

1 November 2022

Chief Executive
Electricity Authority
PO Box 10041
Wellington 6143
New Zealand

By email to appropriations@ea.govt.nz

2022/23 and 2023/24 Levy-funded Appropriations

The Electricity Networks Association (ENA) appreciates the opportunity to provide comment on the Electricity Authority's (the Authority) 2022/23 and 2023/24 levy-funded appropriations. This submission is on behalf of ENA's members (listed in the appendix to this submission), the electricity distribution businesses (EDBs) of New Zealand. This submission is not confidential.

Building the Authority's capacity and capability is key to the timely delivery of its work programme

ENA acknowledges the Authority's focus on responding to and supporting the delivery of the Government's target of 100 per cent renewable electricity generation by 2030 while protecting the interests of consumers. However, the Authority must not lose sight of its primary role of ensuring a reliable, efficient, and competitive electricity market.

In recent years the Authority has experienced high staff turnover, which reached 39 per cent in the year to June 2022. This staff turnover has lessened the Authority's institutional knowledge, and capacity to deliver its work programme. The loss of institutional knowledge and capacity within the Authority has led to a dependence on external consultants. The Authority should lay out a clear plan to rebuild its institutional capacity by attracting and retaining staff.

The Authority's decision to suspend the Innovation and Participation Advisory Group illustrates its backlog of work, and limited internal capacity to deliver its work programme. To ensure that the Authority has the resources to deliver its high-impact workstreams, low-impact initiatives should be paused or discontinued.

Material levy increases must be accompanied by detailed work programmes, deliverables and costings

The consultation paper highlights that the Authority is proposing a 31 per cent increase in operating expenditure in 2023/24 and bill increases of between \$2.04 and \$75.65 per year to recover its increased expenditure. To justify increases of this magnitude, the Authority should publish a detailed work programme including budgets, delivery timelines and outputs for each material expenditure item.

In the absence of a detailed work programme and information on costing and deliverables, the ENA can not support the proposed levy increase for 2023/24, 2024/25 and out-years. However, ENA supports the Authority's proposed 2022/2023 levy increase.

ENA's responses to the consultation paper's individual consultation questions are set out in appendix A. Please get in touch with ENA if you'd like to discuss our submission. Contact Keith Hutchinson (keith@electricity.org.nz, 021 0849 9419) in the first instance.

Yours faithfully



Graeme Peters
Chief executive

Appendix A: Consultation Questions

6.2 What kinds of engagement have you or your organisation had with the Authority over the past 12 months?

ENA has engaged with the Authority on a range of matters relating to transmission and distribution pricing, the regulatory settings for distribution businesses and the methodology for the allocation of the settlement residual.

6.2 The Authority is proposing a permanent baseline increase of \$0.500 million to the Electricity Industry Governance and Market Operations appropriation in 2022/23 bringing the total appropriation for 2022/23 to \$95.952 million. Do you support the Authority's proposal for funding of \$95.952 million?

ENA's view is that the proposed increase in baseline expenditure for 2022/23 is reasonable.

6.3 The Authority is proposing a permanent baseline increase of \$7.308 million to the Electricity Industry Governance and Market Operations appropriation in 2023/24 bringing the total appropriation for 2023/24 to \$104.021 million. Do you support the Authority's proposal for funding of \$104.021 million?

The Authority is seeking a significant, permanent uplift in its baseline funding. ENA believes that the Authority has not provided sufficient justification for this increase. The ENA calls on the Authority to publish a detailed work programme including costing and deliverables for 2023/24.

6.4 Would you support a further increase as signalled to funding for the Electricity Industry Governance and Market Operations appropriation for 2024/25 and outyears?

As noted above, the Authority is proposing a large uplift in levies post-2024. The ENA views this as unjustifiably high. A funding increase of this scale must be accompanied by a full and detailed work programme containing delivery timelines and costings.

6.5 Do you have any feedback on the current funding model for Powerswitch? Would you like to see an alternative funding model for Powerswitch?

The levy consultation says that Powerswitch is funded 70 per cent from levies – and therefore all electricity consumers - and 30 per cent from the retailer which succeeds in obtaining a new customer. However, the Powerswitch website says it receives funding from the Gas Industry Company and MBIE.

The Consumer NZ annual report says Powerswitch had revenues of \$2.02 million in the year ending December 2021, compared to \$702,919 in the previous corresponding year.

Turning to the question on Powerswitch's funding model, the existing model could lead to perverse outcomes. For example, retailers with stated low margins might choose to avoid paying the success fee by withdrawing from Powerswitch, reducing choice for consumers in seeking the best tariffs. This is not an optimal outcome for consumers.

A better option could be to remove the \$50 success fee and allow Consumer NZ to seek outside funding from advertising, sponsorship, or events that leverage off the brand and goodwill of Powerswitch. Another option is that Consumer NZ trims its spending on Powerswitch – given that its revenue tripled from 2020 to 2021, this should be achievable.

In summary, ENA can see the logic in changing the formula and removing the \$50 success fee, but it doesn't support higher payments from the authority, MBIE and the GIC (and therefore consumers) to support the site. Any shortfall could be covered by Powerswitch trimming spending or seeking external funding, assuming it does not undermine Powerswitch's independence.

6.6 The Authority is proposing to maintain the contingent appropriation for Managing the Security of New Zealand's Electricity Supply from July 2022 to June 2027. Do you support the Authority's proposal for maintaining this contingent funding at its current level of \$6.000 million over five years?

ENA supports the continuation of the existing contingent funding.

6.7 The Authority is proposing the contingent appropriation for the Electricity Litigation Fund for 2023/24 and outyears is \$1.500 million. Do you support the Authority's proposal for maintaining this contingent funding?

ENA supports the continuation of the existing litigation contingent funding.