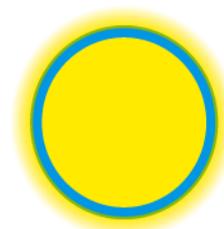


12 December 2014

CORPORATE OFFICE
84 Lizardet Street
Private Bag 2061
New Plymouth
T 0800 769 372
F +64 6 758 6818
www.powerco.co.nz

Submissions
Electricity Authority
PO Box 10041
WELLINGTON 6143

POWERCO



Dear Sir/Madam

Re: Electricity Authority appropriations and work programme 2015/16

This is Powerco Limited's submission on the Electricity Authority's 2015/16 levy-funded appropriations and proposed work programme. Thank you for the opportunity to make this submission. We have focused our comments on areas of particular interest to Powerco.

Review of low user fixed charge regulations

We support the proposed Retail Advisory Group (RAG) project to investigate the effects of the low user fixed charge regulations¹ and their impacts on competition and efficiency. However, we believe this proposed work should be extended to become a project which will involve the Authority working with the Ministry of Business, Innovation and Employment, the Ministry for Social Development and industry stakeholders with a view to recommending to the Government that the low user fixed charge regulations be substantially amended or rescinded.

There is little doubt that these regulations are currently impeding the implementation of efficient cost-reflective charges by distributors and retailers. It is also true that any action to amend the regulations is likely to be politically contentious. Consequently, we believe it is essential that the work needed to review and amend or rescind the regulations should be undertaken early in the political cycle and expedited to the extent practicable.

It would also be very advantageous from a policy perspective if any changes to the low user fixed charge regulations were able to be completed before substantial progress is made on the Authority's proposed review of distribution pricing, as the regulations currently substantially restrict the ability of distributors to modify their prices, particularly their fixed charges, to make them more cost-reflective and hence more likely to promote efficient consumption and investment decisions.

Distribution pricing review

We understand that the Authority has decided to defer the commencement of its review of distribution pricing until around May 2015. We believe this is a positive move, as it will allow the Authority to make genuine progress on the review of the low user fixed charge regulations, and their possible amendment or rescinding, ahead of the distribution pricing

¹ The Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004

review. If the regulations are able to be modified or rescinded this should clear the way for an unimpeded and potentially more beneficial review of distribution pricing. The rescheduling of the Authority's review should also enable the ENA's recently established Distribution Pricing Working Group to make meaningful progress on a number of pricing-related issues. The ENA Working Group looks forward to working constructively with the Authority as the review exercise progresses and its objectives, and the process it will follow, become clearer.

We would also urge the Authority to take account of the practicalities associated with changing distribution pricing arrangements. Retailers' charging systems often need considerable time to accommodate significant changes to charging arrangements (such as the introduction of time of use tariffs) and, consequently, extensive consultation is necessary before such changes can be implemented. The time required to roll-out new arrangements can also be lengthy. Similarly, end consumers are typically averse to rate shocks and have often planned ahead on the assumption that current charging approaches will continue. Hence, any significant changes require consultation with end consumers and careful management. Given this environment, we would recommend that the Authority take an incremental and light-handed approach to the implementation of any change in this area. The early involvement of the Commerce Commission would also be advisable, given the Commission's role in price-quality path regulation and information disclosure regulation for distributors.

Suggested review of the pricing principles in Schedule 6.4 to Part 6 of the Code

Given the increasing importance of distributed photovoltaic generation in many networks, we suggest that the Authority consider including in its work programme a review of the pricing principles in Schedule 6.4 to Part 6 of the Code. The current pricing principles limit the ability of distributors to apply charges that reflect the true life cycle costs of photovoltaic connections.

Recovery of customer switching costs via the levy

We note that the power created by section 128 the Electricity Industry Act 2010 ("the Act") that enables regulations to be created to recover particular costs via the industry levy specifies, in section 128(3)(d), that costs incurred by the Crown in relation to promoting to customers the benefits of comparing and switching retailers may only be recovered if those costs were incurred before 1 May 2014. It is possible that costs in this class that have been incurred since 30 April 2014 may be able to be recovered pursuant to the general power in section 128(3)(a) of the Act, but we submit that this is a question that is legally unclear and which should be investigated by the Authority.

Use of system agreements

The appropriations consultation document indicates that the Authority is in the process of considering whether to allow continued voluntary negotiation of use of system agreements (UoSAs) or move to make the modal use of system agreement (MUoSA) mandatory. Consistent with our earlier submissions on this subject, Powerco would prefer to see the voluntary arrangements continue. A survey undertaken by the ENA in October 2014 revealed that, of the 20 responses received, ten distributors were currently negotiating UoSAs with retailers, and these negotiations were largely based on the MUoSA. This appears to indicate that the voluntary framework is achieving the Authority's objectives. It also suggests a high level of goodwill on the part of those distributors and retailers that are continuing to negotiate despite the risk that regulatory intervention may ultimately render their efforts nugatory.

However, if the Authority does decide to introduce mandatory requirements, we would appreciate the opportunity to work with the Authority to ensure that some provisions in the current MUoSA are commercially and operationally practicable, particularly the clauses relating to even-handedness, load management and liability.

Transmission pricing methodology review

We are pleased to see that the Authority is intending to bring its review of the transmission pricing methodology (TPM) to a conclusion at the end of 2015. This has been a lengthy review that has followed a convoluted process that has often appeared to lack cohesion and a clear focus. The current exercise is the latest of a series of reviews of transmission pricing that began in September 2004. The uncertainty created by these investigations has added an unnecessary element of additional risk to the industry which will hopefully be removed, or at least reduced, by the announcement of final decisions at the end of 2015.

Retail data project

We think the retail data project is a positive initiative and welcome the Authority's recent verbal confirmation² that one outcome of the project should be an improvement in distributors' ability to access retailer metering data. Such access could substantially improve the accuracy of distributors' demand forecasts and consequently assist us to make more economically efficient investment decisions.

Metering and registry information management

We understand that the Authority is still in the process of scoping its metering review project. We would suggest that this project be extended to cover issues related to Part 11 of the Code (Registry information management) as well as Part 10 (Metering). An example of a Part 11 problem that Powerco is encountering at present relates to ICP decommissioning. The problem derives from the fact that Powerco often receives a notice to decommission an ICP directly from its approved contractors, but cannot decommission the ICP in the registry unless the retailer changes the registry ICP status to "inactive awaiting decommission", and the retailer typically will not do this until the meter has been removed and they have received the paperwork that confirms this has occurred. This creates a "Catch 22" situation that ensures that Powerco cannot update the registry in the time required by the Code. We suspect there are a number of other process problems of this sort which should be reviewed.

Billing volumes vs. volumes submitted to the Reconciliation Manager

Another issue that has come to light is the potential for kWh volumes that are submitted to distributors by retailers, using the incremental normalised methodology, to be inconsistent with the volumes submitted to the Reconciliation Manager. A forum or other review process overseen by the Authority could help to resolve this problem.

If you wish to discuss any points raised by this submission, please contact Ross Weenink, ross.weenink@powerco.co.nz, ph. (04)978-0522 in the first instance.

Yours sincerely



Richard Fletcher
General Manager Regulation and Government Affairs

² Verbal advice from Craig Evans at the Electricity Authority's regulatory managers and consumer representatives' meeting, 11 December 2014.