

# Summary of Submissions

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## 2016/17 Appropriations and Work Programme

26 May 2016





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## Executive summary

The Electricity Authority (Authority) has consulted on its proposed appropriations (its funding) and work programme (the programmes and the key projects we plan to carry out) for 2016/17.

Consultation on appropriations is required by section 129 of the Electricity Industry Act 2010 (the Act). We report to the Minister of Energy and Resources (Minister) on our recommended appropriations.

The consultation also informs the development of our Statement of Performance Expectations (SPE)<sup>1</sup> and work programme. The draft SPE for 2016/17 will be provided to the Minister by 1 May and published in June 2016. The work programme is expected to be published in July 2016.

Submissions were received from: Drive Electric, Electricity Networks Association (ENA), Genesis Energy, Meridian Energy, Major Electricity Users' Group (MEUG), Mighty River Power, Nova Energy, Orion NZ, Pioneer Generation, Powerco, Transpower NZ, Trustpower and Unison Networks.

### *Support for the proposed appropriations*

Those submissions that commented on the proposed level of appropriations supported the proposal.

Some submissions noted appreciation of the Authority's commitment to keeping its own operating expenditure flat, and some noted the Authority's efforts in reducing the costs associated with market operations service providers.

Several submissions suggested that the Authority's work programme, and therefore costs, should diminish over time. Conversely, other submissions identified instances where appropriation increases would be beneficial.

Section 4 addresses the submission comments about the appropriations.

### *Support for the strategic focus*

The market development focus outlined on page 18 of the consultation paper was generally supported by comments in submissions and will be refined and finalised for the SPE and work programme. For 2016/17:

- we will continue to emphasise competition in the retail market
- we will continue our focus on advancing work to further the strategy of providing efficient price signals
- we expect to increase our focus on enabling new technologies and innovation, subject to the results of a scoping exercise being carried out this year.

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<sup>1</sup> Under amendments to the Crown Entitles Act 2004 enacted in 2013, the Authority now has a four-year Statement of Intent (SOI) and one-year Statement of Performance Expectations (SPE). The SOI does not need to be published every year. The Authority has reviewed its strategic intentions set out in the 2014–2018 SOI. It has concluded that the strategy in the SOI will continue with minor fine-tuning in terms of the projects in the work programme. A new SOI will therefore not be published for 2015–2019.

***Detailed feedback was received on the proposed work programme***

Most comments in the submissions dealt with the work programme for 2016/17 and key projects within the programmes. The comments, and our initial responses, are set out in section 5.

These comments from submissions will be considered further during development of the SPE and work programme.

***Other matters were raised in submissions***

Other matters were raised in submissions that were not directly related to the 2016/17 appropriations and work programme. These are covered in section 6. We will further consider these submissions later in our planning process.

# 1 Introduction and purpose of this report

- 1.1 Submissions were invited on the proposed 2016/17 appropriations for the Electricity Authority (Authority), and those activities of the Energy Efficiency and Conservation Authority (EECA) that are funded by the levy on industry participants. The consultation period was 13 October to 24 November 2015.
- 1.2 In addition to appropriations, the consultation paper outlined the Authority's proposed work programme and EECA's levy-funded electricity efficiency programme priorities for 2016/17.

## 2 Background

- 2.1 Section 129 of the Electricity Industry Act 2010 (Act) requires the Authority and EECA to consult on proposed appropriations for the coming year.

### “129 Consultation about request for appropriation

- (1) The Authority and the Energy Efficiency and Conservation Authority must, before submitting a request to the Minister seeking an appropriation of public money for the following year, or any change to an appropriation for the current year, that relates to costs that are intended to be recovered by way of levies under section 128, consult about that request with—
    - (a) those industry participants who are liable to pay a levy under that section; and
    - (b) any other representatives of persons whom the Authority believes to be significantly affected by a levy.
  - (2) Each Authority must, at the time when the request is submitted, report to the Minister on the outcome of that consultation.
  - (3) The Ministry must consult in a like manner in respect of a levy to recover costs referred to in section 128(3)(g).
  - (4) This section applies to requests in respect of the financial year beginning 1 July 2011 and later financial years.”
- 2.2 This report has been prepared to support the process of reporting to the Minister with our recommended appropriations required by section 129(2).
  - 2.3 Further analysis of submissions will be carried out as part of developing our 2016/17 Statement of Performance Expectations (SPE) and work programme.
  - 2.4 EECA provides a separate report to the Minister on its proposed electricity efficiency appropriation.

### 3 Submissions

3.1 Submissions were received from:

1. Drive Electric
2. Electricity Networks Association (ENA)
3. Genesis Energy
4. Meridian Energy
5. Major Electricity Users' Group (MEUG)
6. Mighty River Power (MRP)
7. Nova Energy (Nova)
8. Orion NZ
9. Pioneer Generation
10. Powerco
11. Transpower NZ
12. Trustpower
13. Unison Networks (Unison).

### 4 Overall appropriations

#### ***Overall proposed Electricity Authority appropriations***

- 4.1 The overall proposed appropriations were set out in Table 1 of the consultation paper.
- 4.2 Submissions included the following comments on the overall proposed appropriations.

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.

ENA

MEUG supports the EA's aggregate proposed level of appropriations for 2016/17 of \$76.037m for electricity industry governance and market operations and contingent appropriations for the multi-year appropriation for security management of \$6m for 2012/13 to 2016/17 and \$0.444m for the electricity litigation fund.

MEUG

We appreciate that the Authority has not increased the size of its proposed appropriation for 2016/17, but submit that it would be reasonable to expect actual reductions in future years, as the scope for incremental efficiency gains from further regulatory intervention can reasonably be expected to diminish now that much of the “low-hanging fruit” has been harvested. Bringing the long-running transmission pricing methodology (TPM) review to a close is an obvious area where savings could be made.

Powerco

***Authority response: overall appropriations***

- 4.3 Those submissions that commented on the proposed level of appropriations supported the proposal.
- 4.4 Some submissions noted appreciation of the Authority’s commitment to keeping its own operating expenditure flat, and some noted the Authority’s efforts in reducing the costs associated with market operations service providers.
- 4.5 Several submissions suggested that the Authority’s work programme, and therefore costs, should diminish over time. Conversely, other submissions identified instances where appropriation increases would be beneficial.
- 4.6 The Authority agrees in principle with the view that its costs should diminish over time as the “low hanging fruit” have been addressed. Indeed, the Authority has effectively reduced its own operating expenditure by funding the establishment and operation of the FTR market and the implementation of extended reserve arrangements, which of course do not show through in reduced expenditure for the overall appropriations.
- 4.7 However, the Authority notes that many participants and our advisory groups, including the Security and Reliability Council, have stated the electricity industry is facing potentially far reaching changes in the near future from evolving technology and these developments could require widespread changes to the Code and market systems. The Authority shares those views and is also prudently re-focusing on security of supply issues in light of recent announcements about closures of thermal generation plant. Hence, the Authority still has a significant work programme ahead of it that needs to be advanced in a timely manner. Reducing the Authority’s expenditure at this stage would risk the Authority not completing projects already in train or addressing these new issues too slowly.

***Market operations and system operator service provider costs***

- 4.8 The following comments were made:

On the details of the budget and draft work programme MEUG members are:

a) Appreciative of the 33.7% (-\$4.535m) decrease relative to the 2015/16 appropriation for service provider costs other than the System Operator ....

b) Disappointed that System Operator costs will increase by \$4.372m (+10.5%). MEUG understands the importance and complexity of the work by the System Operator as evidenced by the information paper published along with the levy consultation paper. Nevertheless MEUG recommend the EA ensure the new System Operator Service Provider Agreement (SOSPA) sets a WACC commensurate with the relative risks incurred and or incentive required to innovate and not just use the WACC set by the Commerce Commission for the grid owner. For example if the System Operator bears no risk except counterparty risk then the WACC should be equivalent to a 3 year risk free rate to match the 3 year Capital Recovery Factor period plus any debt margin for the riskiness of the government as counterparty.

The System Operator information paper does not describe how operating costs going forward will be recovered under SOSPA though we assume the annual CPI adjustments will be removed. As noted in MEUG's submission last year "Nowadays service provider contracts would unlikely to include automatically indexed price increases. We encourage the EA and System Operator when re-negotiating a new SOSPA to come into effect 1st July 2015 to put the arrangement on a more commercial footing."

MEUG

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

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.

Trustpower

**Authority response: Market operations service provider costs**

- 4.9 A key objective of the SOSPA negotiation has also been to provide measures to ensure the services provided represent value-for-money.
- 4.10 The Authority's negotiations with Transpower on the new SOSPA continue to make good progress, and the new agreement is expected to be in place from 1 July 2016. As discussed in the information paper published alongside the consultation paper, the delivery of the system operator role requires the use of relatively capital-intensive IT systems that need to be maintained on supported hardware and software and to appropriate standards in areas such as information security. This makes the management of capital expenditure relatively complex. The costs of the majority of the services being delivered under the SOSPA are

also subject to inflationary pressure, and the contract needs to provide measures for these cost pressures to be managed.

- 4.11 The negotiations have included consideration of issues such as WACC and inflation adjustments, and have reflected on the contract-specific aspects of the relationship between the system operator and Authority, the appropriate allocation of risk, and on establishing appropriate incentives to deliver efficiency gains and value-for-money. It is inappropriate for this response to outline the intended approach to WACC and inflation while the new agreement remains under negotiation, but, as required by the Code, the new agreement will be published to enable all participants to understand the contractual obligations once they are in place.
- 4.12 The Authority is aware of how significant the service provider contracts are as a proportion of the total appropriations. One of the intentions behind the recent tender for the pricing, clearing, reconciliation and WITS roles, and the pending tender for the registry, is to ensure these contracts are being delivered at market rates. The New Zealand market is relatively unusual, and probably unique, in delivering these roles through a competitive process. In most other markets they are delivered by a single entity that is not exposed to competitive pressure.

### ***Electricity Authority operating costs***

- 4.13 Submissions included the following comments in relation to the Electricity Authority operating costs within the *Electricity governance and market operations* appropriation.

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).

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.

ENA

As market participants continuously seek to reduce costs to the benefit of end consumers, we believe the same focused behaviour from the Authority would send a clear signal to consumers and the Industry that the Authority is being both prudent and effectively prioritising activity. While we appreciate the Authority's effort to maintain a similar operational budget to last year, the climate in which we operate would suggest that the Authority must fully review its operational activity and make substantial savings. Significant saving levels should easily be

achieved by refining the Authority's work programme and improving project development processes.

Genesis Energy

On the details of the budget and draft work programme MEUG members are appreciative of .... a commitment to keep the Authority's operating expenses constant nominal at \$18.729m.

MEUG

Nova commends the Authority on keeping its operating expenses flat and maintaining pressure on the service providers to minimise their costs.

Nova

Pioneer acknowledges the Authority plans to keep its operating expenses at the same level as forecast for 2015/16. However, the Authority has now been in place for five years and we suggest the work required to refine regulation of the industry should decline over time, particularly if the Authority was focused on simplifying the market requirements.

Pioneer

One area where an expanded Authority budget would be justified would be to make greater use of external experts to test proposals before publishing them for general consultation. This approach could save the industry as a whole significant unnecessary effort and expense. Currently, the onus often falls on industry members to fund the expert analysis required to test the Authority's policy proposals and, in practice, this can mean that analysis is effectively duplicated by multiple contracted experts. The extensive contract work undertaken in order to respond effectively to the various iterations of the TPM review is an example of this problem.

Powerco

We support efforts to contain cost but caution against false economy that could degrade the quality of stakeholder consultation, analytical and decision making processes.

...

We welcome the Authority's ongoing commitment to containing operating expenses. We support the aim of building in-house capability to allow the Authority to reduce its reliance on consultants. However, we recognise that the Authority's decisions have far reaching consequences that may create costs or benefits that are orders of magnitude larger than the Authority's entire operating expenses and caution against false economy.

We consider investment in the analytical and regulatory policy capabilities of the Authority's staff to be prudent. Similarly, judicious

use expert external advice – particularly for matters that are complex, contentious or could result in substantive policy reforms – is prudent and likely to promote the statutory objective. We consider this view to be compatible with the Authority’s broad objective to reduce its reliance on consultants for core or business as usual functions.

We note the Authority’s recent use of independent experts to inform or critique the Authority’s work, and / or that of its advisory groups, and support this. As well as stress-testing the Authority’s own thinking, this can help strengthen the evidence base supporting the Authority’s policy decisions; ultimately contributing to enhanced stakeholder confidence and reducing the risk of legal challenge or of regulatory failure.

The Authority’s emerging practice in this regard is aligned with that of the Commerce Commission which is increasingly utilising independent experts to test its own thinking and to provide quantitative evidence in support its decision-making. Similarly, we support the Authority engaging early in the policy development process which we consider is conducive to more successful regulatory decision making.

The combination of consulting early in the policy making process, investment in the capability of Authority staff and the judicious use of independent experts to inform and challenge the Authority’s thinking is more likely to result in the Authority being ‘right first time’ (and be more cost effective in the long term). If this results in a short term increase in cost for the Authority then we would support a higher appropriation.

Transpower

### **Decreasing use of external resource**

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

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’.

...

*[See submission for detail table/analysis]*

Trustpower

### **Authority response: operating costs**

- 4.14 The Authority manages its funding prudently and we carefully balance efforts to restrain our spending with the need to progress important work in a timely and robust manner.

- 4.15 The Authority does not agree with ENA's analysis about absorbing inflation. Despite the rises in the CPI that have occurred since the Authority was established, we have not sought any increase to our operating expenditure budget. Moreover, the Authority actually made significant efficiency savings in its first five years of operation, including savings of over \$1.0 million per annum to fund the bulk of the FTR implementation costs, and further savings of \$0.5 million per annum to offset rises in the costs of market operations service providers.
- 4.16 The Board continues to commit to holding Authority operating costs constant, and transparently reports on this. We also continue to work hard with our service providers to ensure value-for-money for the services provided.
- 4.17 We made a conscious decision, in 2012, to increase internal capability and to reduce reliance on consultants. This strategy has been implemented. As a result, personnel costs have increased moderately and external advice costs have decreased substantially. The Authority considers that it has a good balance between internal capacity and the use of external consultants where specific expertise is required.
- 4.18 The Authority has a one-year detailed view of its work programme and a high-level view over the longer term. The Authority reviews its long term plans on an annual basis to assess its resource requirements over the short, medium and longer terms. This is also assessed against the potential long-term benefit/value for consumers.
- 4.19 The existing work programme has been prioritised, and this prioritisation process recognises the significant potential for value to consumers. In addition we have identified a significant body of potential work in our pending work programme, which is considered to also hold significant value for consumers. While the level of potential value has not been formally assessed, the extent of this potential work does indicate continuation of a challenging workload over the next few years. In addition new issues arise on a regular basis, eg from new business models and technology innovation, the ramifications of which need careful attention. The Authority is also aware that the substantial nature of the Code means that ongoing review will be required. All of these factors indicate that the point at which market development work will 'tail off' is not likely in the next three to four years.

## **5 Proposed work programme**

- 5.1 The consultation paper provided an outline of the proposed 2016/17 work programme. It covered the programmes and key proposed projects within the programmes to deliver the intended impacts as set out in the SOI.
- 5.2 The consultation paper did not set out all possible projects for 2016/17.

## ***Comments on the overall work programme***

### **Strategic focus and prioritisation**

5.3 The following comments were made.

The electricity sector is rapidly changing - and in many instances is well ahead of regulated thinking. A significant risk with a large and poorly focussed work programme is that a number of the projects will become unfit for purpose and irrelevant if they are not completed in a timely manner, re-scoped appropriately, or shelved completely.

The Authority has indicated its commitment to proceed into the fourth phase of its strategic journey, which focuses on improving retail competition and efficient operation of the industry to provide long term benefits to the consumer. But it is unclear how a number of the projects identified in the 2016/17 programme will fit together under each strategy to deliver the Authority's goals. To be effective in this changing context, the Authority must recognise its resource constraints and undertake a meaningful prioritisation exercise to shed projects which do not clearly align with its goals or represent value for money.

We suggest the Authority focus on delivering fewer, key projects which have clear goals and measures aligned to efficient market operation.

#### **Prioritising resources**

We appreciate the addition of the prioritisation ranking to the work programme table, though it was somewhat unclear as to how the Authority arrived at its prioritisation decision and whether these were ranked according to the Authority's existing skill sets, technical ease or actual consumer outcomes.

The majority of market participants would have a few top priorities, but ten projects have been identified as top priority by the Authority, of which, eight require significant resources. We would suggest that a more realistic and cost effective work programme would be limited to five key projects to deliver the best outcomes. In addition, it is currently unclear how resources will be allocated to each of these projects, and who will be accountable for their delivery. We ask that the Authority group and prioritise these projects by the team responsible for their delivery to give some transparency.

Appendix A to this letter includes a summary of the key projects we believe should be prioritised in FYE2017. [These comments are covered under the relevant project sections below.]

Genesis Energy

MEUG notes that apart from the one new proposed project [review risk management incentives] all of the other 28 projects listed in appendix C for the proposed 2016/17 work programme are carried over from the current year. This is good news in so far as there are no surprises in the overall strategic direction and priorities of the EA. This probably

reflects the increasing complexity and inter-connectedness of projects. The EA should continue to undertake quality analysis to underpin its decisions subject to not delaying decisions that are becoming increasingly important as market participants make their own investment and operating decisions.

MEUG

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 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.

Nova

As we discussed in our submission on the 2015/16 appropriation, we support the Authority's strategy of 'reducing barriers' by creating a more level playing field for new and expanding retailers and reducing set-up costs for new retailers.

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.

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.

...

We are concerned about the priorities attached to some projects relative to others in order to meet the Authority's statutory objective.

There are 28 projects carried over from 2015/16 (plus one new project listed for 2016/17). Of these 10 projects are Priority 1. These projects have been assessed against how they contribute to the Authority's CRE objective. We note that the TPM review is one of only two Priority 1 projects that contribute to only one arm of the CRE objective (that of

efficiency). Pioneer is concerned that significant resource is being applied by the Authority and industry to this project when it appears from the appropriation paper that other projects make a larger contribution to achieving the Authority's statutory objectives and create a long term benefit for consumers.

Pioneer supports the focus of the Market Development group that retail competition and efficient pricing continue to be the top priority. Hedge market development has been a priority 1 project for a number of years, however implementation of improvements appears to have slowed down.

...

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

1. rationalise the several thousand network company tariffs and pricing structures: The Authority's work in this area so far has focused on the implications for efficient distribution pricing of disruptive technologies. The potential remains to simplify network company tariffs and pricing structures as part of improving the efficiency of pricing for the long term benefit of consumers.
2. investigate the impact of vertical integration on hedge market liquidity: Further changes are needed to improve the liquidity in the ASX market and the ability for retailers, particularly smaller and new entrant retailers, to offset spot market risk with efficiently priced risk products. Volumes traded on the ASX need to increase by multiples of the current level to achieve a competitive and efficiently priced hedge market. This necessary increase in trading volumes will not happen while the five large gentailers are able to cover their risk by being vertically integrated.

Pioneer submits the Authority must investigate the benefits of requiring gentailers to sell a certain portion of their generation volumes through the ASX market. Activity by speculators and financial institutions is not going to achieve the step change required to achieve efficiently priced risk products.

If smaller retailers cannot buy hedge cover at a price that enables them to compete with their retail pricing for retail load they are then forced to take spot price risk in order to make a margin on their retail business. This makes them disproportionately exposed to volatile spot prices and disproportionately vulnerable to failure. Increased liquidity in the hedge market will be significant in creating a more level playing field for new and expanding retailers, reducing set-up costs for new retailers and improving spot market risk and risk management.

Increased focus is required on the two relevant Priority 1 projects – hedge market development (1.3) and spot market refinement (1.4) – which both contribute to the three arms of the Authority’s statutory objective, in particular competition.

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.

Implementing AMI half-hour reconciliation will enable provision of efficient price signals particularly for residential and SME customers – a desired impact from the Authority’s ‘Efficient pricing’ programme.

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.

Pioneer

We broadly support the work programme, particularly its focus on promoting retail competition and efficient pricing. We see the distribution pricing review and work by the Retail Advisory Group on low fixed user regulations as an important part of this.

...

We appreciate that the Authority has responded to previous feedback to more vigorously prioritise workstreams and to ensure the Authority’s BAU functions such as project evaluation, Code governance and compliance are recognised in the programme.

We support the Authority’s efforts to continuously improve business-as-usual systems and processes, including communication with participants. In the latter regard we consider that this appropriations consultation, along with the Authority’s work programme calendar, Regulatory Managers meetings, and market briefs, are valuable in communicating the Authority’s work programme and priorities to stakeholders.

We support the general direction of the Authority’s work programme; particularly, the ongoing strategic focus on retail competition.

Transpower

As a general comment, Unison considers that allocation of priority ratings to projects is useful and gives readers an indication of the Authority's focus and areas of importance. However, we would be interested in learning how the rating is determined. Some projects have lower priority ratings than what we believe they should be allocated (as discussed below) and describing the criteria for determining ratings would be a useful inclusion in the Work Programme.

Unison

**Authority response: Strategic focus and prioritisation**

- 5.4 We note that several comments support our strategic focus as set out in the consultation paper. The Authority understands the comments from submitters that it should undertake far fewer projects and that there should be no more than two or three top priority projects.
- 5.5 However, the number of projects undertaken by the Authority reflects the reality that there is no 'silver bullet' for enhancing market performance. Rather, we have identified multiple opportunities to achieve positive net benefits for the New Zealand economy by creating a more level playing field, reducing barriers to entry and lifting consumer participation. In contrast, the large generator-retailers and lines companies are operational businesses, where typically only a few large projects are undertaken in any year. It makes sense for businesses to have a few strategic projects but this is rarely the case for regulators that are legally obliged to deliver on a broader range of objectives, which usually requires a broad range of initiatives.
- 5.6 We also note the comments about the transparency of our prioritisation process. We will consider how we can better communicate both our prioritisation processes and the resulting assessment of project contribution to:
- (a) our statutory objective
  - (b) our more detailed strategies
  - (c) value for money.
- 5.7 The consultation paper represents our initial views and prioritisation assessment. Our work programme will be further assessed in light of the submissions received and other information, for example Government priorities, our statutory objective and any cost benefit information available at that time. Prioritisation includes assessment of all candidate projects as well as the proposed key projects outlined in the consultation paper.
- 5.8 We also review priorities, as necessary, during the financial year. The prioritisation process is intended to ensure that our work programme is challenging, but not too ambitious for the Authority, its providers, and its stakeholders.
- 5.9 We note that the budget for consultation purposes is prepared over nine months prior to the commencement of the financial year. This enables consultation with stakeholders prior to submission of our appropriations proposal to the Minister in

February 2016. The detailed budget is completed following the consultation process and prior to the setting of the levy rates.

## ***Comments on specific programmes***

### **Programme: Competition in retail markets**

**What's my number** (project 1.1, page 24 of the consultation paper)

5.10 The following comment was made.

**Suggested priority for 2016/17: BAU.** We are pleased to see the Authority will continue to support this programme in 2016/17 and assess the costs and benefits for continuation.

Genesis Energy

### ***Authority response: What's my number***

5.11 What's My Number remains an important component of our pro-competition initiatives. We regularly review the performance of the campaign to ensure it continues to engage consumers and helps facilitate a more competitive retail market. Examples are the regular surveys to track consumer awareness of the campaign and attitudes towards comparing and switching electricity retailers.

5.12 The What's My Number campaign is scheduled to continue to 2017. We are considering the ongoing role and focus of the campaign in the future given evolving technologies and initiatives to facilitate consumer participation, including how to promote the retail data project outcomes.

**Retail data project** (project 1.2, page 25 of the consultation paper)

5.13 The following comments were made.

**Suggested priority for 2016/17: 6.** We encourage the Authority to work closely with the sector on delivering the least-cost implementation of this project, but we expect the Authority to have made the key decisions relating to this project before 2016/17. Therefore, we no longer see it as a top priority project.

We suggest the Authority prioritise the review of this project in 2017/18 as we expect significant unintended consequences may result from intervening in the competitive retail market.

Genesis Energy

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.

Nova

The retail data project is a positive initiative. The Authority has previously advised verbally [Verbal advice from Craig Evans at the Electricity Authority's regulatory managers and consumer representatives' meeting, 11 December 2014] that one outcome of this project should be an improvement in distributors' ability to access retailer metering data.<sup>2</sup> Such improved access could assist the transition to more cost-reflective charging by EDBs and also improve the accuracy of distributors' demand forecasts. Consequently, we strongly support this work area.

Powerco

**Authority response: Retail data project**

- 5.14 We note the positive comments about the retail data project. The objectives of the retail data project are to promote retail competition and to promote the efficient operation of the electricity industry. We assess the costs of initiatives (eg implementation costs for retailers) against the benefits from promoting competition, reliability and efficiency.
- 5.15 The expected outcomes of the project are: consumers being able to obtain better retail information; and enhanced retail competition and innovation. The project outcomes do not specifically include an improved ability of distributors to access retail metering data, however, distributors may seek to provide services to consumers that result in them seeking and obtaining access to those consumers' retail data.

**Hedge market development** (project 1.3, page 25 of the consultation paper)

- 5.16 The following comments were made.

**Suggested priority for 2016/17: 2.** We support this high priority project. As noted in our submissions on this issue, we consider Hedge Market Development must remain a key focus for the Authority. We encourage the Authority to continue to engage with the sector.

Genesis Energy

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.

Nova

If smaller retailers cannot buy hedge cover at a price that enables them to compete with their retail pricing for retail load they are then forced to take spot price risk in order to make a margin on their retail business. This makes them disproportionately exposed to volatile spot prices and disproportionately vulnerable to failure. Increased liquidity in the hedge

<sup>2</sup> Point of clarification from the Authority: the verbal comment was that distributors could seek to be 'agents' for consumers and thus obtain consumption data.

market will be significant in creating a more level playing field for new and expanding retailers, reducing set-up costs for new retailers and improving spot market risk and risk management.

Pioneer

*Also see comments from Pioneer Generation under the heading strategic focus and prioritisation (starting on page 12).*

**Authority response: Hedge market development**

5.17 We agree with submitter comments on the importance of pursuing the hedge market development project and we point to its priority 1 level.

5.18 During 2015/16 several key initiatives have been pursued,

- The Authority published a decision paper in which it announced that the development of a robust and regularly priced cap product market would be given primary priority.
- The Authority's preference is that arrangements for the development of the cap product market should be made through the voluntary participation of platform providers, and through parties regularly providing both bid and ask prices with an effective maximum spread. Should voluntary approaches not be feasible, the Authority will consider the preparation of a Code amendment to develop a codified scheme, which may involve a market service provider being appointed to establish and operate the scheme. The Authority has been working with the Australian Energy Market Operator (AEMO) and the Australian Security Exchange (ASX) to consider possible means by which ASX positions held by participants in wholesale electricity markets might be taken into account in the regular assessment of prudential security undertaken by a clearing manager. The Authority is waiting for the ASX/AEMO Design Study report for the Australian electricity market to be published, at which point we will consider how those findings and conclusions might apply to the New Zealand situation. Once this has been done the Authority intends to publish a paper to outline its conclusions on the appropriate directions to be taken for the New Zealand market.

5.19 In 2015/16 the Wholesale Advisory Group (WAG) provided the Authority with a number of recommended enhancements to the electricity hedge market. The Authority expects that there will be resources available in 2016/17 to progressively commence work on these suggested initiatives.

5.20 The Authority also agrees with Pioneer's comments on the importance of ensuring that hedge market pricing enables small and entrant retailers to source hedge cover on terms and at prices consistent with a level playing field with the larger retailers.<sup>3</sup> It is also important that these small retailers are able to arrange

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<sup>3</sup> However, this does not necessarily imply that other retailers should necessarily be able to out-compete the large retailers. The large retailers have some hard-won competitive advantages, such as the size of their customer book, market experience and analytical depth. New entrant retailers have other competitive advantages, such as nimbleness, more modern business and customer management systems and a focus on particular customer segments etc. It is up to small and new entrant retailers to offer customers more compelling deals to overcome the comfort many consumers appear to gain from buying from a large retailer. Ensuring a level playing field with larger retailers does not necessarily equate with small retailers succeeding in the electricity market. The

spot price risk management tools at a price level that encourages prudent behaviour.

### **Spot market refinements** (project 1.4, page 26 of the consultation paper)

5.21 The following comments were made in submissions.

**Suggested priority for 2016/17: 4.** High priority project, strongly supportive. We encourage the Authority to continue to engage with the sector.

Genesis Energy

While we agree potential refinements to the spot market (item 1.4) should be investigated, we do not consider the project to be a pressing priority for the coming financial year. If necessary, we consider the work could be postponed.

Meridian

### **Authority response: Spot market refinements**

5.22 We continue to consider that the spot market refinements should be a priority 1 level project. The work to date on the potential benefits of real time pricing (one of the two spot market refinements being explored) are of sufficient magnitude to endorse this categorisation.

5.23 The Authority intends releasing its work on real time pricing options for consultation in March 2016. Work on the potential benefits and costs of an hours-ahead market will follow in June 2016.

### **Default distribution agreements** (project 1.5, page 25 of the consultation paper)

5.24 The following comments were made.

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.

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

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Authority's focus is on developing the hedge market in ways that promote the long-term interests of consumers, and not that of any particular type or size of retailer.

- (b) up-to-date industry systems and practices
- (c) future-proofing the agreement to the extent possible.

The ENA submits that care is required to ensure that any default agreement does not create unintended consequences or hamper innovation.

ENA

Regarding project 1.5 - Default distribution agreement - when this was project 1.9 last year the rationale was slightly different. In our equivalent submission last year we wrote:

... the rationale for this project includes the word “may” twice. We submit that the Authority’s decision on its approach this year (2014/15) needs to persuasively turn this “may” into a “materially does” for it to proceed to Code changes in the 2015/16 year. In the meantime we continue to regularly sign-up new retailers to our existing agreement with little fuss or cost.

We observe that the Authority in the paper has now removed the word “may”, but we are not aware of any new work or new information that supports the removal. We note that:

- a number of distributors have now agreed more model-based agreements with retailers, and others are working towards this goal,
- the number of entrant retailers continues to increase, and
- we still sign up new retailers to our existing agreement with little fuss or cost.

We would be keen to see any new information that the Authority has

Orion

Unison remains of the view that there is little justification at this stage for the Authority regulating further in the area of Use of System Agreements (UoSAs). We understand from the ENA that the voluntary uptake of UoSAs based on the Authority’s model is progressing well for the majority of distributors. The Authority’s focus in this area should instead be on revising the voluntary model UoSA based on the successful negotiation of contracts between distributors and retailers; rather than on Code changes to set a default set of core terms.

Unison

### **Authority response: Default distribution agreements**

- 5.25 Use-of-system agreements (UoSAs) are the contractual tool governing the relationship between distributors and retailers. The relationship between distributors and retailers matters for consumers because consumers are the ultimate recipients of distributors’ services.

- 5.26 Our work on UoSAs is intended to make sure the processes for formation of UoSAs are low cost for retailers and distributors, and that the terms and conditions of UoSAs provide for even-handed treatment of retailers and don't impose inefficient terms on retailers.
- 5.27 The adoption of more standardised and efficient distribution agreements under the prevailing voluntary arrangements has been lower than the Authority expected when it introduced the current arrangements three years ago.
- 5.28 The Authority's final decision to introduce a default distributor agreement (DDA) will take into account whether parties make substantial progress negotiating more standardised distribution agreements in the meantime. The net benefits of a DDA would be lower if more standardised distribution agreements occurred voluntarily.

**Review of data requirements to enhance retail competition and efficiency**  
(project 2.7, page 28 of the consultation paper)

- 5.29 The following comment was made.

Meridian would like to understand more about the specific topics expected to be covered in the intended review of retail data and data exchanges (item 2.7). In our view, greater standardisation of planned outage information will enable material operational efficiency-related improvements to be made. Is it the Authority's intention to have outage information and usage of EIEP5A addressed as part of the review?

Meridian

***Authority response: Review of data requirements to enhance retail competition and efficiency***

- 5.30 The project to review the data and data exchanges between participants (including service providers) will examine whether the right information is being provided at the right times, and at an appropriate level of accuracy. The objective is to ensure that retail competition is facilitated and the market operates as efficiently as possible. The first stage of the project will be to seek feedback on any issues and problems relating to data and data exchanges. This includes whether to include outage information and EIEP5A.

**Scoping exercise for emerging technologies** (page 19-20 of the consultation paper)

- 5.31 The following comment was made.

The rise of the 'prosumer' brings exciting opportunities for consumers and participants, and the market is likely to change very rapidly to reflect this. We agree that the Authority must be aware of the possible implications of these changes. But it is important that the Authority does not try to anticipate negative outcomes and inadvertently limit innovation and restrict consumer choice.

The Authority must be cognisant of its role as a market regulator – not a market facilitator. There is an important distinction between these roles. A market regulator seeks to ensure the market is able to adapt to change, but does not prematurely force change nor seek to favour particular existing business models or products.

We believe the Authority should allow the market to grow and avoid regulation unless it can clearly demonstrate an actual problem as opposed to a hypothetical problem. Regulation in anticipation of innovation has had extremely mixed success internationally. Where the outcome has been successful, it has come from regulation created in partnership with industry and in such a way where innovation can lead to compliance. Over-regulation becomes a compliance burden to companies, stifling innovation, and complicating markets.

Genesis Energy

In the discussion of enabling new technologies and innovation in paras C.13 to C.17, the paper identifies that new technologies provide some challenges. This is then linked to a clear implication that current distribution pricing structures are not efficient with “inefficient and misleading prices that are not to the long term benefit of consumers”. This looks to us like it might be a possible conclusion of a review carried out within the work programme, rather than be a conclusion in a document about the work programme.

Direct access to the wholesale market is discussed in C.15 and this is a possible direction for innovation. However, we note that perhaps only 1/3rd of the cost of energy supplied to a residential consumer is the wholesale energy cost. Direct commercial access to the wholesale market does not physically remove dependence on the delivery infrastructure, or all of the retail functions. We look forward to further clarification of the scope of this project.

Orion

The Market Development group appears to have a new focus of “enabling new technologies and innovation” (page 19-20). Pioneer is concerned to ensure that the Authority:

- avoids initiating rules that are unnecessarily complex and so stifle innovation
- ensures a level playing field for existing and new technologies, and innovations that achieve the same outcome (eg reduce peak demand).

Pioneer

***Authority response: Scoping exercise for emerging technologies***

5.32 The Authority is about to commence its project to review the market arrangements for consumers using emerging end-user technologies. The project will investigate how the Act, Code, and market operations arrangements either enable or inhibit domestic and other small-scale consumers (and their agents)

who are using new end-user technologies such as solar PV, batteries, EVs, smart meters and other digital technologies from participating in the electricity market, and whether the use of these technologies creates new risks to the effective operation of the market.

- 5.33 It is important that regulatory arrangements keep pace with the changes these technologies may bring to the market, so they do not stand in the way of consumer choice and decision-making, and to avoid the risk of unintended adverse consequences or unrealised benefits that impact on competition, reliability and efficiency in the electricity industry.
- 5.34 The Authority is very conscious of the need to avoid ‘picking winners’ or favouring certain types of technology or business models over others. The initial investigation, expected to be completed late in 2015/16, is expected to identify potential work programme activities for 2016/17 and beyond that encompass the Code, market facilitation measures and market systems.

### **Low fixed charge regulations** (not covered in the consultation paper)

- 5.35 The following comments were made in submissions.

[What has happened to the] review of the low fixed charge regulations via the RAG? This may have been subsumed into 2015/16 project 1.7 – Distribution pricing review - but we cannot tell this from the description of 1.7.

We are pleased to see that the Authority recently released a consultation paper which discusses the low fixed charge regulations in the context of evolving technologies and distribution pricing more widely, and we look forward to reviewing and submitting on that.

Orion

The Authority’s current distribution pricing consultation paper [*Implications of evolving technologies for pricing of distribution services*, Electricity Authority, 3 November 2015.] states that “the Authority considers that demand charges and capacity charges (both of which are measured using kW) ... are variable charges under the LFC regulations”. Hence, the Authority is suggesting that the regulations permit a practicable “work around” that enables what would otherwise be fixed charges to take the form of variable charges for the purposes of the regulations. To create certainty for EDBs prior to embarking on tariff reform, we recommend that the Authority seek clarification from MBIE that this view is a correct interpretation and then publish on its website the alternative charging forms that would comply with the regulations. (The IRD’s “binding rulings” could be referred to as a useful comparator.) This would give distributors greater comfort that alternative tariff forms are legally permissible.

We note that the Retail Advisory Group’s draft paper Research project: Effects of low fixed charges states, at paragraph 6.3.6, that “the overall implication of this analysis is that consumers, in aggregate, pay more

for less under the regulations than under the notional efficient tariff". This conclusion suggests that further work by the Authority to advocate change to the regulations, or their rescinding, would be consistent with the Authority's statutory objective to promote the efficient operation of the electricity industry for the long-term benefit of consumers, and we urge the Authority continue with such work.

Powerco

Unison is concerned about the omission of work examining the LUFC Regulations. Over the past year, the RAG has been undertaking a research project on behalf of the Authority: The Effects of Low Fixed Charges. The latest RAG work programme indicates that a discussion paper will be released in March 2016 for 12 weeks, with findings presented to the Authority's Board in July (2016/17 year). Given the potential for recommendations falling out of this paper, Unison considers it prudent for the Authority to dedicate resource in 2016/17 to advocating for any recommended change with the Ministry of Business, Innovation and Employment (MBIE). Unison shares the ENA's concerns that the LUFC Regulations are not designed with the long-term benefit of consumers in mind as they do not encourage efficient electricity use. Thus, this work should be retained on the Authority's work programme for the 2016/17 year.

Unison

### **Authority response: Low fixed charge regulations**

- 5.36 The Retail Advisory Group (RAG) is undertaking a research project to consider the market effects of the Electricity (Low Fixed Charge Tariff Option for Domestic Users) Regulations 2004 (LFC Regulations). The RAG is scheduled to report its findings to the Authority Board early in the 2016 calendar year. We will consider the RAG's recommendations and provide a response to the Minister for Energy and Resources, who is responsible for the LFC Regulations.

### **Overall competition in retail markets programme**

- 5.37 The following comments were made.

With retail-related work an ongoing area of focus, it is important the Authority actively engages with retailers to continue to develop its knowledge of their product offerings and operations. Consumers differ in their needs and it is important the Authority remains in touch with retailer perspectives on their customers and product innovations underway. Amongst other things, this could assist with ensuring recent interventions (retail tariff data initiatives, for instance) are operating as intended.

Meridian

A competitive retail sector is important and we support consideration of ways to improve its performance. The retail sector in New Zealand

exhibits world leading competition and there is little evidence to suggest this will reduce in the near term. Given this context we suggest that any further regulatory intervention is subject to a very high bar to avoid unintended consequences such as stifling the significant innovation that is already present in the market.

MRP

**Authority response: Overall programme for competition in retail markets**

- 5.38 Where there were comments, submissions indicated support for our competition in retail markets programme. However, some submissions raised concerns about the need for further intervention to promote retail competition and innovation.
- 5.39 We continue to place an emphasis on promoting competition in retail markets by undertaking initiatives to facilitate consumer participation and to reduce barriers to entry, exit and expansion (note these barriers may be in the retail market, spot market, ancillary markets, hedge markets, and transmission and distribution arrangements).
- 5.40 We believe there is considerable potential to deliver long term benefits to consumers by increasing the propensity of consumers to exercise choice of supplier and service and by lowering the barriers for retail entry and expansion. In particular, we consider substantial efficiency gains may be achieved by making sure consumers have the information they need to make decisions and by reducing the costs of making decisions.
- 5.41 We expect to continue progressing and refining initiatives that have the primary purpose of facilitating consumer participation and reducing barriers to entry and expansion. However, competition across the electricity market appears to have improved markedly over the last four years so there may be fewer pro-competition initiatives worth pursuing in the future.
- 5.42 Consistent with our legislative requirements, and those in our foundation documents, we will provide analysis of market/regulatory failures and the net benefits expected from an initiative when we consult on Code amendment proposals or market facilitation measures.

**Programme: Efficient pricing**

**Transmission pricing investigation** (project 1.6, page 30 of the consultation paper)

- 5.43 The following comments were made.

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.

ENA

**Suggested priority for 2016/17: 8.** The recent changes proposed by Transpower must be given time to take effect and stabilise before further regulatory action is taken. Further, the current options proposed under the TPM pose risk to market participants.

We believe that the impact these changes will have on residential consumers has been underestimated, and there is a risk of creating inequity. We suggest the Authority, as market regulator, should be more focussed on the structures that enable a competitive electricity market.

Genesis Energy

A prime example of the risks of delaying critical decisions is the impact of concluding the review of the Transmission pricing methodology (TPM). With the re-jigging of major thermal supply currently underway and critical decisions required in 2016 particularly on whether a commercial arrangement can be put in place to extend the life of the Huntly Rankine units beyond the end of 2018; participants need certainty on TPM as early as possible.

MEUG

Meridian continues to support the Authority's review of the Transmission Pricing Methodology (TPM). Meridian considers there are significant inefficiencies with the current TPM. It is important the Authority continues to prioritise work to objectively consider and implement a more durable and efficient alternative.

Meridian

We support the Authority's continued focus on resolving TPM issues. We also support the Authority's proposed timeframe for finalising the Code amendment and implementation subject to customer impacts being appropriately managed and transitioned.

MRP

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?

Nova

Given the length of time since the commencement of the TPM review and the amount of analysis that has been undertaken, we believe there must now be very little to be gained from engaging in further analysis or developing additional alternative revenue allocation methodologies. The ongoing TPM reviews have consumed significant industry resource and, in our view, the process must now be brought to an expeditious close in order to remove the prevailing uncertainty and associated cost to the industry that the current apparently open-ended review exercise has created.

Powerco

There has been great uncertainty in the area of transmission pricing, particularly over the past three years. Unison is pleased to see that the Authority intends to conclude its review of the Transmission Pricing Methodology (TPM) in the 2016/17 year.

Unison

*Also see comments from Pioneer Generation under the heading strategic focus and prioritisation (starting on page 12).*

### **Authority response: Transmission pricing investigation**

- 5.44 The Authority has undertaken a comprehensive review of the Transmission Pricing Methodology (TPM), including releasing an initial issues paper and, at the request of most participants, a number of follow-up working papers for comment. We are intending to release a second issues paper in the next two months and we are committed to making a final decision by 30 June 2016.
- 5.45 With regards to Genesis' comment, as we outlined in the Authority's TPM options working paper, the recent changes to the TPM that arose out of Transpower's operational review are insufficient to address all of the significant potential problems identified with the current TPM. Moreover, the changes arising from Transpower's operational review are well understood and do not make it materially harder to assess the costs and benefits of the Authority's proposal.

### **Distribution pricing review** (project 1.7, page 30 of the consultation paper)

- 5.46 The following comments were made.

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".

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.

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.

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

ENA

**Suggested priority for 2016/17: 5= of 9.** High priority. We believe the Authority should consider how distribution pricing could facilitate retail competition, by ensuring distribution pricing is fair, simple and consistent, and does not limit the focus of this project to the implications of emerging technology for pricing of distribution services. The Authority should look to leverage industry technical expertise and collaborate with retailers, or at the very least, the Retail Advisory Group, to deliver this project in a cost efficient and timely way.

Genesis Energy

We welcome the Authority reviewing distribution pricing in response to emerging technologies. We support the Authority continuing to play a key part in developing regulatory outcomes to ensure greater consistency and transparency in distribution pricing. To this end, we encourage the Authority to also continue its work on greater standardisation of distribution pricing structures. We would like to see the Authority include this as a focus point for 2016. The complexities in current distribution pricing structures are unnecessary and create hurdles which are time consuming and costly and could negatively impact on retail competition.

MRP

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. Nova supports the reviews currently underway.

Nova

Powerco agrees with the broad direction the Authority is pursuing with its distribution pricing review, as expressed in its current consultation paper, which is to encourage EDBs to implement more cost-reflective or "service-based" charging structures.

However, we note that the consultation paper does not refer to studies that show that consumers prefer simple and easily understandable prices. For example, a recent CSIRO study [Stenner, Karen – *Understanding likely customer response to future electricity tariff designs: Insights from behavioural economics*, CSIRO, 29 May 2015.] concluded that all the demographic and

socio-economic groups surveyed preferred flat c/kWh charges over all other methods. This sort of result suggests that retailers will find themselves under competitive pressure to re-bundle cost-reflective distribution tariffs into a form that their customers prefer, which studies such as the CSIRO work have found to be a flat rate volumetric charge. Consequently, we urge the Authority to place greater emphasis on consumer communication strategies in relation to tariff reforms as well as retailer incentives or regulatory measures that may be needed to ensure that more cost-reflective distribution charges are actually passed through to end consumers and are acceptable to them.

Powerco

In addition to helping improve the price signals to consumers, distribution pricing reform will be a key enabler of effective retail competition.

Transpower

Unison supports the inclusion of the Distribution Pricing Review project the Authority in the Work Programme and we will be providing the Authority with a separate submission on this review. Unison is also represented on the ENA's Distribution Pricing Working Group (DPWG), which was originally formed to respond to the Authority's review of distribution pricing. The group's objective is to:

“...lead and promote sensible and decisive distribution pricing reform that is consistent with the current voluntary regulatory framework applying to distribution pricing methodologies.”

This distributor-led initiative should be a key contributor to the Authority's future direction decisions in this area. Unison sees benefit in the Authority incorporating key findings and recommendations from the DWPG into the Distribution Pricing Review, particularly as the Distribution Pricing Review consultation is now much broader than simply examining the pricing principle guidelines.

Unison

*Also see comments from Pioneer Generation under the heading strategic focus and prioritisation (starting on page 12).*

### **Authority response: Distribution pricing review**

- 5.47 We note the comments on our distribution pricing work. Submitters' views on the implications of evolving technologies for pricing of distribution services consultation paper will be taken into account in developing next steps.
- 5.48 Issues with distribution pricing beyond those relating to implications of evolving technology will be looked at subsequently. Timing of this subsequent work is dependent on progress with the current scope of work. We also note that the ENA distribution pricing working group is working on standardisation relating to distribution pricing (as per their comments above). The Authority supports industry led-solutions where possible.

## Efficiency of distribution company arrangements (not covered in the consultation paper)

5.49 The following comment was made.

We recommend that the Authority reinstate its previously signalled project aimed at reviewing the efficiency of the structural arrangements for electricity distribution. We believe there is substantial potential for efficiencies to be gained from promoting the amalgamation of electricity distribution businesses (EDBs) and identifying and removing disincentives to amalgamation. The concentration index hurdle that was proposed to be applied to the deeper connection charge concept that formed part of the latest set of TPM proposals is an example of a potential distinctive to EDB amalgamation. We recommend that the Authority include in its 2016/17 work programme a project to investigate how to incentivise a more efficient distribution sector structure that would deliver long term benefits to consumers.

Powerco

### **Authority response: efficiency of distribution company arrangements**

5.50 In relation to the current pending project to review distribution company arrangements, we note that pending projects were not included in the consultation process. We will consider possible milestones and timeframes for this project during development of our 2016/17 work programme.

## Part 6: distributed generation pricing principles (project 1.9, page 30 of the consultation paper)

5.51 The following comments were made.

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.

ENA

**Suggested priority for 2016/17: 5=.** This piece of work should be complimentary to the distribution pricing review project. We suggest the Authority accurately define the problem they are seeking to resolve prior to committing to review any further parts of the code.

Genesis Energy

Project 1.9 - a review of the Part 6 (DG) pricing principles - is welcome, but we note:

- the rationale for the project (page 30) rather prejudices the conclusion when it says it will "...ensure that [the principles] are not preventing distributors from pricing and charging on a cost reflective basis." [emphasis added],
- the principles exist, at least in part, to prevent distributors from pricing in the manner that the Authority now indicates it will ensure that we can, which somewhat calls into question Part 6 of the Code in a wider sense, and
- this project will hopefully mesh well with the wider distribution pricing workstream.

Orion

We welcome the inclusion, in the Authority's work programme, of a project to review the distributed generation pricing principles in Part 6 of the Code. The Authority has recognised that small scale photovoltaic generation can drive additional network costs due, in particular, to over-voltage problems [*Implications of evolving technologies for pricing of distribution services*, Electricity Authority, 3 November 2015, para. 5.2.35, p.49 refers], but it is not clear whether or not the recovery of such additional costs via an injection tariff is permitted by Schedule 6.4 of the Code. In addition, we consider the provisions in the pricing principles that prevent distributed generation from bearing a share of the common costs of the network (and hence force these costs entirely onto other network users) to be unreasonable. We recommend that the review re-examine these requirements.

We further submit that the review project should extend to include the prescribed maximum fees set out in Schedule 6.5 of the Code. Some of these fee maxima are less than the actual costs of providing the specified services and are consequently inconsistent with the Authority's policy that charges should be service-based and cost reflective.

Powerco

Unison supports the inclusion of the Review of Part 6 (DG Pricing Principles), as these are not currently designed for the long-term benefit of consumers. This work is also directly linked with the direction and final recommendations of the Transmission Pricing Review, as well as the Distribution Pricing Review. As such, Unison recommends that the priority of this project be elevated to level 1.

Unison

**Authority response: Part 6: distributed generation pricing principles**

5.52 The work on the review of the Part 6 distributed generation pricing principles is underway. We will be seeking feedback on a problem definition and proposed amendments to the Code early in the 2016 calendar year.

**Wholesale market information** (project 2.19, page 31 of the consultation paper)

5.53 The following comment was made.

As Meridian has commented previously [submission on 2015/16 appropriations and work programme], we support the Authority working to improve **fuel information disclosure**, particularly in terms of thermal fuel price, contract, and storage information (item 2.19).

Meridian

**Authority response: Wholesale market information**

5.54 This project has two parts: a review of the 13.2A information disclosure exclusions; and a review of fuel disclosure. The WAG is leading the review of information disclosure exclusions and is scheduled to release a discussion paper in the first half of the 2016/17 financial year and give its final recommendations to the Board in the second half of the 2016/17 financial year. Any consultation on Code amendment is unlikely to occur until the first half of the 2017/18 financial year.

5.55 In 2015/16 we intend to commence development of an information paper on options for fuel information for publication in the 2016/17 financial year. As resourcing becomes available work on fuel disclosure could begin in late 2015/16. However, the main focus in 2015/16 will be on the WAG work on the 13.2A information disclosure exclusions.

**Authority response: Overall programme for efficient pricing**

5.56 We note the extensive submissions in relation to this programme, in particular from distribution companies and their representatives. We welcome working collaboratively with distributors and the ENA, and with other stakeholders, on initiatives to promote efficient pricing.

**Programme: Competition in wholesale markets including ancillary services**

**Review of frequency keeping services** (project 2.9, page 33 of the consultation paper)

5.57 The following comments were made.

As Meridian has commented previously [submission on 2015/16 appropriations and work programme], we support work to develop national frequency keeping markets (item 2.9). Meridian agrees arrangements for procurement should progress to become national rather than island-based.

Meridian

Of particular value are the refinements to the wholesale market, specifically: frequency keeping, instantaneous reserves markets, and implementation of the shortened gate closure.

Nova

***Authority response: Review of frequency keeping services***

- 5.58 We intend to continue our programme of work to develop the frequency keeping services. The introduction of new HVDC controls has fundamentally changed the way that frequency keeping is managed. In response to that change, we have moved the focus of work to developing more market-like arrangements for governor control response prior to undertaking further work on a national market.
- 5.59 The Authority and the system operator keep the industry informed of progress through the Reserve and Frequency Management (RFM) forum and the RFM engagement group.

**Review of instantaneous reserve markets** (project 2.10, page 33 of the consultation paper)

- 5.60 The following comment was made.

Of particular value are the refinements to the wholesale market, specifically: frequency keeping, instantaneous reserves markets, and implementation of the shortened gate closure.

Nova

***Authority response: Review of instantaneous reserve market***

- 5.61 Stage 2 of the review of instantaneous reserve market commenced earlier this year, and progress has been made on the definition of new instantaneous reserve products, and the proof of concept.
- 5.62 The Authority and the system operator will keep the industry informed of progress through the Reserve and Frequency Management (RFM) forum and the RFM engagement group.

**Transpower demand response protocol management** (project 2.15, page 34 of the consultation paper)

- 5.63 The following comments were made.

We encourage review of Transpower's demand response protocol management. We would like to see its operation to be more transparent in the market.

MRP

Project 2.15 - Transpower demand response protocol management - highlights to us that the paper appears to include no planned follow up

work on the Authority's recently published "Demand response guiding regulatory principles". In our submission on the principles we:

- made the general point that the principles had very ambiguous application to distributor load management and, given the central role that distributors play, we thought that this should be clearer, and
- noted, more specifically, that the very material and routine demand response that we coordinate inevitably affects the spot market, and that similar consideration should be given to the incorporation of its effects.

We further note that last year's project 2.17, Demand side response, is no longer in the work programme. We think it should be as we believe there is still a lack of clarity about how demand response is to be coordinated and prioritised.

Orion

***Authority response: Transpower demand response protocol management***

- 5.64 The Transpower demand response protocol management project is due to get underway during 2016.
- 5.65 We intend to follow up with interested parties on the demand response guiding regulatory principles, and finalise the document prior to July 2016. We will endeavour to consider, and where appropriate incorporate, comments from interested parties before the document is finalised.
- 5.66 We agree that demand response / demand management by lines companies can have a significant impact on the spot market prices. The spot market review includes a review of inputs into determination of the spot market prices and the potential for improved demand forecasts. Consideration will be given to lines companies providing inputs as part of this work.

**Improved load forecasting** (not covered in the consultation paper)

- 5.67 The following comment was made.

We would like to see budget for improved load forecasting for use in the System Operator's market dispatch and pricing. This is particularly a priority in light of the impact of distributed generation. The System Operator would benefit from the increased use of weather related information and improved capability to forecast intermittent generation and consumer demand. We would encourage the Authority to address this issue as a priority.

MRP

***Authority response: Improved load forecasting***

- 5.68 One of the spot market refinements we are exploring is an hours-ahead market. The Authority is considering alternative ways ('quick wins') of achieving the

objective of such a market, for example. improvements to the system operator's demand forecast.

## Programme: Reliability

**Review risk management incentives** (new project for 2016/17, page 36 of the consultation paper)

5.69 The following comments were made.

**Suggested priority for 2016/17: 3.** We encourage the Authority to prioritise this work to compliment the Hedge Market Development project and minimise the risk of rework later down the track.

We are pleased to see the Market Performance Team will lead the review of risk management incentives in 2016/17. Genesis Energy strongly supports this project, and encourages the Authority to engage with the Wholesale Advisory Group as early as possible.

Genesis Energy

MEUG supports the proposed new project "review risk management incentives" (p36 of the levy paper) and reference in the description of that project to reviewing various arrangements including the stress test.

MEUG

### **Authority response: Review risk management incentives**

5.70 The scope of the review of risk management incentives is expected to be determined later in the 2015/16 year. The project may either take an empirical based approach, or a more qualitative assessment, to review the calibration of risk incentives; depending on the duration that the initiatives have been in place and the quality and availability of data. No decision has been made yet whether or not to engage with the WAG on this project.

**Offer and dispatch: wind generation offers** (project initiated in 2015/16, page 36 of the consultation paper)

5.71 The following comment was made.

**Suggested priority for 2016/17: 9.** We encourage the Authority to demonstrate robust initiation processes for this project.

Genesis Energy

### **Authority response: Offer and dispatch: wind generation offers**

5.72 We have raised the priority of this project in the Authority's 2015/16 work plan but otherwise initiated the work in the normal way. The WAG has accepted this project onto its 2015/16 work plan and work is underway. We will assess the

extent of efficiency gains that could be made in wind generation offer and dispatch processes before making any changes to the current arrangements.

### **Supply capacity** (not covered in the consultation paper)

5.73 The following comment was made.

The proposed decommissioning of the coal rankine units at Huntly in 2018 has resulted in wide discussion regarding potential dry year risk and the incentives for investment in new generation. We welcome and agree with the Authority's assessment that in the near term the current market arrangements will resolve this issue without the need for regulatory intervention. However, we note that over the longer term, as we continue to increase our renewable generation, the need to consider capacity adequacy will again become the subject of debate.

While the Authority has recently dismissed the need for any further consideration of capacity mechanisms, there could be merit in facilitating discussion around potential longer term options earlier rather than later. This is particularly to ensure sufficient time to consider in an industry forum what an effective and appropriate mechanism may look like given New Zealand's unique hydro dominated system without the potential pressure of imminent capacity constraints.

MRP

### ***Authority response: Supply capacity***

5.74 We are undertaking work to ensure that the current market arrangements are operating so as to appropriately incentivise efficient investment in generation and demand response to manage dry year risk. One of the key areas is the work to further enhance trading of hedge products, and in particular, the development of an electricity price cap derivative. The introduction of an appropriately designed cap product, trading at a level that supports robust and regular pricing of the product, would be of considerable value to those parties considering investment in assets that support dry year security.

5.75 Other work relevant to supply capacity is the spot market refinements project. This project is further investigating the value of moving to spot market settlement on real time prices, and the value of introducing an ahead market. Ahead market options under consideration include and hours-ahead or a day-ahead market. The introduction of an ahead market mechanism would provide improved certainty for supply-side and demand-side operation during dry years and other scarcity situations.

## Programme: Implementation projects

**National market for instantaneous reserve implementation** (project 2.1, page 38 of the consultation paper)

5.76 The following comment was made.

As Meridian has commented previously [submission on 2015/16 appropriations and work programme], we support work to develop national instantaneous reserve markets (item 2.1). Meridian agrees arrangements for procurement should progress to become national rather than island-based.

Meridian

### ***Authority response: National market for instantaneous reserve implementation***

5.77 The sharing of instantaneous reserve between islands is now fully operational as an interim measure while implementation of all of the changes necessary to enable a full national instantaneous reserve market is being progressed. The detailed design of the necessary system changes is expected to be completed in February 2016, with commissioning currently forecast for November 2016. More information is available on the system operator<sup>4</sup> and Authority<sup>5</sup> websites.

**Extended reserves arrangements implementation** (project 2.2, page 38 of the consultation paper)

5.78 The following comment was made.

**Suggested priority for 2016/17: 7.** Defining the selection methodology and technical requirements schedule are key activities and will directly affect the success of this project; we are pleased to see the Authority will work with the sector, and encourage the Authority to make use of the working groups.

Genesis Energy

### ***Authority response: Extended reserves arrangements implementation***

5.79 The Authority expects to continue to work closely with the industry and the working groups to ensure that the new extended reserve arrangements are implemented as effectively as possible. The next round of workshops is scheduled for March 2016 and the need for further workshops will be considered as we move towards the publishing of the draft selection methodology and technical criteria for consultation.

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<sup>4</sup> <http://www.systemoperator.co.nz/activities/current-projects/reserves-and-frequency-management-rfm-programme>

<sup>5</sup> <http://www.ea.govt.nz/development/work-programme/wholesale/national-instantaneous-reserves-market/>

## **Shortened gate closure and revised bid and offer revisions provisions implementation** (project 2.11, page 39 of the consultation paper)

5.80 The following comments were made.

Meridian welcomes the Authority's decision to introduce one hour gate closure (item 2.11). We request the new arrangements are implemented as soon as practicable so that the benefits involved can begin to be realised. Meridian's view remains that a 30 minute gate closure would provide additional productivity gains and should be further investigated within 12 months of implementing the one hour standard.

Meridian

Of particular value are the refinements to the wholesale market, specifically: frequency keeping, instantaneous reserves markets, and implementation of the shortened gate closure.

Nova

### ***Authority response: Shortened gate closure and revised bid and offer revisions provisions implementation***

5.81 The timing of the implementation of shortened gate closure is currently being reviewed prior to the relevant Code amendments being gazetted. Announcements around timing will be made in due course.

## **Programme: Provision of education, models and data**

### **Consumer education programme** (project 2.4, page 41 of the consultation paper)

5.82 The following comments were made.

We agree with the initiation of a consumer education programme (item 2.4). We consider this could be of particular value in assisting consumers to engage with regulatory processes.

Meridian

Consumer education is an important area of work that the Authority has a clear mandate to carry out (e.g. promoting competition in the electricity industry for the long-term benefit of consumers). Key messages the Authority could promote in this area include communicating to consumers the benefits and durability of the current industry structure (e.g. wholesale, distribution and retail). There is also likely to be greater reliance on more detailed analysis of the costs/benefits of connecting distributed generation and other evolving technologies discussed in the recent Distribution Pricing consultation document. The Authority has a key role in selling future pricing reform to consumers, and the production of documents such as the information graphic Signposting the Future are important tools to help facilitate this. Unison strongly supports consumer education featuring in the Work

Programme, and recommends that the priority of this project also be elevated to level 1.

Unison

**Authority response: Consumer education programme**

5.83 We note the support for the consumer education programme. We will take on board the above comments in developing the 2016/17 programme.

**Post implementation reviews** (page 42 of the consultation paper)

5.84 The following comments were made in submissions.

**Suggested priority for 2016/17: 1.** We strongly support the Authority's commitment to undertake post-implementation reviews of completed major projects. However, we ask for more clarity on what historical projects will be reviewed and over what timeframe.

We strongly support this project and encourage the Authority to shift resources away from market development, and focus more on market performance and market operation. The last five years has seen the Authority make significant change to the market. Anecdotally, it seems many of the changes are delivering tangible benefits for consumers and market participants. But, to date, there have been few systematic and independent evaluations of the success of these projects. This analysis is difficult and complex, but it is necessary.

The Authority must demonstrate a stronger commitment to continuous improvement through effective review to ensure it understands the impact of its decisions, and must be more cognisant of whether it is simply creating change for the sake of change in an already complex market.

Genesis Energy

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.

Nova

We support the Authority's use post implementation reviews to establish whether expected outcomes (costs and benefits) have been achieved.

Transpower

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.

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.

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

Trustpower

### **Authority response: Post implementation reviews**

- 5.85 We note the comments about evaluating completed projects. The proposed 2016/17 work programme continues to include evaluation programmes, focusing on significant projects that have been in place for sufficient time to enable meaningful evaluation to take place.
- 5.86 We consider monitoring sector developments and the impacts of our work to be essential parts of delivering our statutory functions. The information from monitoring and evaluation provides vital feedback for the planning process. Impact measures were published in the 2014–2018 SOI and updated in the 2015/16 Statement of Performance Expectations (SPE). These impact measures are being monitored and progress will be reported in the 2015/16 Annual Report.

## **Programme: More efficient market operations**

### **Part 10 operational review** (project 2.29, page 45 of the consultation paper)

- 5.87 The following comments were made.

We are pleased to see a review of Part 10 on the Authority's agenda. Operationally this Part can be improved to make the processes more efficient for industry participants.

MRP

...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.

Implementing AMI half-hour reconciliation will enable provision of

efficient price signals particularly for residential and SME customers – a desired impact from the Authority's 'Efficient pricing' programme.

*Pioneer*

**Authority response: Part 10 operational review**

- 5.88 The operational review of metering arrangements will, amongst other things, consider meter certification and meter records accuracy issues identified during the compliance process and whether recent changes to Parts 10, and associated amendments to Parts 11 and 15, have been effective.
- 5.89 The Authority notes it is already possible for sites with AMI to be reconciled on a half-hour basis, rather than using the residual profile. We will contact Pioneer directly to discuss this further. In the event there are issues with this process the Authority will consider addressing these as part of the Part 10 operational review.

**Unmetered load** (not covered in the consultation paper)

- 5.90 The following comment was made.

We request the Authority considers initiating a review of current arrangements for unmetered load. Amongst other issues, it would be important for the review to assess how a more co-ordinated approach could be implemented and responsibilities adjusted to improve how the arrangements operate from a customer / retailer / distributor's perspective. Improvements to current reporting arrangements regarding distributed unmetered load will be one important area to consider as part of this. Previous work by industry working groups on the topic would need to be taken into account in defining other areas of focus.

*Meridian*

**Authority response: Unmetered load**

- 5.91 The project 'Review of participant audit arrangements' (project 2.31 on page of the consultation paper) is expected to address some key components of the issue identified by Meridian. In particular, the proposed changes to the distributed unmetered load audit regime are expected to improve accountability and provide for an efficient level of scrutiny. Consultation on this project closed on 22 December 2015, and final decisions are expected to be made before the end of 2015/16. Any approved changes would then be implemented in the 2016/17 year.
- 5.92 The Authority has a pending project to review the unmetered load arrangements that it will consider activating once the outcome of the review of audit arrangements is known.

**2016 Code amendment omnibus** (project 2.33, page 46 of the consultation paper)

5.93 The following comments were made.

In relation to the Authority's 2016 Code amendment omnibus we encourage the Authority to take into account stakeholder feedback on its 2015 Code amendment omnibus programme.

Transpower

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.

Trustpower

**Authority response: 2016 Code amendment omnibus**

5.94 The Authority received some useful feedback on the 2015 Code amendment omnibus programme and will take the feedback into account in progressing the 2016 Code amendment omnibus programme.

5.95 As much as is possible, the Authority takes the opportunity to 'clean up' the Code as part of all its Code design projects.

**Consultation on the implementation of the new disconnection policy** (not covered in the consultation paper)

5.96 The following comments were made.

New Code provisions (clause 14.49) have been created that require direct purchase customers to be disconnected if they default in the wholesale market, but, despite the significance of this requirement, the Authority has created no policy or procedure to guide the exercise of this power.

The Authority has previously advised that it intended to undertake further consultation on the disconnection procedures and the role of court injunctions in those processes, but this project appears to have been dropped from the Authority's work programme. We recommend that this work area be reinstated.

Powerco

Omitted from the work programme is the Authority's planned consultation on the disconnection of direct purchasers. This consultation relates to new Code provisions (14.49), which were decided on in December 2013 and came into effect in March 2015, providing for disconnection of direct purchasers following an event of default. When it decided to change the Code the Authority stated in its market brief:

“The Authority intends to undertake consultation early next year to seek further views on disconnection procedures for direct connect consumers that purchase their electricity from the clearing manager.”

As indicated by the decision paper this would include an exploration of the role of court injunctions in those processes. This consultation has not yet occurred.

In practice this means that the Code, and corresponding Benchmark Agreement provisions, provide for disconnection of direct purchaser customers in situations of default in the wholesale market, but there is no specification of the policy or procedure governing the exercise of this grave power (or how the directed party, potentially ourselves, is expected to apply the direction).

We consider the present situation to be unsatisfactory and with potentially serious unintended consequences. We encourage the Authority to follow through on its December 2013 commitment.

Transpower

### ***Authority response: Review of trader default arrangements for direct connected participants***

5.97 The Authority has conducted preliminary investigations,<sup>6</sup> including through engaging directly with some affected parties, and agrees that the arrangements for the disconnection of direct purchasers could benefit from being reviewed to ensure the policy intentions are met. For the policy intentions to be met, the arrangements must be practicable, well understood by relevant participants and efficiently provide the expected level of security. The potential role of court injunctions is included in the scope of this review. Work will continue during 2015/16 as time and budget permits. In the event the work is not able to be completed in 2015/16 the project will be considered for prioritisation as a standalone project in 2016/17.

## **6 Other matters raised in submissions**

- 6.1 Other matters were raised in submissions that were not directly related to the setting of 2016/17 appropriations, development of the SPE, or development of the work programme. These matters have been addressed below.
- 6.2 Where these comments impact consideration of the appropriations proposal, these have been considered as part of developing the recommendations to the Minister. Most of the comments that follow will be addressed in the development of our work programme for 2016/17. Others will be addressed in the normal course of business.

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<sup>6</sup> As part of the project ‘Review of trader default arrangements for direct connected participants’, project 2.27 on the Authority’s 2015/16 work programme.

## Project management and transparency

6.3 The following comments were made.

### Transparency in cost and accountability

It is unclear how the Authority has attributed costs to each project, and whether the projects represent value for money. We again ask the Authority to provide an estimate of costs to date, and expected future costs, for each of the individual projects and programmes. This information is essential to understand and evaluate the Authority's performance in delivering these projects – particularly over multiple financial years.

### Getting it right from the outset

As previously raised, we believe the Authority can operate more efficiently through improved project initiation practises. As part of the project planning process, we would suggest that the Authority:

- clearly identify the problem they are trying to address through early engagement with the sector and consumers, or at the very least, through working group channels;
- complete high quality cost benefit analysis at the initial consulting stage; and
- engage with key stakeholders early on in the planning process to identify alternatives for consideration.

This will minimise the cost of initiating projects which are later deemed to not be feasible to complete due to resource constraints or lack of cohesion.

We encourage the Authority to adopt these practices as soon as possible, and note three key projects in the 2016/17 work programme where there is significant opportunity and benefit to be gained by engaging with stakeholders at the onset.

Genesis Energy

We would appreciate the same level of transparency as provided in the same consultation paper for the 2015/16 appropriation, which provided a breakdown of the total operating expenses for the Authority.

In paragraph 2.1.12 of the Consultation Paper describes how the Authority is going to seek a change to the current year's appropriation to spread what was assumed to be an annual cost of \$4million over 8-9 years. We presume this change will result in a refund of the levy collected to fund that \$4million in 2015/16.

Pioneer

## Transparency of costs and benefits for individual projects

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.

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.

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.

Trustpower

### **Authority response: Project management and transparency**

- 6.4 The Authority notes the comments on project management transparency and practice. We are looking at how we can improve our project management practice and will take these comments on board in this work.
- 6.5 We consider that the level of budget detail provided in the consultation paper is appropriate. The same level of detail is provided in the published SPE and annual reports.
- 6.6 It should also be noted that, at the stage of consultation on our appropriations and work programme, it is at least nine months before the project work involved is to take place. The degree of accuracy of any costing at that stage would therefore be limited.
- 6.7 In addition, the Authority's approach is to be very transparent about the areas it intends to investigate. New projects added to our work programme usually involve an initial consultation paper on what the problem is and whether it is likely to be material. Until those matters have been considered, it is not meaningful to undertake a cost-benefit analysis, even at a high level.
- 6.8 In relation to the comment on amortisation costs, resulting in a transfer from 2015/16, it should be noted that levy payers only fund costs to the extent that they are actually incurred. If costs are transferred from 2015/16 to out-years, these will not be a charge to the levy during 2015/16. If the amount collected in the year turns out to exceed the actual costs there will be a refund to levy payers as part of the annual reconciliation of the 2015/16 levy.

## Joint development programme

6.9 The following comment was made.

We consider market participants may provide a useful source of information on potential costs and priorities for the Joint Development Programme and should be consulted as part of its preparation.

Meridian

### **Authority response: Joint development programme**

- 6.10 Generally speaking, the Joint Development Programme (JDP) reflects the priorities established by the Authority through consultation with the industry (including consultation on the proposed appropriations and work programme).
- 6.11 The only items on the JDP that do not reflect our work programme are the initiatives identified by Transpower that are required for it to fulfil its obligations as system operator.
- 6.12 It is expected that the new SOSPA arrangements (see the discussion under 'Market operations service provider costs', at paragraphs 4.8 to 4.12 above) will provide for increased engagement with participants on the complete development programme.

## Consultation process

6.13 The following comments were made.

One thing that would be helpful for our review in the future is being able to identify key changes from previous years. We note that the project numbering can change from year to year, and projects that are on the list one year may not be on it the next. It would be good to know what happened to them, and why. An example is last year's project 1.8: a review of the low fixed charge regulations via the RAG. This may have been subsumed into 2015/16 project 1.7 – Distribution pricing review - but we cannot tell this from the description of 1.7.

Orion

We appreciate the opportunity to comment on the 2016/17 work programme and look forward to supporting the Authority in its delivery.

We recognise and appreciate efforts by the Authority to communicate with and engage its stakeholders. We consider the Authority has made gains in this respect in 2015/16.

Transpower

### **Authority response: Consultation process**

- 6.14 The Authority notes the comments on identification of key changes from previous years. We acknowledge that including the 2015/16 project numbers only goes

part way to addressing this request. We will give this matter further consideration for future consultation rounds.

- 6.15 It is noted that this consultation did not seek to highlight all projects, just the proposed key projects for 2016/17. Therefore some projects from 2015/16 are not listed, but will continue into 2016/17 if not completed in 2015/16. This includes the review of the low fixed charge regulations. Minor projects not included in the consultation process, will be considered for inclusion in the final work programme.
- 6.16 It should be noted that, even after finalisation of our work programme, the nature of the work involved means that the work programme is reviewed and updated during the year to ensure it is as up-to-date and accurate as possible.

## Glossary of abbreviations and terms

<b>Act</b>	Electricity Industry Act 2010
<b>AEMO</b>	Australian Electricity Market Operator
<b>Authority or EA</b>	Electricity Authority
<b>AMI</b>	Advance metering infrastructure
<b>ASX</b>	Australian Securities Exchange
<b>BAU</b>	Business as usual
<b>CBA</b>	Cost benefit analysis
<b>Code</b>	Electricity Industry Participation Code 2010
<b>CPI</b>	Consumer price index
<b>CRE</b>	Competition, reliability and efficiency (components of the Authority's statutory objective)
<b>CSIRO</b>	Commonwealth Scientific and Industrial Research Organisation
<b>DDA</b>	Default distributor agreement
<b>DG</b>	Distributed generation
<b>DPWG</b>	Distribution Pricing Working Group
<b>EDB</b>	Electricity distribution business
<b>EECA</b>	Energy Efficiency and Conservation Authority
<b>ENA</b>	Electricity Networks Association
<b>EIEP</b>	Electricity information exchange protocol
<b>EV</b>	Electric vehicle
<b>FTR</b>	Financial transmission right
<b>FYE</b>	Fiscal year end
<b>HVDC</b>	High voltage direct current
<b>IRD</b>	Inland Revenue Department
<b>JDP</b>	Joint development programme
<b>LFC Regulations or LUFC Regulations</b>	Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004
<b>MBIE</b>	Ministry of Business, Innovation and Employment
<b>MEUG</b>	Major Electricity Users' Group
<b>Minister</b>	Minister of Energy and Resources
<b>MOSP</b>	Market operation service providers
<b>MRP</b>	Mighty River Power
<b>MUoSA</b>	Model use-of-system agreement
<b>OTC</b>	Over the counter
<b>PV</b>	Photovoltaics
<b>RAG</b>	Retail Advisory Group
<b>RFM</b>	Reserve and frequency management
<b>SO</b>	System operator

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<b>SOI</b>	Statement of Intent
<b>SOSPA</b>	System operator service provider agreement
<b>SPE</b>	Statement of Performance Expectations
<b>SME</b>	Small and medium sized enterprise
<b>TPM</b>	Transmission pricing methodology
<b>UoSA</b>	Use-of-system agreement
<b>VoLL</b>	Value of lost load
<b>WACC</b>	Weighted average cost of capital
<b>WAG</b>	Wholesale Advisory Group
<b>WITS</b>	Wholesale information trading system

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