

Reorienting advisory groups

Consultation paper

Submissions close: 20 September 2016

9 August 2016



Executive summary

The Authority has decided to disestablish the Wholesale Advisory Group (WAG) and the Retail Advisory Group (RAG), and is proposing to establish two new advisory groups. We consider this is necessary to keep up with evolving technologies and innovative business models, which are increasingly blurring the traditional demarcation between retail, wholesale and transport; making it less relevant and useful to organise activities around those categories.

The Authority is seeking submissions on two proposals:

1. To establish two new advisory groups:
 - Innovation and Participation Advisory Group (IPAG), focussing on issues specifically related to new technologies and business models, and consumer participation
 - Market Development Advisory Group (MDAG), focussing on further evolving the 'machinery' of the electricity markets.
2. To replace the Charter for Advisory Groups (charter) and the Security and Reliability Council's (SRC) terms of reference with new versions, and create new terms of reference for the IPAG and MDAG.

Under the Electricity Industry Act 2010 (Act), the Authority must have at least one advisory group, in addition to the SRC. The Authority considers its statutory objective will be supported by its proposal to establish the two new advisory groups, because it would ensure that the Authority:

- gets the best interactions from parties that can assist it in supporting its statutory objective
- can quickly identify and work to remove any inefficient barriers that might inhibit innovation in how electricity is generated, stored, transported, and purchased.

The Authority has developed draft terms of reference for the MDAG and IPAG that capture their respective proposed scope of work. In preparing these terms of reference, the Authority has taken the opportunity to update and streamline all of the documents governing advisory groups (the charter and each group's terms of reference).

Changes have been made to the draft charter and draft terms of reference for the SRC. These draft documents do not include any changes to the high-level purpose or function of the SRC or other advisory groups. The changes made predominantly relate to the structure of the documents and the location of content. Some relatively minor changes made to the content itself, mainly concerning the day-to-day administration and operation of advisory groups. The proposed terms of reference for the two new advisory groups have been drafted to be consistent with the changes made to the charter and terms of reference for the SRC.

The changes will ensure that the SRC and all other advisory groups have appropriate arrangements in place concerning their governance and operation.

The Authority considers that its proposal to introduce a new charter and new terms of reference for each advisory group will facilitate the effective functioning of the SRC and other advisory groups, and the provision of high quality advice to the Authority.

Contents

Executive summary	ii
1 What you need to know to make a submission	4
1.1 What this consultation paper is about	4
1.2 How to make a submission	4
1.3 By when you should make your submission	4
2 The Authority will establish new advisory groups	6
2.1 The Authority is consulting on two proposed new advisory groups	6
2.2 The objective of the proposal is to better account for evolving technologies	6
2.3 The proposed groups will align with the Authority's statutory objective and its re-oriented work programme	7
2.4 Details of the proposed IPAG	8
2.5 Details of the proposed MDAG	10
3 The Authority proposes a new charter and terms of reference	13
3.1 The Authority is consulting on a proposal to replace the charter and provide new and updated terms of reference for each advisory group including the SRC	13
3.2 The Authority's proposal is the result of a full review of the documents	14
3.3 The Authority proposes an updated and streamlined charter	15
3.4 The Authority proposes new terms of reference	16
3.5 The objective of the proposal is to support efficient operation of the sector	18
4 The Authority has evaluated its two proposals	19
4.1 The Authority's view is that the benefits outweigh the costs	19
4.2 The Authority's view is that the proposal is preferable to alternatives	20
Appendix A Format for submissions	21
Appendix B Charter for advisory groups	22
Appendix C Terms of Reference for the Innovation and Participation Advisory Group	23
Appendix D Terms of Reference for the Market Development Advisory Group	24
Appendix E Terms of Reference for the Security and Reliability Council	25
Glossary of abbreviations and terms	26

1 What you need to know to make a submission

1.1 What this consultation paper is about

1.1.1 This paper seeks views on two related proposals:

- a) To establish an IPAG and MDAG: These two new advisory groups would replace the WAG and RAG, which the Authority has decided to disestablish. Draft terms of reference for the two new advisory groups are provided for comment. The Authority is particularly interested in comments around the proposed focus and scope of the groups.
- b) To replace the existing versions of the charter for advisory groups and the SRC's terms of reference with revised versions: In preparing terms of reference for the proposed new advisory groups, the Authority has taken the opportunity to update and streamline all of the documents governing advisory groups.

1.2 How to make a submission

1.2.1 The Authority invites you to make a submission on this paper.

1.2.2 Please note the Authority wants to publish all submissions it receives. If you consider that it should not publish any part of your submission, please indicate which part, set out the reasons why you consider the Authority should not publish it, and provide a version of your submission that the Authority can publish (if it agrees not to publish your full submission).

1.2.3 If you indicate there is part of your submission the Authority should not publish, the Authority will discuss it with you before deciding whether to publish that part of your submission.

1.2.4 However, please note that all submissions the Authority receives, including any parts that it may not publish, can be requested under the Official Information Act 1982. This means the Authority would be required to release them unless good reason existed under the Official Information Act to withhold them.

1.2.5 The Authority would prefer to receive submissions in electronic format (Microsoft Word) in the format shown in Appendix A. Submissions in electronic form should be emailed to submissions@ea.govt.nz with "Re-orienting advisory groups" in the subject line.

1.2.6 If you cannot send your submission electronically, post one hard copy to either of the addresses below.

Postal address

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

Physical address

Submissions
Electricity Authority
Level 7, ASB Bank Tower
2 Hunter Street
Wellington

1.3 By when you should make your submission

1.3.1 You should deliver your submission by email or otherwise so it arrives by **5pm** on **20 September 2016**. Please note we are unlikely to consider late submissions.

1.3.2 We will acknowledge receipt of all submissions electronically. Please contact the Submissions Administrator if you do not receive electronic acknowledgement of your submission within two business days.

2 The Authority will establish new advisory groups

2.1 The Authority is consulting on two proposed new advisory groups

2.1.1 Under section 21 of the Electricity Industry Act 2010 (Act), the Authority is required to establish at least one advisory group in addition to the SRC.

2.1.2 The Authority is currently supported by the SRC and two other advisory groups:

a) **Retail Advisory Group (RAG)**, which focuses on the relationships between the retailer, distributor, and consumer.

b) **Wholesale Advisory Group (WAG)**, which focusses on the design of the wholesale electricity market, including the spot market for electricity, markets for ancillary services, and the hedge market for electricity.

2.1.3 The Authority has decided to reorient its advisory groups, and will be disestablishing the RAG and WAG once they have completed their existing work programmes.

2.1.4 The Authority is proposing to establish two new advisory groups:

a) **Innovation and Participation Advisory Group (IPAG)**: This group would focus on issues that directly affect consumers. Specifically, it would focus on issues inhibiting the entry and participation of evolving technologies and new business models in the electricity industry. It would also focus on enhancing consumer participation and choice.

b) **Market Development Advisory Group (MDAG)**: This group would focus on further evolving the 'machinery' of the electricity markets. This would include issues such as improving price signals and enhancing risk management markets, including the ancillary service markets.

2.1.5 Both groups would cover the entire electricity supply chain and future innovations across it.

2.1.6 New terms of reference will be established for each group (discussed in section 3), and the Authority will seek nominations for all members, including chairpersons of the two groups.

2.2 The objective of the proposal is to better account for evolving technologies

2.2.1 To date, much of the Authority's market development work has reflected the traditional demarcation between the retail market, the wholesale market, and transport activities in the electricity sector. The Authority's work programme has been broadly structured around these activities, as have its two standing advisory groups, the WAG and RAG.

2.2.2 However, the electricity industry faces potentially far-reaching changes from evolving technologies. These technologies could create a wide range of options for how electricity is generated and used, giving consumers far greater choice and individual control. It could also have significant implications for market participants, with the potential for new players to enter and grow market share.

2.2.3 The Authority has found the advice of its existing advisory groups invaluable in supporting its market development activities. However, it considers that evolving technologies and innovative business models are increasingly blurring the traditional

demarcation between retail, wholesale and transport, making it less relevant or useful to organise its activities around those categories.

2.2.4 Consistent with the Authority's thinking, the advisory groups themselves highlighted to the Authority in March 2016 that their respective tasks were increasingly overlapping, and that the wholesale/retail split was becoming less fit-for-purpose.

2.2.5 The Authority considers that reorienting its advisory groups will ensure it:

- a) gets the best interactions from parties that can assist it in supporting its statutory objective
- b) can quickly identify and remove any inefficient barriers that might inhibit innovation in how electricity is generated, stored, transported, and purchased.

2.3 The proposed groups will align with the Authority's statutory objective and its re-oriented work programme

2.3.1 The Authority is focussed on its statutory objectives to promote competition, reliability, and efficiency in the electricity sector for the long-term benefit of consumers. To break down this objective into a day-to-day approach to its work, the Authority:

- a) developed four long-term Strategic Directions for Market Development¹
- b) interpreted these in a more detailed medium-term strategy, which is published in its Statement of Intent²
- c) applied this strategic focus to the development of a detailed annual work programme, setting out key projects for market development and the Authority's ongoing functions.

2.3.2 The proposed advisory groups have been designed to support the Authority's statutory objective, and help it implement its work programme.

2.3.3 Until recently, the Authority's work programme was structured around traditional retail/wholesale activities. However, to account for the implications of evolving technologies and innovation in the electricity sector, the Authority has reoriented its work programme for 2016/17. That document was published on 28 June 2016.³

2.3.4 The 2016/17 work programme draws a more direct link between the Authority's strategic focus and how that is implemented. The Authority's projects are now oriented around five market development programmes as follows:

- a) **Evolving technologies and business models:** This programme covers initiatives to reduce barriers to development and use of evolving technologies and business models across the supply chain. This includes barriers that secondary networks and distributed generation experience when dealing with distributors.
- b) **Consumer choice and competition:** This programme covers initiatives to promote competition and empower consumer choice through the retail market.
- c) **Pricing and cost-allocation:** This programme covers initiatives to promote efficient pricing in markets, and for monopoly services.

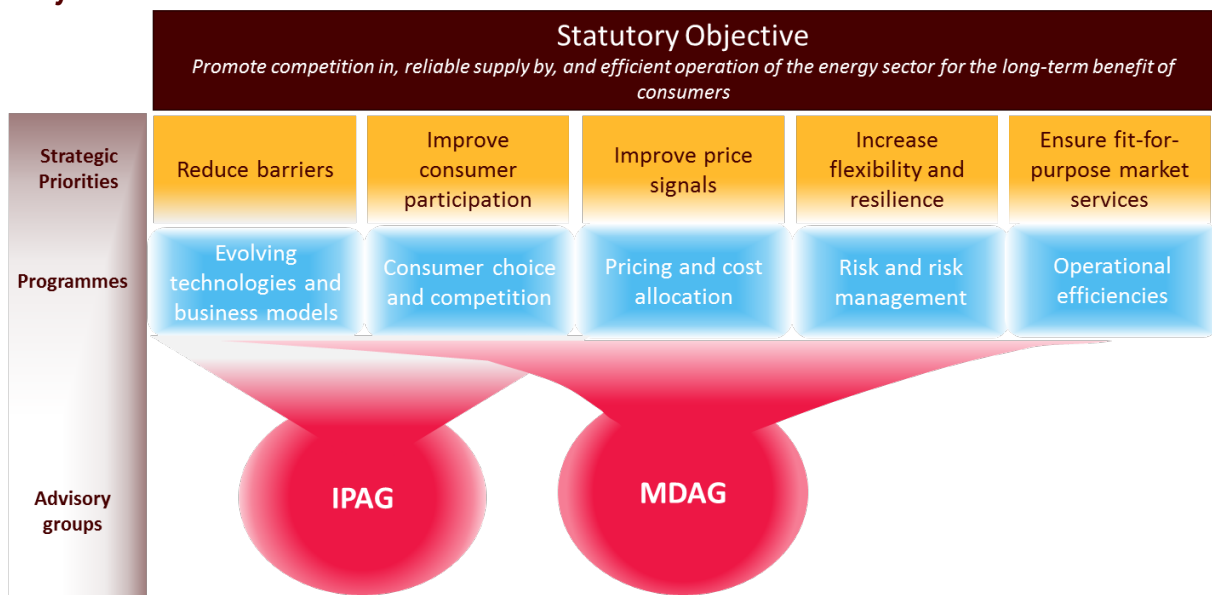
¹ Consulted on and published in 2013. See

² See: <https://www.ea.govt.nz/dmsdocument/18171>

³ See <http://www.ea.govt.nz/dmsdocument/20821>

- d) **Risk and risk management:** This programme covers initiatives to promote efficient management of capacity and energy risks through the spot market for electricity, markets for ancillary services, and the hedge market for electricity - including the market for financial transmission rights.
 - e) **Operational efficiencies:** This programme covers initiatives to improve the operation of the electricity markets that are not covered in the above programmes.
- 2.3.5 There is also an existing Compliance work programme, which covers initiatives to improve participant compliance with the Act, Electricity Industry (Enforcement) Regulations 2010 (Regulations), and the Electricity Industry Participation Code 2010 (Code).
- 2.3.6 Figure 1 below demonstrates how the Authority proposes to use the new advisory groups to support its statutory objective, by mapping them to the work programme and the strategies for market development.

Figure 1: How the proposed advisory groups will support the Authority’s statutory objective



2.4 Details of the proposed IPAG

Purpose of the IPAG

- 2.4.1 The IPAG would be responsible for advising the Authority on matters relating to evolving technologies and business models; and consumer choice and competition.
- 2.4.2 The IPAG would provide independent advice to the Authority (whether in the form of findings or recommendations) that was evidence-based and consistent with the Authority’s statutory objective.

Scope of activities

- 2.4.3 The proposed scope of the IPAG’s activities would be the projects under the programmes in paragraph 2.3.4a) and b) above. This means the IPAG would consider initiatives to:

- a) reduce inefficient barriers to the development and use of evolving technologies and business models across the supply chain
 - b) promote consumer participation through the retail market.
- 2.4.4 Projects in the Authority’s 2016/17 work programme that could be assigned to the IPAG might include:
1. **Data and data exchange:** The electricity market relies on the exchange of information, particularly financial information, between participants and service providers. The Authority wants to make sure that data and data exchanges deliver the highest long-term benefits for consumers, particularly given the potential for more, and more diverse, participation in electricity markets, including by ‘prosumers’.
 2. **Barriers to mass-market participation in electricity markets:** Participation in electricity markets requires a set of relationships between parties. For example, a ‘prosumer’ wanting to sell electricity directly into the wholesale market will have relationships with the distributor and with the clearing manager and related service providers. The Authority wants to remove or minimise barriers to small scale providers of distributed energy resources or demand response.
- 2.4.5 These projects could be appropriate for the IPAG because:
- a) they are in the initiation phase
 - b) the issues relate to the potential for a transition away from the traditional ‘bulk supply’ of electricity, to a distributed approach involving many, diverse, and small suppliers.

Membership of the proposed IPAG

- 2.4.6 The Authority proposes that the IPAG would operate in quite a different way from the Authority’s existing advisory groups.
- 2.4.7 The IPAG would have a membership comprising people with an interest and expertise in:
- a) the electricity sector, and
 - b) evolving technologies and business models, and/or
 - c) consumer choice and competition.
- 2.4.8 However, IPAG’s membership may be significantly broader than that of RAG and WAG, whose members have tended to come from the “traditional” aspects of the electricity market. The IPAG would be more likely to achieve its purpose if its members had a more diverse array of backgrounds.
- 2.4.9 Members could be drawn from:
- a) information technology firms interested in the electricity sector
 - b) technology firms supplying consumers with electricity-related products and services, such as whitegoods or home energy management systems
 - c) researchers, either at universities or firms
 - d) electricity generators, retailers and distributors

- e) aggregators of demand response and distributed energy resources.
- 2.4.10 Members would need to have a consumer-centric view of issues. However, this does not mean that all members would need to come from an organisation that represents consumers. IPAG could gain the necessary insight into consumer's views through surveys, focus groups, and targeted consultation.
- 2.4.11 The Authority does not yet have a view about the appropriate number of members for the IPAG. It may be that the IPAG's purpose would be best achieved by a group of 10–15 people that contributed to all topics. Alternatively, it may be better served by a larger pool of members from a variety of backgrounds, who contributed to specific projects on a case-by-case basis (ie, an advisory panel-type approach).
- 2.4.12 The Authority is interested in stakeholder views on the IPAG membership. In particular, we are interested in views about how the Authority could motivate people that have not traditionally been part of the electricity sector to be involved in the group.

How the IPAG will operate

- 2.4.13 The Authority does not yet have a firm view on how the IPAG should operate. While the Authority has allowed advisory groups to establish their own procedures to some degree, groups have generally operated through formal face-to-face meetings.
- 2.4.14 However, the Authority envisions that the IPAG may need to operate in a less formal and more dynamic way. Specifically:
 - a) A larger group might require more flexibility regarding where and how it meets, possibly relying more heavily on technology to interact with each other and share ideas. For example, it may decide it is best to develop its advice via facilitated workshops, webinars, or online discussions.
 - b) IPAG may need to interact with stakeholders in innovative, immediate, and technology-driven ways to seek feedback from less traditional industry participants.
- 2.4.15 The key consideration will be how to easily and effectively allow IPAG members to contribute to the group's activities.
- 2.4.16 The Authority is interested in stakeholder views on how the IPAG should operate to best achieve its purpose.

- Q1. What feedback do you have on the proposed IPAG, including its purpose and scope?**
- Q2. What are your views on the membership of IPAG, and how to engage the sorts of parties that will ensure it can achieve its purpose?**
- Q3. What are your views as to how the IPAG might operate, so as to best achieve its purpose?**

2.5 Details of the proposed MDAG

Purpose of the MDAG

- 2.5.1 The MDAG would be responsible for advising the Authority on matters relating to the 'machinery' of the electricity markets. This would include issues of pricing and cost

allocation, risk and risk management, and other issues that might support operational efficiencies.

- 2.5.2 The MDAG would provide independent advice to the Authority (whether in the form of findings or recommendations) that was evidence-based and consistent with the Authority's statutory objective.

Scope of activities

- 2.5.3 The Authority proposes that the MDAG's scope would primarily relate to activities under the programmes in paragraph 2.3.4c) to 2.3.4e) above. This means the MDAG would generally be considering initiatives to:

- a) promote efficient pricing in markets and for monopoly services
- b) promote efficient management of capacity and energy risks
- c) increase the efficiency of electricity market operations.

- 2.5.4 The MDAG would cover all aspects of the electricity supply chain.

- 2.5.5 Some of the issues under its consideration would inevitably have some relationship to innovation and participation in the electricity sector. When considering such issues, MDAG would be expected to maintain a view of the potential effects of, and for, innovation, participation and consumer choice. However, it would not be immediately focussed on *facilitating* innovation, participation, or consumer choice.

- 2.5.6 Projects in the Authority's 2016/17 work programme that could be assigned to the MDAG might include:

1. **Dispatchable demand: conforming nodes.** Dispatchable demand has been taken up by one participant (large industrial electricity consumer) at a conforming node. Other parties have shown an interest in bidding dispatchable demand, but some changes to the Code may be required to facilitate this for non-conforming nodes. A specific change under consideration would be to allow demand aggregators to aggregate load over several nodes and several retailers.
2. **Review of wholesale market trading arrangements.** Part 13 of the Code relates to wholesale market trading. This includes the spot market, scheduling, offering, dispatch, pricing, hedge market and FTR trading. The initial phase of this project would be to establish at a high-level an improved approach to structuring Part 13. This would include identifying any problem areas, considering whether it would be appropriate to make this Part of the Code less prescriptive and more outcomes based (without losing accuracy, certainty and timeliness), and whether it would be advantageous to shift some of the detail into schedules, for example. It might also be appropriate to shift other parts of the Code into Part 13. One important consideration is to ensure the wholesale trading arrangements do not contain any unnecessary barriers to new technology.

- 2.5.7 These specific projects could be appropriate for the MDAG because:

- a) they are in the initiation phase
- b) they relate to improvements in the existing machinery of the electricity market.

Membership and operation of the MDAG

- 2.5.8 The Authority anticipates that MDAG will operate in a similar way to the RAG and WAG.
- 2.5.9 It would normally have a membership of ten people, with deep experience and interest in the electricity sector.
- 2.5.10 The MDAG would also operate in a more 'traditional' manner, largely relying on face-to-face meetings. However, the group would continue to be able to set its own procedures, and the Authority would allow reasonable flexibility around this. In particular, the Authority would support the group in making greater use of technology to meet and share ideas where effective.

Q4. What feedback do you have on the proposed MDAG, including its purpose and scope?

Q5. What are your views as to the membership of the MDAG, and how it should operate?

3 The Authority proposes a new charter and terms of reference

3.1 The Authority is consulting on a proposal to replace the charter and provide new and updated terms of reference for each advisory group including the SRC

Advisory groups are governed by a charter and terms of reference

3.1.1 There is a hierarchy of documents that govern the Authority's advisory groups:

1. **Electricity Industry Act 2010**⁴ requires the Authority to:

- (i) appoint a SRC to provide it with advice on the performance of the electricity system and the system operator
- (i) establish one or more advisory groups to provide independent advice to the Authority on the development of the Code and on market facilitation measures
- (ii) make, and make publicly available, a charter for advisory groups.

2. **Charter for Advisory Groups** sets out, for both the SRC and other advisory groups:

- (i) how the Authority will establish and interact with the SRC and advisory groups
- (ii) when and how it will consult with the SRC and advisory groups on material changes to the Code
- (iii) how the SCR and advisory groups must operate, including provisions concerning procedure.

3. **Terms of reference for each group**, which outline their specific operational and governance matters, including the SRC and each advisory group's role and responsibilities.

The Authority proposes to replace the current documents with updated versions

3.1.2 In preparing the terms of reference for the proposed new advisory groups, the Authority has taken the opportunity to update and streamline all of the terms of reference for advisory groups and the charter governing advisory groups.

3.1.3 The Authority proposes to:

- a) **replace the current charter with an updated version** (included in Appendix B).
- b) **introduce new terms of reference for the IPAG** (Appendix C) and **MDAG** (Appendix D)
- c) **replace the current terms of reference for the SRC with an updated version** (included in Appendix E).

⁴ See sections 19–21 of the Act: <http://www.legislation.govt.nz/act/public/2010/0116/latest/DLM2634233.html>

- 3.1.4 Under the Act, the Authority must consult interested parties on a draft charter before making a charter. The Authority is also consulting on all of the terms of reference in this instance because:
- a) some of the changes made to the terms of reference relate to changes made to the charter
 - b) the terms of reference for each advisory group cover the scope of the group's roles, membership, and operation, and the Authority is seeking feedback on these issues for the new advisory groups
 - c) an existing provision in the charter anticipates that the Authority will consult interested parties on an advisory group's terms of reference before calling for nominations for members.
- 3.1.5 The new charter and terms of reference that are proposed to replace the existing documents have not been shown with revision marks. This is because there has been significant movement within and between the documents, and various changes to improve and simplify the drafting (eg, collapsing multiple paragraphs into bullet points), which would be hard to follow with all changes tracked. However, current versions of the documents are available on the Authority's website, if submitters wish to compare the two versions.⁵

3.2 The Authority's proposal is the result of a full review of the documents

The review sought to improve the clarity and relevance of the documents

- 3.2.1 The Authority has taken the opportunity to conduct a broad review of the charter and the terms of reference, including the SRC terms of reference. The draft terms of reference for the proposed IPAG and MDAG reflect this review.
- 3.2.2 The Authority reviewed the documents because:
- a) several provisions lack clarity or purpose, or are unnecessarily wordy
 - b) there is a large amount of repetition between the charter and the terms of reference for each group, making it unclear how the documents work together and which provisions take precedence
 - c) some of the provisions in the terms of reference do not line up with how the groups operate in practice, or do not contemplate situations that have arisen in recent years.
- 3.2.3 In updating the documents, the Authority's broad approach was to:
- a) ensure a clear delineation in the purpose of the charter and the terms of reference, and reduce repetition between the documents as much as possible

⁵ See:

- The Charter for Advisory Groups: <http://www.ea.govt.nz/about-us/strategic-planning-and-reporting/foundation-documents/#ag-charter>
- Retail Advisory Group Terms of Reference: <http://www.ea.govt.nz/dmsdocument/10325>
- Wholesale Advisory Group Terms of Reference: <http://www.ea.govt.nz/dmsdocument/10323>
- Security and Reliability Council Terms of Reference: <http://www.ea.govt.nz/dmsdocument/9705>

- b) standardise the drafting of the terms of reference for all groups to the extent appropriate
 - c) group together any provisions in the various terms of reference that are, and are likely to remain, consistent across different groups to help make the differences between the documents more clear.
- 3.2.4 The updated documents do not include any changes to the high-level purpose or function of the SRC or advisory groups. The majority of the changes would improve readability and reduce uncertainty, rather than change the practical effect of the charter or the terms of reference.

The revised documents are structured around a delineated purpose

- 3.2.5 The Authority has sought to maintain the charter as a high-level policy document, which outlines the broad principles the Authority intends to follow in working with the SRC and advisory groups, and seeking their advice. Therefore, it has generally included material in the charter if it:
- a) is required by the Act (see section 3.1)
 - b) relates to an obligation, permission, or limitation on the Authority Board. For example, this includes provisions around:
 - (i) what the Authority should / will do with advice it receives
 - (ii) the extent to which the Authority will ensure support for groups' operation
 - c) relates to an expectation, permission, or limitation on the SRC or any advisory group as a whole. For example, this includes provisions about:
 - (i) obligations to report to the Authority
 - (ii) providing consensus recommendations
 - d) would be appropriate to consult on were it to change, given the Authority's obligation under the Act to consult on the charter.
- 3.2.6 The Authority has structured the terms of reference as the 'contract' between the Authority and the relevant group and its members, outlining the scope of work and administrative arrangements. Therefore, it has generally included material in the terms of reference if it:
- a) is, or might be, specific to the SRC or an individual advisory group
 - b) relates to the day-to-day operation of the SRC or an advisory group, and its interactions with the Authority and its staff
 - c) relates to an expectation, permission, or limitation of individual members of the SRC or an advisory group – rather than the group as a whole – since they are appointed under the terms of reference.

3.3 The Authority proposes an updated and streamlined charter

- 3.3.1 The Authority proposes replacing the current charter with an updated and more streamlined version.
- 3.3.2 None of the changes from the current charter are expected to have material consequences. The key changes are summarised here, and it is important to note that

the list is not exhaustive, and submitters should refer to the proposed charter in Appendix B for a complete understanding of the changes.

3.3.3 Key differences between the existing and proposed new charter include:

- a) some aspects have been restructured to better align with the requirements of the charter as outlined in the Act
- b) duplication with relevant provisions in the Act has been removed
- c) some material has been moved from the charter to the terms of reference, as per the discussion in paragraphs 3.2.5 and 3.2.6, including:
 - (i) membership criteria
 - (ii) provisions relating to agreeing work plans
 - (iii) some aspects of the chairperson role
 - (iv) arrangements for media relations
- d) the drafting of the SRC role in providing advice and recommendations to the Authority has been simplified
- e) unnecessary duplication with relevant provisions in the Authority's consultation charter has been removed
- f) provisions relating to the establishment and operation of working groups have been expanded, using material previously located in advisory group terms of reference
- g) a provision requiring the Authority to consult with interested parties on the terms of reference prior to calling for nominations has been removed, as it presents an undue barrier to updating the terms of reference, and calling for nominations.

3.4 The Authority proposes new terms of reference

The Authority has drafted terms of reference for the proposed advisory groups

3.4.1 The Authority proposes introducing new terms of reference for its two proposed advisory groups (Appendix A, Appendix C and Appendix D), consistent with its proposal in section 2.

3.4.2 In preparing the terms of reference:

- a) the broad structure and content has been determined as per the discussion in section 3.2
- b) the scopes of the roles, membership, and operation of the IPAG and MDAG have been drafted in line with the discussion under sections 2.4 and 2.5
- c) the existing terms of reference for the WAG and RAG have informed the 'boiler plate' provisions, subject to the changes discussed in the following section.

The Authority proposes revised terms of reference for the SRC

3.4.3 Following its review discussed in section 3.2, the Authority proposes replacing the current terms of reference for the SRC with an updated and streamlined version.

- 3.4.4 Some of the provisions in the terms of reference that have applied to the WAG and RAG have also been revised, and used in the draft terms of reference for the IPAG and MDAG.
- 3.4.5 Some of the changes amend the requirements of the current terms of reference, although none of these changes are expected to have material consequences. The key changes are summarised here, however it is important to note that the list is not exhaustive, and submitters should refer to the proposed terms of reference for the IPAG (Appendix C), MDAG (Appendix D) and SRC (Appendix E) for a complete understanding of the changes.
- 3.4.6 Key differences between the existing and proposed terms of reference include:
- a) Procedures for addressing the performance of group members and Authority staff were previously included in the terms of reference for the other advisory groups, but not for the SRC. For consistency, these have been included in the terms of reference as provisions relating to all groups that are subject to the charter.
 - b) It has been clarified that the chairperson, as a member, is subject to the same provisions in the terms of reference that apply to members, unless specified otherwise.
 - c) The Board may request that a member serve an extended term of appointment to assist with completing a matter under consideration or to provide cover for a vacancy.
 - d) The number of terms that a member (including the chairperson) may serve on an advisory group has been specified in the terms of reference, to ensure a regular turnover of members. On this point:
 - (i) As a guideline, the Authority will normally appoint members for three year terms with a usual limit of two consecutive terms. However, provision for shorter or longer terms has been included to allow for the need for flexibility in appointments when the Authority considers this will advance its statutory objective.
 - (ii) A limit has not been specified for the SRC. This reflects that SRC members tend to hold very senior positions in the industry, and have highly specialised skills that can be difficult to attract.
 - e) A provision that outlined the timeframes for publishing non-confidential meeting papers on the Authority's website has been revised, as the Authority found the timeframes challenging to meet in practice.
 - f) A provision requiring advisory group chairpersons to provide a bi-annual report to the Authority has been reduced to an annual obligation.
 - g) A new provision requires the chairperson to forward any requests for official information that the group receives to the Authority immediately.
 - h) Provisions relating to the functions and responsibilities of the chairperson and members have been restructured and co-located in the terms of reference.
 - i) Provisions relating to advisory group work plans have been restructured and revised.
- 3.4.7 An analysis of the proposal to replace the charter and terms of reference is set out in section 4 of this paper.

3.5 The objective of the proposal is to support efficient operation of the sector

3.5.1 The new charter and terms of reference are intended to:

- a) improve clarity of the documents and remove the potential for confusion
- b) provide greater certainty to participants about how the groups will operate
- c) better reflect the actual practice and process of the groups
- d) improve the efficiency of some processes outlined in the documents.

3.5.2 By updating the documents, the Authority is meeting its objective to promote the efficient operation of the electricity sector, by ensuring that the SRC and other advisory groups have clear and appropriate arrangements in place concerning their governance and operation.

3.5.3 This will facilitate the effective functioning of the SRC and other advisory groups, and ensure the continued provision of high quality advice to the Authority in an environment when technologies and business models are evolving.

Q6. Do you agree with the Authority's proposal to:

- a) introduce new terms of reference for the IPAG and MDAG, subject to the feedback provided under Q1 - Q5**
- b) replace the current terms of reference for the SRC in its entirety, with an updated and streamlined version**
- c) replace the current version of the charter in its entirety, with an updated and streamlined version?**

4 The Authority has evaluated its two proposals

4.1 The Authority's view is that the benefits outweigh the costs

4.1.1 The Authority considers that its proposal to establish two new advisory groups has potential benefits in terms of:

- a) improved competition, because the proposed advisory groups will allow the Authority to receive advice from parties with the collective knowledge and expertise necessary to:
 - (i) quickly identify and remove any inefficient barriers that might inhibit innovation in how electricity is generated, stored, transported and purchased
 - (ii) identify development opportunities that will facilitate greater innovation, participation and consumer choice
 - (iii) continue to evolve the electricity markets, so as to reduce barriers, and improve price signals and the ability to effectively manage commercial risks.
- b) improved reliability, because the new advisory groups will allow the Authority to receive advice from parties with the collective knowledge and expertise necessary to:
 - (i) analyse and mitigate new risks to system security, particularly those arising from increased reliance on information technology (eg, data security) and more dispersed investments and decision making (eg, effects of new technologies on demand profiles, generation capability, etc)
 - (ii) continue to evolve arrangements for managing system security.
- c) improved efficiency, because:
 - (i) the new advisory groups will allow the Authority to receive advice from parties with the collective knowledge and expertise necessary to ensure the continued pursuit of operational efficiencies in electricity markets
 - (ii) there will be less overlap between the work of the advisory groups than under the current advisory group orientation, resulting in less potential for duplication of effort.

4.1.2 The Authority considers that its proposal to replace the charter and each advisory group's terms of reference with updated and streamlined versions will have efficiency benefits. These arise because the proposal will ensure that clear and appropriate arrangements are in place concerning governance and operation of all groups providing advice to the Authority.

4.1.3 The Authority has not attempted to quantify the benefits of its proposals because doing so would be very difficult and would rely on significant assumptions.

4.1.4 However, the Authority has not identified any material costs associated with either of its proposals, as they are administrative in nature.

4.1.5 Some minor administrative costs may arise from implementing the proposals. In particular, there may be some minor short-term costs to participants if they wish to seek nomination to the new advisory groups.

- 4.1.6 While the overall magnitude of the costs and benefits is difficult to assess, the Authority's preliminary view is that the benefits of the proposal would outweigh the minor costs.
- 4.1.7 The Authority invites stakeholders to comment on the assessment of the costs and benefits of the proposal.

Q7. Do you agree with the Authority's assessment of its proposals? If not, what alternative assessment would you make and why?

4.2 The Authority's view is that the proposal is preferable to alternatives

- 4.2.1 The Authority has considered two alternatives to its proposal to reorient the advisory groups:
- 1. Maintain the existing advisory groups:** The Authority does not prefer this approach, because it does not consider that the existing advisory groups are oriented in a way that will ensure optimal outcomes, given the potentially far-reaching changes from evolving technologies and business models. The existing advisory groups have themselves highlighted concerns about relying on the traditional wholesale/retail demarcation for organising activities.
 - 2. Maintain a single standing advisory group, that covers all aspects of the electricity supply chain:** The Authority does not prefer this option, noting its two proposed groups are quite different in terms of membership and focus. Having two groups will ensure the Authority captures advice from parties 'at the coal-face' of evolving technologies and business models, and members with a deep understanding of the traditional aspects of the sector, while catering to their respective interests and expertise.
- 4.2.2 The Authority also notes that other alternatives may exist that it has not identified, and invites stakeholder views.
- 4.2.3 For its proposal to replace the charter and terms of reference for the SRC, the Authority:
- a) identifies the status quo as the key alternative, but does not prefer that option for the reasons outlined in paragraph 3.2.2
 - b) notes there may be alternatives to some of the specific provisions in the new documents, and invites stakeholders to comment on the drafting.

Q8. Are there alternatives to either of the Authority's proposals that you consider would better meet their respective objectives? If so, please describe the alternative and why it would be preferable.

Q9. Do you have any specific comments on the drafting of the proposed new versions of the Charter and terms of reference for the SRC, IPAG, and MDAG?

Appendix A Format for submissions

Submitter	
-----------	--

Question	Comment
Q1. What feedback do you have on the proposed IPAG, including its purpose and scope?	
Q2. What are your views on the membership of IPAG, and how to engage the sorts of parties that will ensure it can achieve its purpose?	
Q3. What are your views as to how the IPAG might operate, so as to best achieve its purpose?	
Q4. What feedback do you have on the proposed MDAG, including its purpose and scope?	
Q5. What are your views as to the membership of the MDAG, and how it should operate?	
Q6. Do you agree with the Authority's proposal to:	
a) introduce new terms of reference for the IPAG and MDAG, subject to the feedback provided under Q1 - Q5	
b) replace the current terms of reference for the SRC in its entirety, with an updated and streamlined version	
c) replace the current version of the charter in its entirety, with an updated and streamlined version?	
Q7. Do you agree with the Authority's assessment of its proposals? If not, what alternative assessment would you make and why?	
Q8. Are there alternatives to either of the Authority's proposals that you consider would better meet their respective objectives? If so, please describe the alternative and why it would be preferable.	
Q9. Do you have any specific comments on the drafting of the proposed new versions of the Charter and terms of reference for the SRC, IPAG, and MDAG?	

Appendix B Charter for advisory groups

Appendix C Terms of Reference for the Innovation and Participation Advisory Group

Appendix D Terms of Reference for the Market Development Advisory Group

Appendix E Terms of Reference for the Security and Reliability Council

Glossary of abbreviations and terms

Act	Electricity Industry Act 2010
Authority	Electricity Authority
charter	Charter for Advisory Groups
Code	Electricity Industry Participation Code 2010
IPAG	Innovation and Participation Advisory Group
MDAG	Market Development Advisory Group
RAG	Retail Advisory Group
SRC	Security and Reliability Council
WAG	Wholesale Advisory Group