

30 November 2021

Richard Eglington
Chief Operating Officer
Electricity Authority
By email to appropriations@ea.govt.nz

Dear Richard

EA consultation paper - 2021/22 and 2022/23 levy-funded appropriations

1. This is a submission from the Major Electricity Users' Group (MEUG) on the Electricity Authority (EA) consultation paper "2021/22 and 2022/23 Levy-funded appropriations," 26th October 2020¹.
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Members may make separate submissions.
3. For the proposed 2021/22 levy-funded appropriations:
 - a) MEUG supports the increase in the Electricity Litigation Fund by \$1m to give a new total appropriation of \$1.5m.²
4. For the proposed 2022/22 levy-funded appropriations:
 - a) MEUG has two concerns on the proposed increase in the total operational appropriation from \$83.757m to \$94.397m, an increase of \$10.641m (+12.7%):
 - ~ In prior years MEUG has raised concerns about the WACC used in the contract for services by the System Operator that, we understand, is at the same rate as that for the regulated lines business and therefore includes an uplift to the 67th percentile. Until we understand what risks the System Operator takes to justify that WACC, MEUG objects to the level of charges and increases in costs by the System Operator. This perennial issue needs to be addressed the next time the System Operator contract is reset.

¹ Refer <https://www.ea.govt.nz/assets/dms-assets/29/Levy-funded-appropriations-2021-22-and-2022-23-consultation.pdf> at <https://www.ea.govt.nz/about-us/corporate-projects/202223/consultations/consultations/#c19005>.

² Refer paragraph [5.5] and table 4, p19.

~ MEUG does not support the EA carrying over the \$2m higher appropriation sought and already approved for 2021/22 to the appropriation request for 2022/23.³ The \$2m additional funding this year was supposed to be a one-off increase. Without that one-off increase, the Authority operational expenses would have been \$24.026m this year and hence the proposed expenditure next year of \$25.343m would be an increase of \$1.317m, a 5.5% increase. That rate of increase is greater than any of the increases for the System Operator or other contracted service providers. A 5.5% increase is greater than the rate of inflation and is an unavoidable expense for levy-payers. The consultation paper provides no evidence options to implement efficiency improvements or re-prioritise resources to minimise the cost increase burden on levy payers have been considered before proposing this substantial increase.

MEUG supports the proposed appropriation to implement RTP.

MEUG notes the budget approved by Cabinet to implement commercial Market Making to supplement the existing Market Making regime. MEUG has no view on the quantum of the Market Making proposed budget for 2022/23. In future years we will be able to gauge proposed appropriations for commercial Market Making once we gain experience from the first year of operations.

- b) MEUG suggests the proposal to carry-over a 5-year contingent appropriation, 2022/23 to 2026/27 of \$6m (\$1.2m pa) is unnecessary.⁴ There has been no expenditure required against the \$6m contingent appropriation for the 5-years ending June 2022 and we believe the need for such in the next 5-years has diminished because the regulatory framework to manage security of supply has matured. There is more information available and published more frequently by the System Operator on forecast security of supply risks than 6-years ago. The agility of market participants to contract at short notice to manage flexible demand response contracts has been demonstrated this year. A contingent appropriation is still needed; but it should be less than \$6m over 5-years.
- c) MEUG supports carrying over the proposed new total appropriation of \$1.5m for the Electricity Litigation Fund.⁵

Yours sincerely



Ralph Matthes
Executive Director

³ Refer [3.5] and [3.8].

⁴ Refer [4.9] to [4.11] and table 3, p18.

⁵ Refer [5.6] and table 4, p19.