



From the Electricity Networks Association

# Submission on 2016/17 Levy-funded appropriations and Electricity Authority work programme

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*Submission to Electricity Authority*

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24 November 2015

The Electricity Networks Association makes this submission along with the explicit support of its members, listed below.

Alpine Energy Ltd  
Aurora Energy Ltd  
Buller Electricity Ltd  
Centralines Ltd  
Counties Power Ltd  
Eastland Network Ltd  
Electra Ltd  
EA Networks Ltd  
Electricity Invercargill Ltd  
Horizon Energy Distribution Ltd  
Mainpower NZ Ltd  
Marlborough Lines Ltd  
Nelson Electricity Ltd  
Network Tasman Ltd  
Network Waitaki Ltd  
Northpower Ltd  
Orion New Zealand Ltd  
OtagoNet Joint Venture  
Powerco Ltd  
Scanpower Ltd  
The Lines Company Ltd  
The Power Company Ltd  
Top Energy Ltd  
Unison Networks Ltd  
Vector Ltd  
Waipa Networks Ltd  
WEL Networks Ltd  
Wellington Electricity Lines Ltd  
Westpower Ltd

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# 1. Introduction

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1. The Electricity Networks Association (ENA) appreciates the opportunity to make a submission to the Electricity Authority on the “2016/17 Levy-funded appropriations, Electricity Authority work programme, and EECA work programme” (the paper).
2. This submission relates to the Electricity Authority’s (the Authority’s) proposed work programme and levy-funded appropriations. The ENA will be submitting separately on the EECA work programme and levy-funded appropriations.
3. The ENA represents the 29 electricity network businesses (ENBs) in New Zealand.
4. Our submission covers the following issues:
  - (a) While we are pleased the Authority is not seeking any increase in its appropriations, we submit that the Authority should be vigilant to savings that can be made. For example, the Authority should consider whether the significant increase in expenditure on personnel since 2012/13 should be sustained permanently.
  - (b) The ENA submits that the Authority should proceed with caution in relation to its distribution pricing review to ensure that industry initiatives are supported.
  - (c) The ENA supports the proposed review of the distributed generation pricing principles in Schedule 6.4 of the Code.
  - (d) It is not clear that distributors’ use of system agreements are inhibiting retailer entry or expansion. In February the Authority reported that there were 27 retail brands, while we recognise that these are not available in all regions, the market is described in the paper as “workably competitive”. The ENA submits that the default distribution agreement project should be deferred or at the least caution should be exercised so as not to create unintended consequences.
5. We provide more detailed comment on these points in the body of our submission.
6. The ENA’s contact person for this submission is:

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## 2. Appropriation level

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7. The ENA appreciates the Authority's commitment not to pass on inflation in its levy, though we note that the Authority appears to have overestimated the benefit of this. Inflation was first absorbed into the operating budget in 2013/14; inflation since 2012/13 has been around 2% (depending on the inflation measure used, the producers' input price index actually fell over this period).
8. The ENA remains of the view that the Authority should review whether the size of the agency continues to be warranted. We expect that the Authority's work programme will continue to diminish over time, and that the budget will reduce in line with the decline in activity. There has been a substantial increase in the number of personnel within the Authority since 2012/13 and we submit that this should now be reviewed.

## 3. Work programme

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### 3.1 Default distribution agreement

9. The ENA submits that a significant problem has not been identified with regard to distributors' use of system agreements, and that the project to implement a default agreement should be deferred. The largest distributors have and continue to progress negotiations with retailers, and the majority of distributors are preparing or actively seeking to engage with retailers. As experience is gained with the process, the ENA expects that change would gather pace, though the appetite to commit resources to this may be hampered by the risk that the Authority will ultimately decide to override recently negotiated contracts.
10. If the Authority is not persuaded to defer this project, the ENA strongly submits that a participant-led process be put in place to make changes to the terms of the agreement based on:
  - (a) learnings from the negotiated changes made by participants since 2012
  - (b) up-to-date industry systems and practices
  - (c) future-proofing the agreement to the extent possible.
11. The ENA submits that care is required to ensure that any default agreement does not create unintended consequences or hamper innovation.

### 3.2 Distribution pricing review

12. The ENA agrees with the Authority that prices provide important incentives for the efficient use of electricity and related investment decisions. The ENA will be submitting separately on the Authority's recently released paper on the "Implications of evolving technologies for pricing of distribution services".
13. The ENA has commenced a significant programme of work to support distributors to establish more cost reflective and durable prices, and better meet the needs of electricity consumers. This is being led by the Distribution Pricing Working Group.
14. We note that electricity distribution is highly regulated and it is difficult to make rapid changes in tariff structure because of the nature of price regulation, retailers' system constraints and caution by retailers and end-users who often perceive little benefit in moving to an alternative distribution tariff.

15. The ENA would welcome the opportunity to work collaboratively with the Authority on this important issue.

### **3.3 Part 6: pricing principles**

16. The ENA supports the proposed review of the pricing principles in Schedule 6.4. We consider it is important to ensure that prospective distributed generation customers understand the longer term system costs of installing increasing levels of distributed generation and make investment decisions based on complete life cycle information.

### **3.4 Transmission pricing investigation**

17. The very lengthy review of the of TPM guidelines is again planned to conclude in the coming year. This process has created unnecessary cost and uncertainty for the industry and consumers, and we are pleased the Authority is intending to make a decision.