

Carl Hansen
Chief Executive
Electricity Authority
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Dear Carl

2016/17 Levy-funded appropriations and work programme

Nova Energy is pleased to offer feedback on the Electricity Authority's work programme and funding for 2016/17. Nova commends the Authority on keeping its operating expenses flat and maintaining pressure on the service providers to minimise their costs. In particular, Nova supports the Authority's endeavour to enforce stronger commercial disciplines on the System Operator; given it represents over half of the total appropriations for the year.

Nova generally supports the projects proposed for 2016/17. Of particular value are the refinements to the wholesale market, specifically: frequency keeping, instantaneous reserves markets, and implementation of the shortened gate closure.

In terms of market efficiency, the transmission pricing investigation (TPM), distribution pricing review, and review of secondary networks are key. The TPM project has reached a point where a preferred solution needs to be selected to provide a firm basis for organisations and their planning. While Nova understands the need for the Authority to base its decisions on economic theory, Nova would also like to see greater emphasis given to projecting the actual expected outcomes from the preferred pricing scenarios: i.e. what is the expected impact on demand, and generation decisions, and how is that expected to impact on future grid investments and costs?

The need to review distribution pricing and secondary networks is becoming increasingly important as current settings are resulting in inefficient investment and increased costs for retailers and network companies; particularly given the growing numbers of solar PV systems and embedded networks. Nova supports the reviews currently underway.

While it is not stated in the Consultation Paper, it is critical that the distribution pricing review addresses the distortions created by the 'Continuance of distributor's supply obligation' and the low user charge regulation under sections 105 and 113 of the Electricity Act 2010 respectively. While the Authority's powers under the Act are limited in respect of these clauses, any work by the Authority would be incomplete if it did not quantify the economic cost of these regulations.

This year the Authority implemented a new basis for calculating participants' prudential requirements. Despite its complexity, in Nova's view the new methodology still does not provide sufficient balance between providing adequate security and predictable cover requirements. Nova would like to see these new arrangements reviewed and possible improvements considered.

The Authority has given retail data project a high priority and imposed new requirements on retailers. This work would have more credibility if the Authority took the time to test its concepts and conduct trials before imposing new regulations.

The initiatives to further enhance the hedge market are appropriate, as long as regulation is consistent with maintaining a 'level playing field' for all market participants. It is also important that market participants have access to a range of mechanisms for managing their risk profile, and the promotion of a liquid hedge market does not come at the cost of alternatives such as the OTC market.

In summary, there is still work for the Authority to do that can enhance the operational and dynamic efficiency of the wholesale electricity market, however, Nova believes the benefits of the Authority's initiatives for the retail market are less clear cut and should be tested more carefully before implementation.

Yours sincerely



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