



10 December 2018

Submissions  
Electricity Authority  
By email: [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

## **Electricity Authority 2019/20 appropriations and work programme**

Meridian appreciates the opportunity to provide feedback on the Electricity Authority's proposed levy-funded appropriations and work programme for 2019/20.

We continue to support the work of the Authority. Since its inception, the Authority has implemented numerous industry improvements, bringing material benefits to electricity consumers.

### **Levy-funded appropriations**

The proposed levy funding of \$74.936 million for the industry governance and market operations appropriation in 2019/20 is an increase on the previous year (\$74.270 million in 2018/19). We understand that these increases reflect the increased costs of Transpower as the system operator (\$0.501 million higher than the previous financial year) and to a lesser extent, other market operation service providers (\$0.165 million higher than the previous financial year). These increases seem due to CPI-linked increases and recovery on the investments made to improve Transpower's Electronic Dispatch Facility and the systems that underpin other market operation service providers.

Compared to these steady cost increases, we appreciate the Authority's commitment to the exercise of restraint over its own core operating expenses and note that the Authority's proposed budget has again been held flat at \$18.729 million (\$21.179 million if "facilitating consumer engagement" is included).

## **Indicative work programme**

Meridian appreciates the provision of indicative information about the 2019/20 work programme including estimated net benefits to consumers and proposed project targets.

It is also good to see that the Authority intends to complete a number of significant projects in the remainder of 2018/19, including:

- Multiple trading relationships;
- Review of the distribution sector;
- Default distribution agreement;
- Distribution pricing: review of pricing principles;
- ACOT implementation; and
- Review of regulatory settings for official conservation campaigns.

We hope that the Authority is able to conclude all of these high priority projects in the second half of 2018/19. However, if any of these projects continue into 2019/20, other projects may need to be delayed. It seems from the consultation document that the Authority will not resume or start the five new projects in 2019/20 unless the six projects above are completed first. This seems sensible and aligns with earlier indications from the Authority that there will be a push to conclude priority projects rather than undertake more projects.

We also note the uncertainty in the Authority's 2019/20 work programme as a result of the Government's Electricity Price Review. Some of the projects on the Authority's 2019/20 work programme are the subject of submissions to the review panel, for example:

- Equal access to distribution networks;
- The What's my number campaign;
- Saves and win-backs;
- Distribution pricing; and
- Hedge market enhancements.

Meridian is not suggesting that the Authority reconsider these projects, if anything it shows that the Authority is focused on the right issues. However, we note that there is potential for the Government itself to regulate or in some way alter the regulatory landscape. The work programme may need to adapt as a result.

For Meridian, the priorities for 2019/20 include:

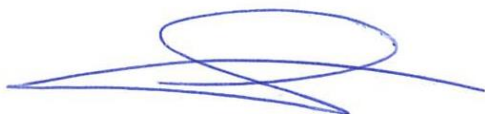
1. Implementation of new **Transmission Pricing Methodology (TPM) guidelines**. Meridian considers there to be significant inefficiencies with the current TPM. It is critical that the Authority continues to prioritise work to implement a durable solution that will promote more efficient investments in the transmission network and by transmission network users. We hope that implementation can still be achieved in advance of the start of regulatory control period three in 2020.
2. By the same logic, Meridian fully supports the Authority in facilitating and closely monitoring the industry-led adoption of more efficient **distribution pricing** following the 2018/19 review of the distribution sector and pricing principles. Given the potential billions of dollars in consumer benefits we agree that distributors should move as quickly as practical to reform their prices.
3. Meridian supports the Authority's work on a **default distribution agreement**. The Authority indicates that this priority project will be completed in 2018/19. Meridian hopes that this is the case because the sooner this occurs the sooner benefits can flow to consumers. There are substantial costs associated with negotiating distribution agreements across the 29 networks. Providing retailers with a default standardised agreement will reduce transaction costs and lead to:
  - a. more open and equal access to distribution services;
  - b. a more competitive retail market; and
  - c. benefits for consumers.
4. Meridian supports the Authority looking closely at the **What's My Number campaign** and considering expansion of the availability of consumer comparison and switching information, for example, to:
  - a. include comparison of non-price metrics, i.e. does the retailer have a customer call centre or offer EV pricing;
  - b. incorporate actual consumption data from the market systems (rather than relying on an estimate or a customer having their bill handy); and
  - c. target promotion of the comparison and switching information to those customers that struggle financially or are otherwise vulnerable.

5. **Real-time pricing** has the potential to deliver consumer benefits through increased demand response. The design and implementation of real-time pricing will be a significant piece of work for the Authority and, if it is to happen, will require significant Authority and Transpower resources. We note that the Authority is continuing to seek appropriation increases from 2021/22 to enable this project and await confirmation that this funding will be approved.
6. Meridian supports the proposed project on **improving the accuracy of spot price forecasts**. A key component will be improving the system operator's load forecast. We consider this project to be a key prerequisite to the success of the real-time pricing project and agree that it will be important to reduce barriers to demand side participation in the wholesale market.
7. Meridian also encourages the Authority to consider **reducing spot market gate closure to 30 minutes**, if not as a new stand-alone project then at least included as part of the real-time pricing project. One-hour gate closure is now well bedded-in and the time is right to consider a further reduction. We believe that this would enable more accurate offer and bid information to be entered in the forecast schedules and more efficient use of generation. The productive efficiency gains would ultimately benefit consumers.

While we agree other items on the Authority's work programme are important, we do not consider them to be as pressing in terms of priority for the next financial year.

Please contact me if you have any queries regarding this submission.

Yours sincerely



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**A. Responses to consultation questions**

	<b>Question</b>	<b>Response</b>
1	What is your view on the Authority's proposed 2019/20 Electricity industry governance and market operations appropriation amount of \$74.936 million?	Meridian is comfortable with the proposed appropriation amount.
2.	What is your view on the Authority's indicative 2019/20 work programme?	Please see the covering letter of this submission.
3.	What is your view on the Authority's proposal to keep the Managing the security of New Zealand's electricity supply appropriation unchanged for 2019/20?	Meridian is comfortable with the continuation of this multi-year appropriation out to 2021/22 and understands it will only be called on as necessary.
4.	What is your view on the Authority's proposal to seek up to \$1.000 million for the Electricity litigation fund appropriation in 2019/20?	We understand that the contingent appropriation for the litigation fund will again be up to \$1 million for 2019/20 with the potential to transfer more from any unused appropriation from the previous year. We agree that the Authority needs the ability to call on contingent funding to manage the financial risks arising from litigation, which are inherently unpredictable.