

Summary of Submissions and Authority Responses

2018/19 Appropriations
and work programme focus areas

13 February 2018



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Executive summary

The Electricity Authority (Authority) is required by the Electricity Industry Act 2010 (Act) to consult annually on its proposed appropriations (ie, the level of its funding) and to include a report on the outcomes of our consultation with our request for appropriations to the Minister of Energy and Resources (Minister). The Authority has completed this consultation for 2018/19 and reported the outcomes to the Minister.

While there is no legislative requirement for the Authority to consult on the proposed focus of its work programme, the Authority includes this information in its appropriations consultation paper and considers respondent feedback when developing its detailed work programme and its Statement of Performance Expectations (SPE). The SPE is provided to the Minister for comment prior to the start of each financial year.

Out of a total of approximately 89 levy paying entities, this consultation received 13 submissions from the following respondents:

- Nine from levy paying entities and their owners: Aurora Energy Limited (Aurora), Contact Energy Limited, Cumulus Asset Management, Entrust, Mercury NZ Limited (Mercury), Meridian Energy Limited (Meridian), Transpower New Zealand Limited (Transpower), Trustpower Limited (Trustpower), Vector Limited (Vector)
- Four from representative bodies: the Employers and Manufacturers Association (EMA), Consumer NZ, the Electricity Retailers Association of New Zealand (ERANZ), the Major Electricity Users Group (MEUG).

Feedback on the proposed appropriations

The key points from submissions which relate to the Authority's separate appropriations have been summarised in sections 3, 4 and 5 of this document.

Section 3 summarises several aspects relating to the *Electricity industry governance and market operations* appropriation, including:

- the proposed 2018/19 appropriation amount
- the continuation of the What's My Number campaign in 2018/19
- the proposed focus of the Authority's 2018/19 work programme
- real-time pricing (RTP) and the potential appropriation increases required.

Within Section 3, 10 respondents comment specifically on the proposed 2018/19 appropriation amount. Respondent views are mixed in terms of support for the proposed appropriation level, including:

- three respondents who support the proposed appropriation, including unqualified support from two respondents
- five respondents who require cost estimates for individual programmes or initiatives before they will indicate support for the proposed appropriation
- four respondents who submit that the proposed appropriations could be reduced by adopting a more focussed work programme.

A summary of the key points from these submissions, including the Authority's responses, is provided on pages 6 to 21 of this document.

In section 4, five respondents comment on the proposed *Managing the security of New Zealand's electricity supply* appropriation for 2018/19. All five respondents support the proposal, as summarised on pages 22 to 23 of this document.

In section 5, six respondents comment on the proposed *Electricity litigation fund* appropriation for 2018/19. Two of these respondents support the proposal, while four are opposed. The Authority's response is provided on pages 24 to 27 of this document.

The Authority has considered consultation feedback, and reached the conclusion that the appropriation levels as consulted on are appropriate to ensure the Authority can continue to perform its statutory functions effectively and operate in a financially sustainable manner.

Feedback on the proposed work programme focus areas

Section 3 includes a summary of submissions which relate to the proposed focus of the Authority's 2018/19 work programme, including:

- general feedback on the overall focus of the work programme
- specific feedback on individual programmes and initiatives.

In total, 12 respondents comment on the proposed work programme focus areas. Respondent views are mixed in terms of support for the proposed focus areas, including:

- 8 respondents who submit that the overall work programme ought to have a tighter focus
- 11 respondents with divergent views about the focus of individual programmes and initiatives.

The Authority's work programme often attracts comments from stakeholders that there are a large number of projects; however this reflects the inherent nature of the Authority's business—which is akin to an R&D business—and its desire to be very open about even very small pieces of work it undertakes.

The breadth of the Authority's work programme also reflects the steps that are necessary to further enhance competition, reliability and security of supply in the face of rapidly evolving technology and the prospect of rapid transformation of the electricity industry. For example, 21 out of 40 projects on our 2017/18 work programme relate to issues arising from technology change and new business models developing in the sector. A further 15 projects are focused on further enhancing competition, reliability and security of supply.

The outcomes of these projects, while potentially uncomfortable for some suppliers, are potentially very important for consumers.

A summary of the key points from the submissions, including the Authority's responses, is provided on pages 12 to 19 of this document. This feedback will help set the scene for more detailed work programme development—at which point there will be additional opportunities for stakeholder engagement.

Next steps

The submissions received to this consultation inform the development and finalisation of:

- our appropriations request to the Minister
- our 2018/19 SPE, to be published in June 2018
- our 2018/19 work programme, to be published in July 2018.

1 Introduction and purpose of this report

- 1.1 Section 129 of the Electricity Industry Act 2010 (Act) requires the Authority to consult on proposed appropriations for the coming year before seeking appropriations from the Minister.
- 1.2 Consultation on the proposed appropriations took place from 21 November 2017 to 19 December 2017.¹ The submissions were published on the Authority's website on 08 February 2018.
- 1.3 We sought specific feedback on our proposed request for 2018/19 appropriations and the focus of our work programme. We also sought feedback on potential appropriation increases from 2021/22 that would be required to enable the Authority's Board to make a decision to implement real-time pricing.
- 1.4 We requested that submissions include responses to six consultation questions, included in sections 3, 4 and 5 of the consultation paper.²
- 1.5 We have prepared this report to support the process of reporting to the Minister with our recommended appropriations, as required by section 129(2) of the Act.
- 1.6 We will further analyse submissions as part of developing our 2018/19 SPE and 2018/19 work programme.

2 List of respondents

- 2.1 In total, we received 13 submissions from the following respondents: Aurora, Consumer NZ, Contact, Cumulus Asset Management, EMA, Entrust, ERANZ, Mercury, Meridian, MEUG, Transpower, Trustpower and Vector.

¹ The consultation paper is available at <https://www.ea.govt.nz/dmsdocument/22843>

² On 12 December 2017 we corrected a typo in the consultation paper affecting Question 6 (Page 19), and provided a link to the corrected document. Question 6 should have referred to 2018/19, as opposed to 2017/18.

3 Submissions relating to the *Electricity industry governance and market operations* appropriation

The proposed 2018/19 appropriation amount

- 3.1 The main items of expenditure within the *Electricity industry governance and market operations* appropriation were set out in Table 3 of the consultation paper:

Breakdown of proposed 2018/19 *Electricity industry governance and market operations* appropriation

Operational appropriation - Electricity Authority	\$ million	
	Appropriation 2017/18	Proposed appropriation 2018/19
System operator - operating expenses	26.396	26.396
System operator - capital-related expenses	16.731	17.064
System operator expenses	43.127	43.460
Service provider - clearing manager	2.312	2.382
Service provider - wholesale information and trading system (WITS)	1.797	1.702
Service provider - pricing manager	0.750	0.764
Service provider - reconciliation manager	0.909	0.936
Service provider - registry	0.636	0.654
Service provider - FTR manager	0.935	0.963
Service provider - depreciation and amortisation*	1.797	1.785
Service provider - IT costs	0.095	0.095
Service provider - Extended reserve manager*	0.350	0.350
Other service provider expenses	9.581	9.631
Facilitating consumer participation expenses	2.500	2.450
Authority operating expenses	18.729	18.729
Total appropriation	73.937	74.270

* The contractual arrangements for the extended reserve manager role have not yet been finalised; this means there is some uncertainty for both the extended reserve manager fees and the amortisation expenses associated with the systems that underpin the role.

- 3.2 In Question 1, the Authority asked: “what is your view on the Authority’s proposed 2018/19 *Electricity industry governance and market operations* appropriation amount of \$74.270 million?”
- 3.3 We received 10 responses to Question 1 from the following respondents: Aurora, Cumulus Asset Management, EMA, Entrust, Mercury, Meridian, MEUG, Transpower, Trustpower and Vector. The key points from these submissions are summarised in the table below.

Q1. What is your view on the Authority’s proposed 2018/19 <i>Electricity industry governance and market operations</i> appropriation amount of \$74.270 million?		
Key points from submissions	Respondents	Authority comment
1. Unable to indicate support for the proposed appropriation without cost estimates for individual programmes and initiatives; these were not provided in the consultation paper.	EMA, Entrust, Vector, Transpower, Trustpower	<p>Last year the Authority deliberately changed the emphases of the appropriations consultation process to highlight what we aimed to achieve with our overall programme of work as opposed to individual work programme initiatives. We have retained this approach for 2018/19 by seeking stakeholder feedback on the proposed focus of our work programme.</p> <p>Obtaining this feedback up-front informs the subsequent development of the appropriations request to the Minister, and helps set the scene for more detailed work programme development — at which point there will be additional opportunities for stakeholder engagement on the prioritisation of individual initiatives. On page 3 of the consultation paper we informed stakeholders of our intent to provide a separate forum, prior to publication of the SPE, where we would outline our 2018/19 work programme priorities and potential projects in greater detail.</p> <p>It is standard practice for appropriation requests to be considered and approved before the details of specific programmes or initiatives, such as detailed budgets, are available for consideration.</p>
2. Submits that the Authority should adopt a “less is more” approach to its work programme to achieve a tighter focus. Submits that a tighter and better managed work programme would be more efficient and could lower the Authority’s budget requirements.	Aurora, Cumulus Asset Management, Entrust	<p>The Authority’s work programme often attracts comments from stakeholders that there are a large number of projects; however this reflects the inherent nature of the Authority’s business.</p> <p>When the Authority was established we anticipated that we would be able to reduce our market development activity after four to five years. However the rapid evolution of technologies and the prospect of rapid transformation of the electricity industry have not led to this reduction.</p> <p>Most other regulatory agencies—such as the Commerce Commission or the Financial Markets Authority—undertake a routine series of tasks such as five-yearly reviews of input methodologies or price resets or enforcement</p>

Q1. What is your view on the Authority's proposed 2018/19 <i>Electricity industry governance and market operations</i> appropriation amount of \$74.270 million?		
Key points from submissions	Respondents	Authority comment
		<p>activities.</p> <p>In contrast, the Authority has a rule-making and market development function in regard to a highly dynamic and relatively young market. We need to be forward-looking and deal with emergent issues that may snow-ball into bigger issues. This is especially the case in regard to issues where confidence and consistency is important, such as security of supply, competition and 'level playing field' issues.</p> <p>Also, over time we have been tackling more challenging projects, which tend to have longer lead times and more complex dependencies.</p>
3. Unable to indicate support for the proposed overall appropriation because there is insufficient detail about what the Authority's core costs of \$18.7m will be spent on.	EMA, Transpower, Trustpower,	For 2018/19 we are planning to hold our own operating costs at \$18.729 million. The Authority's actual expenditure on operating costs has been held below \$18.729 million since 2012/13. The Authority regularly publishes detailed information about actual expenditure on core operating costs in the financial statements in the Annual Reports.
4. Appreciates the Authority's fiscal responsibility in holding its operating expenses flat in nominal terms over several years and the proposed continuation of that approach.	Meridian	The Authority notes the support for the core operating expenses proposed for 2018/19.
5. Submits that the proposed appropriation includes funding for initiatives that have not / will not deliver desired consumer outcomes, and that removing or deprioritising such initiatives would reduce the proposed appropriation.	Entrust, Vector	In developing our work programme we identify projects that have the potential to enhance market performance and benefit consumers. It is often necessary for the Authority to undertake projects to identify issues and problems, consult on them, and then canvass a range of options if the issues or problems warrant it. It is not until the potential options are well defined that a cost-benefit assessment can usefully be undertaken to assess whether any of them are likely to deliver desired consumer outcomes. A cost-benefit assessment is undertaken on all projects containing a proposal to amend the Code. Over the years 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.

Q1. What is your view on the Authority's proposed 2018/19 <i>Electricity industry governance and market operations</i> appropriation amount of \$74.270 million?		
Key points from submissions	Respondents	Authority comment
6. Supports the proposed appropriation without qualification.	Meridian, MEUG	The Authority notes the support for the proposed appropriation.
7. Supports the proposed appropriation, qualified by a request for the Clearing Manager to be funded to prepare for Whakamaru to be added as a hub in the FTR market in time for winter 2018.	Mercury	The FTR manager has completed its consultation on adding new hubs to the FTR market. The Authority Board will consider the FTR manager's recommendation in early 2018, with a view to publishing a decision paper soon afterwards.
8. Concerned by apparent overlap and duplication in the respective work streams of the Commerce Commission and the Authority. This may mean there is scope for the Authority to improve efficiency by tightening its work programme and reducing its budget requirements.	Aurora, Entrust	We agree there is a need for close cooperation between regulatory bodies and related agencies to avoid duplication and overlap in our respective work streams. To this end, the Authority has arrangements with a number of key regulatory bodies, including the Commerce Commission and the Financial Markets Authority. In addition, a number of cross agency groups have been established to coordinate work and the process for interested party input on related projects.
9. Opposed to any increase to the Authority's appropriations.	EMA, Entrust	As described in the consultation paper, the proposed 2018/19 baseline appropriation is \$0.333 million higher than 2017/18. This reflects a small increase in funding that we consulted on last year, and that was approved in the government's Budget 2017. The funding enabled the Authority's Board to approve the system operator's service enhancement project to deliver improvements to its Electronic Dispatch Facility (EDF).
10. Submits that the proposed expenditure on staff resourcing (CE salary, number of staff earning >\$100K, overall personnel expenditure) has not been justified. Doesn't believe that increased staff resourcing has resulted in improved progress on the work programme or lowered reliance on external consultants and legal advice.	Entrust	<p>The Authority reiterates the importance of a strategy we have been implementing successfully since 2012—to increase our internal capability so that we may reduce our reliance on external consultants.</p> <p>Our expenditure data from 2011/12 to 2016/17 demonstrates the success of this strategy and refutes any concerns about our reliance on external consultants:</p> <ul style="list-style-type: none"> • personnel numbers increased moderately • personnel costs also increased moderately • external advice costs decreased substantially. <p>This is clearly illustrated in the graph below:</p>

Q1. What is your view on the Authority’s proposed 2018/19 *Electricity industry governance and market operations* appropriation amount of \$74.270 million?

Key points from submissions	Respondents	Authority comment																					
		<div data-bbox="1144 300 2033 603" data-label="Figure"> <table border="1"> <caption>Trend in costs - external vs internal capability</caption> <thead> <tr> <th>Year</th> <th>External work programme support (\$ million)</th> <th>Personnel costs (\$ million)</th> </tr> </thead> <tbody> <tr> <td>2011/12</td> <td>8.0</td> <td>8.0</td> </tr> <tr> <td>2012/13</td> <td>6.5</td> <td>8.5</td> </tr> <tr> <td>2013/14</td> <td>6.0</td> <td>9.0</td> </tr> <tr> <td>2014/15</td> <td>4.5</td> <td>9.5</td> </tr> <tr> <td>2015/16</td> <td>5.5</td> <td>9.8</td> </tr> <tr> <td>2016/17</td> <td>5.0</td> <td>10.0</td> </tr> </tbody> </table> </div> <p data-bbox="1144 619 2033 742">The Authority must pay market wages in order to obtain the right people for its regulatory work—notwithstanding, the Authority considers that it is achieving a good balance between internal capacity and the use of external consultants where specific expertise is required.</p> <p data-bbox="1144 750 2033 1029">The CE’s salary is approved by and is in line with recommendations from the State Services Commission. Note that the Chief Executive’s salary for the Authority’s first year of operation (8 months) is truncated, which is reflected in total salary paid for that year. We reiterate the advice previously provided in our 2016/17 Annual Report—that in 2015/16 a resizing of the Chief Executive role was undertaken by the Hay Group, at the request of the Authority’s Board and with the support of the State Services Commission. The resulting salary adjustment was implemented in two stages, the first in 2015/16 and the final in 2016/17.</p>	Year	External work programme support (\$ million)	Personnel costs (\$ million)	2011/12	8.0	8.0	2012/13	6.5	8.5	2013/14	6.0	9.0	2014/15	4.5	9.5	2015/16	5.5	9.8	2016/17	5.0	10.0
Year	External work programme support (\$ million)	Personnel costs (\$ million)																					
2011/12	8.0	8.0																					
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2015/16	5.5	9.8																					
2016/17	5.0	10.0																					
<p>11. Submits that work programme implementation delays should result in underspend, offsetting the appropriation amount.</p>	<p>Entrust</p>	<p>For every year since its inception in 2010, the Authority has returned its unspent balance to the Crown and reconciled its levies accordingly, as should be well known to participants and stakeholders. Only the Authority’s actual expenditure on fully costed and approved initiatives is recovered from levy payers. This includes the impact (if any) that implementation delays may have had on the rate of actual expenditure.</p>																					
<p>12. Unable to indicate support for the proposed appropriations without a full review of the Authority, its remit and capabilities.</p>	<p>EMA</p>	<p>There are currently no plans to conduct a full review of the Authority in 2018/19.</p>																					

Q1. What is your view on the Authority's proposed 2018/19 *Electricity industry governance and market operations* appropriation amount of \$74.270 million?

Key points from submissions	Respondents	Authority comment
<p>Outcome of consultation: The Authority has considered the overall feedback that has been provided on the proposed <i>Electricity industry governance and market operations</i> appropriation for 2018/19, and will proceed with recommending the appropriation level of \$74.270 million as consulted on.</p>		

Continuation of the What's My Number campaign in 2018/19

- 3.4 Table 3 of the consultation paper outlined our proposal to utilise up to \$2.450 million in 2018/19 for '*facilitating consumer participation*', including approximately \$1.0 million to continue the current 'maintenance' approach for the *What's My Number (WMN)* campaign.
- 3.5 In Question 2, the Authority asked "*what is your view on the continuation of the What's My Number campaign in 2018/19.*"
- 3.6 We received eight responses to Question 2 from the following respondents: Consumer NZ, Contact, Entrust, ERANZ, Mercury, Transpower, Trustpower and Vector.

Q2. What is your view on the continuation of the *What's My Number* campaign in 2018/19?

Key points from submissions	Respondents	Authority comment
1. Supports the continuation and expansion of WMN in 2018/19 to reflect the whole range of options and information needed by a consumer to make a true comparison, including advanced plans and non-price terms and conditions.	Contact, ERANZ, Mercury, Vector	The Authority appreciates that non-price aspects have an influence on the process of comparing and switching electricity retailers. The partnership with Consumer NZ's Powerswitch price comparison website provides for this. Once consumers find their number on the WMN website, they can then simply click through to the Powerswitch website to find more detailed information—such as non-priced terms and conditions—and ultimately switch retailers.
2. Believes that the continuation of WMN in 2018/19 should be contingent upon outcome evaluation, e.g. measuring the contribution advertising is making, if any, to improved customer switching. Determining whether WMN is the most effective way to drive competition, or whether it should be retired in favour of a new, differently targeted approach, such	Consumer NZ, Transpower	We monitor the performance of the campaign regularly to ensure that it is keeping consumers engaged and facilitating a more competitive retail market. This includes regular surveys to track consumer awareness of the campaign and attitudes towards comparing and switching electricity retailers, and review of various competition metrics.

Q2. What is your view on the continuation of the <i>What's My Number</i> campaign in 2018/19?		
Key points from submissions	Respondents	Authority comment
as incorporating WMN and Powerswitch.		
3. Supports empowered consumers making informed choices about their electricity supply, but does not think this expenditure is properly justified in the Consultation paper.	Trustpower	<p>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.</p> <p>As noted in the 2018/19 appropriations consultation paper we have reduced the level of funding for the campaign to \$1 million per annum, allowing continuation of the current maintenance approach. The Authority considers this level of funding appropriate for the competition benefits it continues to provide.</p>
4. Submits that having a regulator advertise is highly unusual. In normally functioning markets, competitors can be relied on to advertise and encourage consumers to switch. The continued need for WMN highlights ongoing problems with the retail market.	Entrust	<p>There is nothing 'unusual' at all about the Authority's involvement in a campaign to promote the benefits of comparing and switching retailers – especially given:</p> <ul style="list-style-type: none"> • our statutory objective under Section 15 of the Act to '<i>promote competition in ... the electricity industry for the long-term benefit of consumers</i>' • our statutory function under Section 16 (1) (i) of the Act to '<i>promote to consumers the benefits of comparing and switching retailers</i>'.
<p>Outcome of consultation:</p> <p>The Authority has considered the overall feedback on the continuation of the What's My Number Campaign in 2018/19. Based on feedback, the Authority will undertake research on how the campaign could be repurposed to assist consumers to more easily compare and switch between traditional and emerging innovation services and products, and between suppliers of these products. This research is not expected to be completed until the end of the 2018. The current campaign will continue to run until any new repurposed campaign is developed.</p>		

The focus of the Authority's 2018/19 work programme

- 3.7 The work programme framework includes six distinct programmes (A to F), each linked to delivering one or more of our key strategies. Section 3 of the consultation paper described the proposed focus of these programmes for 2018/19.
- 3.8 In Question 3, the Authority asked "*what is your view on the areas of focus for the Authority's 2018/19 work programme?*"

Overall feedback

- 3.9 In relation to the overall focus of the work programme, we received 10 responses to Question 3 from the following respondents: Aurora, Contact, Cumulus Asset Management, Entrust, ERANZ, Mercury, Meridian, MEUG, Transpower and Vector. The key points from these submissions are summarised in the table below.

Q3. What is your view on the areas of focus for the Authority's 2018/19 work programme?		
Key points from submissions	Respondents	Authority comment
1. Submits that the work programme could be tighter or more focussed.	Aurora, Contact, Cumulus Asset Management, Entrust, ERANZ, Meridian, Transpower, Vector	The Authority has responded to concerns about the breadth of our work programme on pages 6 and 7 of this document.
2. Supports the proposed focus of the work programme.	Contact, ERANZ, Mercury, MEUG, Vector	The Authority notes the support for the proposed focus of the work programme.
3. Submits that budgetary detail on the programmes and/or initiatives in the Authority Work Programme should be included in the appropriations consultation.	Entrust, Vector, Transpower	The Authority has responded to concerns about budgetary detail on page 6 of this document.
4. Supports the Authority reviewing its work programme.	Contact, ERANZ	The Authority regularly reviews its work programme.
5. Submits that greater inter-agency cooperation may reduce resource pressure on the sector.	Contact, ERANZ	The Authority has responded to concerns about inter-agency coordination on page 8 of this document. We outlined our efforts to achieve closer inter-agency cooperation and provided a justification for the level of detail that was provided in the consultation paper. We also explained that there will be additional opportunities for engagement on the prioritisation of individual initiatives.
6. Submits that prioritisation criteria and rationale on the programmes and/or initiatives in the Authority Work Programme should be included in the appropriations consultation.	Contact, ERANZ	Prior to subsequent engagement 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.
7. Notes that the work programme may be impacted by the Government's retail price review.	Mercury	Noted. The Authority has not yet identified any implications to the proposed focus of the 2018/19 work programme arising from the Government's electricity pricing review.

Q3. What is your view on the areas of focus for the Authority's 2018/19 work programme?		
Key points from submissions	Respondents	Authority comment
8. Supports a focus on increasing mass market participation; facilitating multiple trading relationships; and encouraging innovative pricing approaches.	Vector	The Authority notes this feedback on the proposed focus of the 2018/19 work programme.
<p>Outcome of consultation:</p> <p>The feedback that has been provided on the proposed focus of the 2018/19 work programme, including the feedback on individual programmes and initiatives, will help set the scene for more detailed work programme development—at which point there will be additional opportunities for stakeholder engagement. We are also intending to give MDAG and IPAG the opportunity to comment on the proposed work programme before it is finalised.</p>		

3.11 Two respondents also proposed specific initiatives to be included within the 2018/19 work programme.

Key points from submissions	Respondents	Authority comment
9. Proposes adding a post-implementation review of one hour gate closure to the 2018/19 work programme, and an investigation of reducing further to 30 minutes.	Meridian	<p>To allow for more meaningful analysis, we undertake post-implementation reviews after a sufficient period of time has elapsed since introducing an initiative. In the case of reducing gate closure to one hour, which went live on 29 June 2017, we intend to undertake a review of this initiative after a longer period of operation has elapsed.</p> <p>A project to investigate the potential to further reduce gate closure is currently pending approval for inclusion on the work programme. No decisions have been made at this stage, as the prioritisation of individual projects is to be considered when we begin developing the overall 2018/19 work programme.</p>
10. Proposes adding a review of controlled load tariffs as part of the proposed 2018/19 work programme.	Contact	The Authority is aware of Contact's concerns regarding network controlled tariffs. The competition, efficiency and reliability impacts of network control tariffs are being considered as part of the <i>Equal access</i> initiative currently in progress. These impacts could continue to be considered as part of our proposed focus on <i>Clarifying the current distribution pricing principles</i> under Programme C, but no decisions on that have been made at this stage. The prioritisation of individual projects is to be considered when we begin developing the overall 2018/19 work programme.

Programme-specific feedback

- 3.12 In relation to the specific focus that has been proposed for programmes A to F in 2018/19, we received a total of 11 responses to Question 3 from the following respondents: Aurora, Contact, Cumulus Asset Management, Entrust, ERANZ, Mercury, Meridian, MEUG, Transpower, Trustpower and Vector. The key points from these submissions are summarised in the tables below.

Programme A: Evolving technologies and business models		
Key points from submissions	Respondents	Authority comment
<p>1. Submits that the proposed focus on accurate and timely data exchange within Programme A should be expanded to include the Authority as well as industry participants.</p>	Contact, ERANZ	<p>The Authority's Market Analytics team is working to ensure that all data the Authority disseminates is drawn from audited, well-defined sources. This is not yet the case for all of the datasets currently available from the EMI website, which includes data designed for varying purposes and which are published without transformation (although data may be aggregated).</p> <p>In the meantime, the notes accompanying datasets and reports on EMI can help users to understand what data is being referred to and where it comes from – including whether the data sources for the report have been appropriately defined and audited.</p> <p>Registry data is published as it appears in the registry and from time to time may include incorrect data, if that's what participants entered or submitted. The accuracy of registry data is a Code compliance issue and stakeholders with concerns about data accuracy should contact the Authority's Compliance team.</p>
<p>2. Submits that the Authority should focus on addressing inconsistencies in registry data. Claims inconsistency between data received via automatic file transfer protocols and EMI.</p>		
<p>3. Submits that there should be greater transparency around the financial performance of the big-five retailers' retail and generation businesses, and related party transactions.</p>	Cumulus Asset Management	<p>Comparing and contrasting the financial performance of different firms and different components of the supply chain is problematic because it is difficult to prepare financial metrics that accurately take account of the many varied circumstances and risks that suppliers face. Prof. Stephen Littlechild has published recently on the electricity review undertaken in the United Kingdom by the Competition and Markets Authority (CMA), showing the CMA has made large errors in their financial performance assessments.³ His paper also shows how the focus on financial performance led to misinformed media commentary and misguided political decision-making. Rather than being diverted into measuring and comparing the financial performance of suppliers, the Authority has steadfastly focused on</p>

³ Network: A publication for the Australian Competition and Consumer Commission for the Utility Regulators Forum. Issue 63, June 2017

Programme A: Evolving technologies and business models		
Key points from submissions	Respondents	Authority comment
		identifying and reducing barriers to consumer choice and competition wherever they exist. For example, whereas residential electricity prices from the competitive part of the sector increased substantially in real terms over the 25 year period to 2010, the pro-competition initiatives adopted by the Authority since it was established on 1 November 2010 has kept prices flat. The average price of electricity from the competitive part of the sector is now at the same level, in real terms, as it was seven years ago.
4. Submits that the Authority should not undertake any new work in the retail price space that might overlap, or be superseded by the Government's Retail Price Inquiry.	Entrust	Noted. The Authority has not yet identified any implications to the proposed focus of the 2018/19 work programme arising from the Government's electricity pricing review.
5. Supports the proposed focus of Programme A	Mercury	The Authority notes the support for the proposed focus of Programme A.
6. Submits that issues surrounding efficiency of electricity distributors, and how they respond to emerging technology, sit firmly within the Commerce Commission's Part 4 responsibilities and objectives (including promoting incentives to innovate and improve efficiency).	Aurora	The Authority has responded to concerns about inter-agency cooperation on page 8 of this document.
7. Supports a focus on operational and market arrangements to facilitate smooth and efficient integration of emerging technologies into the power system.	Transpower	The Authority notes this feedback on the proposed focus of the 2018/19 work programme.
8. Supports the proposed focus in this programme on reducing barriers to consumers obtaining electricity services (including retail, generation, demand response) from multiple suppliers.	Vector	<p>A range of projects in our 2017/18 work programme facilitate consumers obtaining electricity services from multiple suppliers, including Multiple trading relationships and Guiding regulatory principles for demand-response.</p> <p>The Authority considers that significant consumer benefits may potentially be realised if these projects were to continue into 2018/19, but no decisions have been made at this stage. The prioritisation of individual projects is to</p>

Programme A: Evolving technologies and business models		
Key points from submissions	Respondents	Authority comment
		be considered when we begin developing the overall 2018/19 work programme.
9. Seeks a greater focus in the work programme on increasing mass participation in electricity markets.		<p>The Authority received significant and relevant feedback to its consultation paper on the Enabling Mass Participation project, which concluded in 2017. These submissions highlighted the ways in which current network access arrangements may impede the realisation of consumer benefits from technological progress and business model innovation.</p> <p>The Authority considers that significant consumer benefits may potentially be realised if the Innovation and Participation Advisory Group were to investigate the effectiveness of current access arrangements in promoting competition, efficiency and reliability in the industry. No decisions have been made at this stage, as the prioritisation of individual projects is to be considered when we begin developing the overall 2018/19 work programme.</p>
10. Submits that networks are already highly regulated under Part 4 of the Commerce Act 1986, and that the proposed network access investigation could blur the boundary between the Authority and the Commerce Commission, creating uncertainty and confusion.		The Authority has responded to concerns about inter-agency cooperation on page 8 of this document.

Programme B: Consumer choice and competition		
Key points from submissions	Respondents	Authority comment
1. Submits that the Default Distribution Agreement (DDA) IS a priority within this programme.	Contact, ERANZ, Meridian, MEUG	As technology and business models continue to evolve, we are likely to see counterparty relationships, such as between a distributor and retailers trading on its network, make an increasingly important contribution to efficiency and competition.
2. Submits that the DDA is NOT a priority within this programme and should be deprioritised or removed.	Vector	<p>The Authority's 2016 consultation paper on a proposal to introduce a DDA examined the actual terms of distribution agreements (also referred to as use-of-system agreements or UoSAs) and discussed whether they are impeding the realisation of efficiency gains for distributors and retailers.</p> <p>The Authority considers that significant consumer benefits may potentially</p>

Programme B: Consumer choice and competition		
Key points from submissions	Respondents	Authority comment
		be realised by continuing to prioritise its DDA work, but no decisions have been made at this stage. The prioritisation of individual projects is to be considered when we begin developing the overall 2018/19 work programme.
3. Submits that "saves and winbacks" ought to be a higher priority within the work programme, given its implications for retail competition.	Cumulus Asset Management	We are on track to complete a consultation on an issues paper for saves and winbacks by June 2018. The information from that work could alter the priority of the saves and winbacks project.

Programme C: Pricing and cost allocation		
Key points from submissions	Respondents	Authority comment
1. Seeks a focus on the implications of the low fixed charge (LFC) regulations. Submits that the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 (LFC regulations) are impeding industry-led adoption of more efficient distribution pricing.	Contact, ERANZ, Vector	Our consultation on mass participation revealed stakeholders' concerns on the impact of the LFC regulations in impeding the development of more efficient distribution prices. The proposed focus of Programme C for 2018/19 includes facilitating industry-led adoption of more efficient distribution pricing and clarifying the current distribution pricing principles. We would note that in November we communicated the concerns raised about the LFC regulations to MBIE as changing the regulations are within the ambit of the Minister.
2. Submits that the transmission pricing review is NOT a priority within this programme and should be deprioritised or removed.	Entrust, Trustpower, Vector	The proposed focus of Programme C for 2018/19 includes reviewing the guidelines for determining transmission prices. The Authority considers that significant consumer benefits may potentially be realised by updating the transmission pricing methodology (TPM), but no decisions have been made at this stage. The prioritisation of individual projects is to be considered when we begin developing the overall 2018/19 work programme.
3. Submits that the transmission pricing review IS a priority within this programme.	Meridian	
4. Seeks greater consistency & coherency across different Authority pricing work streams (in particular network, energy market, distributed generation).	Transpower	We are confident our market development process will continue to ensure a consistent & coherent work programme. We would also note that a consistent and coherent framework for energy and network pricing was presented in Chapter 5 of the May 2016 Transmission Pricing Methodology (TPM) second issues paper.

Programme C: Pricing and cost allocation		
Key points from submissions	Respondents	Authority comment
5. Supports a focus on encouraging innovative pricing approaches, believing that a flexible approach to distribution pricing will provide better signals to consumers on the value of the electricity they are consuming, and spur innovative pricing plans.	Vector	Noted. The proposed focus of Programme C for 2018/19 includes facilitating industry-led adoption of more efficient distribution pricing and clarifying the current distribution pricing principles. Both aspects of this work are intended to facilitate innovative pricing approaches provided they also improve efficiency.
6. Supports a greater focus on distribution pricing within this programme.	Meridian	

Programme D: Risk and risk management		
Key points from submissions	Respondents	Authority comment
1. Seeks a review of the high standard of trading conduct provisions in the work programme (subsequent to Meridian's Code breach).	Cumulus Asset Management, Entrust	The 2017/18 work programme includes a priority 2 project to review the high standard of conduct provisions. The Market Development Advisory Group has added this project to its work plan and work is already underway. The Authority does not 'downplay' trading conduct issues. The Authority continuously monitors for potential trading conduct issues and very few instances of concerning conduct have been identified.
2. Submits that some wholesalers and retailers exercise excessive and/or transient market power, with one respondent.		
3. Submits that the Authority is 'downplaying' wholesale and retail market trading conduct concerns	Entrust	
4. Submits that undesirable trading situations are promoted by insufficient price transparency across generator-retailers. Seeks a focus on addressing factors which mute signals on the efficient value of generation and on obtaining faster, more transparent pricing information.	Vector	Price information is available on EMI, the hedge disclosure website, and by viewing the ASX forward price curve. The Authority would consider facilitating the publication of other information on a case-by-case basis. The Authority is also currently progressing the <i>Wholesale market information</i> project, which seeks to improve the disclosure of information that influences wholesale market prices. The Authority is not aware of factors that mute an efficient spot price signal for generation.

Programme D: Risk and risk management		
Key points from submissions	Respondents	Authority comment
5. Support for implementing the extended reserve scheme within this programme would be contingent upon additional detail, such as procurement schedules and indicative timeframes.		The Authority will provide stakeholders with an update on implementation of the extended reserve scheme in the first quarter of 2018.
6. Submits that the Authority should not commence new work on retail pricing before clarifying the scope of the Government's Retail Price Enquiry.		Noted. The Authority has not yet identified any implications to the proposed focus of the 2018/19 work programme arising from the Government's electricity pricing review.
7. Seeks a focus on addressing high levels of vertical integration to improve wholesale liquidity and encourage more innovative new market entrants.	Cumulus Asset Management	The Authority is not planning to investigate the effects of vertical integration in 2018/19, although we would note that the draft terms of reference for the Government's Electricity Price Review includes a focus on factors which affect competition and market entry, including vertical integration in parts of the supply chain. The findings from the Government's review are not expected until early 2019, but may inform the focus of the Authority's work programme in subsequent years.

Programme E: Operational efficiencies		
Key points from submissions	Respondents	Authority comment
No submissions were received regarding the focus of this programme.	N/A	N/A

Programme F: Compliance Education		
Key points from submissions	Respondents	Authority comment
No submissions were received regarding the focus of this programme.	N/A	N/A

Real-time pricing (RTP) and the potential appropriation increases required

3.13 Section 3 of the consultation paper outlined the potential costs of implementing RTP.

- 3.14 Section 3 explained that these costs would only begin to be incurred from 2021/22. However, because of the preceding implementation period of more than three years, the Authority would need funding to be confirmed in the Government's Budget 2018 to enable the Authority to make a decision to implement RTP (and therefore a commitment to future costs). These costs were summarised in Table 4 of the consultation paper:

Estimated costs	\$ million	
	2021/22	2022/23 & out-years
Operating costs:		
Lower bound estimate	2.129	1.969
	<i>to</i>	<i>to</i>
Upper bound estimate	3.221	3.061

- 3.15 In Question 4, we asked stakeholders *“do you support the appropriation increases the Authority would require from 2021/22 and out-years to implement real-time pricing?”*
- 3.16 We received six responses to Question 4 from the following respondents: EMA, Mercury, Meridian, MEUG, Transpower and Trustpower. The key points from these submissions are summarised in the table below.

Q4. Do you support the appropriation increases the Authority would require from 2021/22 and out-years to implement real-time pricing?		
Key points from submissions	Respondents	Authority comment
1. Supports the proposed appropriation increases required to implement RTP without qualification.	Mercury, Meridian, Transpower, Trustpower	The Authority has been working on this project since March 2015. We have held three consultation rounds---an issues paper, an options paper and now a detailed proposal---and there has been wide support among market participants in all three consultations. The Authority's mid-point estimate of the net economic benefits of the proposal is \$53 million. The Authority notes that the majority of respondents to Question 3 have indicated support for the proposed appropriation increase to implement RTP.
2. Opposed to any increase to the Authority's appropriations.	EMA	
3. Supports the proposed appropriation increase, provided a robust national cost-benefit-analysis shows benefits to consumers exceed the implementation costs; and before any increase in total operational appropriations is sought, any future savings in the winding down	MEUG	The Authority will undertake an updated cost-benefit analysis when it makes its final decision on whether to implement settlement on real-time prices.

Q4. Do you support the appropriation increases the Authority would require from 2021/22 and out-years to implement real-time pricing?

Key points from submissions	Respondents	Authority comment
<p>of resources on facilitating consumer participation are used to offset the increase of funding needed to implement RTP.</p>		
<p>Outcome of consultation: The Authority has considered the overall feedback that has been provided on the appropriation increases the Authority would require from 2021/22 and out-years to implement real-time pricing and will proceed with recommending confirmation of the RTP funding requirements in Budget 2018 based on the upper bound estimate as consulted on.</p>		

4 Submissions relating to the *Managing the security of New Zealand's electricity supply* appropriation

The proposed 2018/19 appropriation amount

- 4.1 The intended outcomes, scope and functions of the Authority under this appropriation were set out in Section 4 of the consultation paper.
- 4.2 Section 4 also explained that a new security management appropriation for the period 1 July 2017 to 30 June 2022 had been established in Budget 2017. No changes to this appropriation were sought for 2018/19, as set out in Table 7 of the consultation paper:

Contingent appropriation - Electricity Authority	\$ million	
	Appropriation 2017/18	Proposed appropriation 2018/19
Managing the security of New Zealand's electricity supply (1 July 2017 to 30 June 2022)	6.000 over five years	

- 4.3 In Question 5, the Authority asked “*what is your view on the Authority's proposal to keep the Managing the security of New Zealand's electricity supply appropriation unchanged for 2018/19?*”
- 4.4 We received five responses to Question 5 from the following respondents: Mercury, MEUG, Transpower, Trustpower and Vector. The key points from these submissions are summarised in the table below.

Q5. What is your view on the Authority's proposal to keep the <i>Managing the security of New Zealand's electricity supply</i> appropriation unchanged for 2018/19?		
Key points from submissions	Respondents	Authority comment
1. Supports the proposed appropriation without qualification.	Mercury, MEUG, Transpower, Trustpower, Vector	The Authority notes the support for the proposed appropriation received from the majority of respondents.
2. Suggests the Authority ought to consider the concept of “resilience” with relation to this appropriation and the objective of ‘keeping the lights on’.	Vector	

Q5. What is your view on the Authority's proposal to keep the *Managing the security of New Zealand's electricity supply* appropriation unchanged for 2018/19?

Key points from submissions

Respondents

Authority comment

Outcome of consultation:

The Authority has considered the overall feedback that has been provided on the proposed *Managing the security of New Zealand's electricity supply* appropriation, and will proceed with recommending no change to the current appropriation level of \$6.000 million as consulted on.

5 Submissions relating to the *Electricity litigation fund* appropriation

The proposed 2018/19 appropriation amount

- 5.1 The intended outcomes, scope and functions of the Authority under this appropriation were set out in Section 5 of the consultation paper.
- 5.2 The government-approved baseline level for the *Electricity litigation fund* appropriation each year is \$0.444 million. Section 5 of the consultation paper proposed increasing this by up to \$0.556 million for 2018/19, taking the total up to a maximum of \$1.000 million as was the case in the 2017/18 year.

Contingent appropriation - Electricity Authority	\$ million	
	Appropriation 2017/18	Proposed appropriation 2018/19
Electricity litigation fund	1.000	Up to 1.000

- 5.3 Section 5 suggested that the Authority could facilitate the increase either through a transfer of unused funding from 2017/18, or by seeking a discrete increase. If unused funds of up to \$0.556 million are available from the 2017/18 appropriation, then reallocating this funding to the 2018/19 appropriation would enable the increase to be fiscally neutral across the two years.
- 5.4 In Question 6, the Authority asked “*What is your view on the Authority’s proposal to seek up to \$1.000 million for the Electricity litigation fund appropriation in 2018/19?*”
- 5.5 We received six responses to Question 6 from the following respondents: EMA, Entrust, Mercury, MEUG, Transpower and Trustpower. The key points from these submissions are summarised in the table below.

Q6. What is your view on the Authority’s proposal to seek up to \$1.000 million for the <i>Electricity litigation fund</i> appropriation in 2018/19?		
Key points from submissions	Respondents	Authority comment
1. Supports the proposed appropriation.	Mercury, MEUG	The Authority notes the support for the proposed appropriation.
2. Does not support the proposed appropriation.	EMA, Entrust, Transpower, Trustpower	During 2018/19 the Authority intends to advance market development initiatives that have the potential to bring about net benefits worth hundreds of millions of dollars for consumers over the next decade—but that may also have adverse financial impacts for some parties. The Authority is confident in the quality of its policy development
3. Submits that improvements to policy development processes would reduce the need for an increase to this	Transpower, Trustpower	

Q6. What is your view on the Authority's proposal to seek up to \$1.000 million for the *Electricity litigation fund* appropriation in 2018/19?

Key points from submissions	Respondents	Authority comment
contingent appropriation.		processes. However, we expect there to be increasing incentives for some parties to obstruct the progress of our market development initiatives, and that this will be the case regardless of the quality of the policy development processes we adhere to. The Authority's litigation activity since 2010 is summarised in the table below.
4. Submits that litigation costs should be met from the Authority's operating budget.		

Q6. Authority comment—a summary of our litigation activity since 2010

Calendar year proceedings instigated	Instigating party	Type of proceeding	Result
2011	Genesis Power, Contact Energy, Todd Energy, Bay of Plenty Energy	An appeal to the High Court against the Authority's decision that an undesirable trading situation (UTS) developed on 26 March 2011	Appeal dismissed by the High Court
2012	Genesis Power	An appeal to the Court of Appeal against High Court decision the Authority was correct that a UTS developed on 26 March 2011	Appeal abandoned
2014	Vector	An application to the High Court for a declaratory judgment regarding whether components of the NAaN project were 'connection' assets or 'interconnection' assets	Application dismissed by the High Court
2015	Vector	An appeal to the Court of Appeal against the High Court's decision not to grant Vector's application for a declaratory judgment	Appeal abandoned

Q6. Authority comment—a summary of our litigation activity since 2010			
Calendar year proceedings instigated	Instigating party	Type of proceeding	Result
2015	Vector	An appeal to the High Court against the Authority's decision to decline Vector's application for an exemption from the transmission pricing methodology in respect of components of the NAaN project	Appeal abandoned
2016	Trustpower	An application to the High Court for judicial review of the Authority's process decisions relating to the TPM and DGPP reviews	Application declined by the High Court
2016	Vector and Entrust	An application to the High Court for a declaratory judgment that the Authority does not have jurisdiction to introduce a default distribution agreement	Application declined by the High Court
2017	Vector and Entrust	An appeal to the Court of Appeal against the High Court's decision not to grant Vector and Entrust's application for a declaratory judgment that the Authority does not have jurisdiction to introduce a default distribution agreement	Fixture date in April 2018 to be confirmed
2017	City Financial	An appeal to the High Court against the Authority's decisions not to pursue complaints that Transpower had breached the Code; and applications for judicial review of the same decisions, and of Transpower's conduct that gave rise to the decisions.	Fixture allocated on 5-8 June 2018

Q6. What is your view on the Authority's proposal to seek up to \$1.000 million for the Electricity litigation fund appropriation in 2018/19?**Outcome of consultation:**

The Authority has considered the overall feedback that has been provided on the proposed *Managing the security of New Zealand's electricity supply* appropriation, and will proceed with recommending no change to the current appropriation level of \$6.000 million as consulted on.

6 Glossary of abbreviations and terms

Act	Electricity Industry Act 2010
Authority or EA	Electricity Authority
ASX	Australian Securities Exchange
Code	Electricity Industry Participation Code 2010
DDA	Default distributor agreement
ENA	Electricity Networks Association
FTR	Financial transmission right
LFC regulations	Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004
MBIE	Ministry of Business, Innovation and Employment
MEUG	Major Electricity Users' Group
Minister	Minister of Energy and Resources
SPE	Statement of Performance Expectations
TPM	Transmission pricing methodology
UoSA	Use-of-system agreement
WMN	What's my number
