signed a use of system agreement with that network company.

These reconciliation nodes could coincide with nodes used in the hedge market which could be expected to make hedging more relevant and liquid. We note the limited number of pricing nodes in Australia and the liquidity of their futures market.

Pioneer discussed this with the Wholesale Advisory Group in the context of WAG's review of hedge market arrangements (a priority 1 project) and this is also relevant for the Authority's spot market review (a priority 2 project).

³ Page 14 of the presentation to Regulatory Managers and Consumer Representatives meeting 11 December 2014

⁴ Answer to Q3 at <https://www.ea.govt.nz/dmsdocument/18579>

3. implement a programme to adopt AMI half-hour reconciliation as opposed to residual profiles: This will enable more innovative customer pricing products to be delivered at a lower cost. An increasing number of residential customers have AMI meters and hear about the opportunities to influence their power bills by changing their consumption patterns yet each bill they receive is based on the assumption that they have consumed electricity in the same pattern as a fictitious residual profile.

Pioneer is engaged in the regulatory process because we are concerned to ensure market arrangements promote competition, reduce barriers to entry and achieve the efficient end to end delivery of electricity for the long term benefit of consumers.

In our view, the Authority should be focused on simplifying the industry as the current complexity creates confusion and distrust from consumers and represents a significant barrier to new entrants and innovation. We would welcome the opportunity to discuss our 'simplicity projects' with you.

Yours Faithfully,



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Chief Executive

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