



24 November 2015

Submissions
Electricity Authority
Level 7, ASB Bank Tower
2 Hunter Street
P O Box 10041
WELLINGTON

Trustpower Limited
Head Office
Truman Lane
RD 5
Tauranga
Postal Address:
Private Bag 12023
Tauranga Mail Centre
Tauranga 3143
T 07 572 9754
F 07 572 9825
Offices in
Auckland
Wellington
Christchurch
Oamaru
Freephone
0800 87 87 87
trustpower.co.nz

By email: submissions@ea.govt.nz

TRUSTPOWER SUBMISSION: 2016/17 APPROPRIATIONS AND WORK PROGRAMMES

1 Introduction and overview

- 1.1.1 Trustpower Limited (Trustpower) welcomes the opportunity to provide a submission to the Electricity Authority (the Authority) on its *2016/17 Appropriations, Authority Work Programme and EECA Work Programme* consultation paper (the Consultation Paper).
- 1.1.2 Our submission is relatively high level and focusses only on a few key points, namely:
 - a) There is a need for greater transparency of the costs and benefits for individual projects on the Authority's work programme, which would assist stakeholders in providing feedback on prioritisation;
 - b) We believe the Authority should be decreasing its use of external resource, if at all possible;
 - c) We support the Authority proposing to undertake post-implementation reviews, which should incorporate both Authority spending and industry spending on Code development and implementation.
- 1.1.3 Our comments have been limited to the Authority's operations and work programme, and do not address the equivalent items as they relate to EECA.

2 Transparency of costs and benefits for individual projects

- 2.1.1 We do not think it is reasonable to assume that holding the Authority's expenditure at a fixed level (in nominal terms) means that this is necessarily an efficient level of expenditure. This would depend on the mix of projects, appropriateness of priority setting and resource levels.
- 2.1.2 We believe the work programme would benefit from greater transparency of estimates of the potential long-term benefits to consumers and the costs of Authority work and industry implementation. The Authority may already have these estimates, which would admittedly have to be made using relatively high-level and approximate assumptions, however we do not believe they have not been published to date.

2.1.3 Visibility of these estimates would assist stakeholders in assessing the relative priorities of various projects on the work programme. Further, they would help stakeholders to assess the appropriateness of the overall scale and scope of the Authority's work programme.

3 Decreasing use of external resource

3.1.1 The two largest items in the Authority's core operating costs are its expenditure on personnel and external work programme support.

3.1.2 Our expectation would have been for the Authority to incur a significant level of external costs for its first two to three years as it addressed the large number of matters required by section 42 of the Electricity Industry Act 2010 and built its internal capacity. We would then have expected a significant reduction of external costs once the Authority reached a steady state at Phase 4 of its 'Strategic Journey'.

3.1.3 In fact, the Authority's Annual Reports and Statement of Intent 2014-18 suggest the following profile for expenditure on personnel and external support services:

| | 2010/11 ¹ (1 Nov – 30 Jun) | 2011/12 (1 July – 30 Jun) | 2012/13 (1 July – 30 Jun) | 2013/14 (1 July – 30 Jun) | 2014/15 (1 July – 30 Jun) | 2015/16 ² Forecast (1 July – 30 Jun) | 2016/17 Forecast (1 July – 30 Jun) | 2017/18 Forecast (1 July – 30 Jun) |
|----------------------------------|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|--|---|---|
| Personnel | \$5,132 | \$7,961 | \$8,258 | \$9,109 | \$9,441 | \$9,546 | \$9,785 | \$9,785 |
| | (\$7,698 12m) | | | | | | | |
| External support services | \$4,295 | \$7,745 | \$6,675 | \$6,517 | \$4,965 | \$5,400 | \$5,150 | \$5,150 |
| | (\$6,442.5 12m) | | | | | | | |

3.1.4 The profile above suggests a steady increase in salaries until 2015/16, and a forecast flat-lining of external consultant expenditure.

3.1.5 The Authority's Statement of Intent indicates the Authority will hold expenditure on both these categories at a similar level until at least financial year 2017/18. This appears to be shown in aggregated form in the proposed appropriation for core Authority operating expenses, which is exactly equal in 2015/16 and 2016/17 in nominal terms (at \$18,729,000). However, the Authority has not provided a breakdown of the costs of personnel versus external support services.

3.1.6 As discussed in section 2 above, the Authority has not provided any breakdowns of its costs on a per project basis. Without this information it is impossible for us to determine whether holding its costs at the same level as previous financial years is efficient or appropriate. This undermines the efficacy of the consultation process.

¹The headline figure covers the Authority's first eight months. In the brackets it has been increased by 50% to reflect a full 12-month figure, for ease of comparison.

²The actual budget for 2015/16 has been revised down in the Statement of Performance Expectations 2015/16. For external support services, the budget is now \$4,959,000 and for personnel the budget is now \$9,778,000.

3.1.7 Therefore, we think that every five years the Authority should engage an external organisation to assess the efficiency of its costs. We recommend this review be done in financial year 2015/16.

4 Post-implementation reviews

4.1.1 We support the Authority's proposal to undertake more post-implementation reviews following the conclusion of projects on its work programme. These should occur not just immediately following the conclusion of a project, but also periodically thereafter.

4.1.2 Such reviews are (or at least should be) standard processes for all commercial organisations, and will assist the Authority in ensuring its understanding of implementation costs and market operations remains current. This will ensure that estimates made to justify future projects will be accurate.

4.1.3 As we have mentioned in previous submissions, we are always willing to assist the Authority in increasing its understanding of implementation costs.

5 Other comments

5.1.1 Finally, while we support the "good housekeeping" approach to cleaning up the Code, we suggest that this should also be undertaken through a lens at a level higher than "operational". There may well be regulation (and entire sections of the Code) which is now superfluous, given the maturity of the market.

5.1.2 It is also worth noting that the proportion of the appropriations allocated to service provider contracts is significant, especially relative to the Authority's own expenditure. Scrutinising and reducing these costs should be an ongoing priority for the Authority.

5.1.3 For any questions relating to the material in this submission, please contact me on 07 572 9888.

Regards,



JAMES TIPPING
MANAGER STRATEGY AND REGULATION