Major Electricity Users' Group

4 November 2022

Sarah Gillies
Chief Executive (Acting)
Electricity Authority
By email to appropriations@ea.govt.nz

Dear Sarah

Consultation Paper - Electricity Authority consultation on 2022/23 and 2023/24 levy-funded appropriations

1. This is a submission from the Major Electricity Users' Group (MEUG) on the Electricity Authority (EA) consultation paper "2022/23 and 2023/24 levy-funded appropriations," published 4 October 2022.[1]

2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Members may lodge separate submissions.

3. MEUG appreciates the Authority answering questions from MEUG during the consultation process and agreeing to our request for an extension to the date submissions close.

4. MEUG and MEUG members engage with the EA at multiple layers range from members as market participants having formal relationships governed by the Code through to numerous informal contacts with EA staff depending on the topic.[2]

5. The impact of the proposed change in levies to MEUG members is material being around a 10% increase between the status quo 2022/23 levy rates and the estimated rates two years hence in 2024/25. For the thirteen company members of MEUG the total EA levies will change from around \$24.5m to \$27m, an increase of \$2.5m.

6. The impact on individual members will depend on GWh pa demand. The increase for the largest member is around \$1.2m, the next 3 largest members (all greater than 1,000 GWh pa) around \$285,000 each and an average increase of \$47,000 for each remaining member. These increases illustrate how large MEUG members are compared to the average increase in industrial consumers bills of \$75.65 quoted in the consultation paper (p6).

7. A challenge for MEUG's thirteen company members is to understand the additional benefits that will accrue to their businesses to offset the added costs of \$2.5m per annum.

[1] Document URL https://www.ea.govt.nz/assets/dms-assets/30/Final-2022_23-and-2023_24-levy-funded-appropriations-consultation-document1375503.1.pdf at https://www.ea.govt.nz/about-us/corporate-projects/202324-planning-and-reporting/consultations/#c19248

[2] Qu. 6.1.

That linkage is not clear for those thirteen very large consumers. If MEUG members had a choice of where to spend an additional $2.5m per year to improve the electricity sector, it would be markedly different from the proposed Authority work streams. For example, MEUG has in numerous submissions to the Authority recommended work on establishing robust metrics and monitoring economic profit trends over time. Those submissions have been dismissed by the Authority. The lack of clarity on the trends over time and size of economic profits leaves a vacuum for confusion when commentators quote various accounting profit results that can bear little resemblance to trends in economic profits. That confusion erodes confidence in the market. Had a fraction of the proposed incremental cost to MEUG members of $2.5m been applied to that task then MEUG members would have had some tangible benefit to justify supporting the proposed levy increases.

8. MEUG does not support:[3]

- Permanent baseline increases of $0.5m to the Electricity Industry Governance and Market Operations appropriation for this year, 2022/23.
- Permanent baseline increases of $7.308m to the Electricity Industry Governance and Market Operations appropriation next year, 2023/24.

9. Reasons why MEUG does not support baseline increases are:

- As mentioned in paragraph 7 above, the dismissal of pursuing evidence-based analysis of economic profit trends over time has been and continues to be a major omission by the Authority and resources should have been prioritised on that analysis.
- Enhanced system operator oversight work originating from the 9 August Review expenditure is proposed to increase by $0.78m in 2023/24 and $0.78m in 2024/25 and outyears.[4] Rather than additional costs of $0.78m, there should be a reduction in expenditure as resources used to urgently undertake a review after the 9 August event should by now and continue to be scaled down.
- Realising the benefits of real-time pricing expenditure is proposed to increase by $0.560m in 2023/24 and $1.120m in 2024/25 and outyears.[4] Given RTP, and Dispatch Notification projects end this year, 2022/23, we see no need to have an ongoing increase for the proposed RTP work unless there is an unexpected market failure that arises that hinders the market adapting to and realising opportunities facilitated by RTP.
- Support function expenditure is proposed to increase by $2.248m in 2023/24 and $3.235m in 2024/25 and outyears. [4] Footnote 19 notes "Funding for the support function is based on existing ratios for support of the policy teams." MEUG believes there should be an allowance to incorporate economies of scale and scope for support functions rather than using existing ratios for support services.

[3] Qu. 6.2 and Qu. 6.3. Section 3, p18-24.
[4] Refer Table three, p20.

10. MEUG has no comments on the current funding model for Powerswitch.[5]

11. MEUG supports:

    - Maintaining the contingent appropriation for Managing the Security of New Zealand's Electricity Supply from July 2022 to June 2007 at its current level of $6m over 5-years.[6]

      Since this level of contingent appropriation was set many years ago, there have been many improvements and timeliness of information and processes to allow market participants to act with certainty ahead of possible and during actual security of supply events. There are well established precedents and Code and contractual requirements on service providers for post event reviews. In our view a downwards revision of the level of contingent appropriation should be considered in next year's appropriation consultation.

    - Maintaining the current level for the contingent appropriation for the Electricity Litigation Fund for 2023/24 and outyears of $1.5m.[7]

12. MEUG recommends for future appropriation requests the Authority set out forecast unit levy rates expected in future years in the same format as gazette notices of actual levy rates so that affected parties can calculate for themselves the changes that apply to their household or business. MEUG appreciates the Authority providing an estimate for preparing this submission. MEUG recommends in future additional details and assumptions should be published such as GWh volumes and ICP numbers that apply to each levy class for the current year and forecast years.[8] This additional detail will assist interested parties reconcile the expenditure categories used for setting levies with the aggregate appropriations bid. MEUG was unable to make this reconciliation this year from the information provided.

13. Given the scale of the Authority's appropriation is now over $100m pa, more disaggregated information is necessary to allow levy payers to provide informed and detailed feedback.

14. The large incremental levy change on large users without a clear linkage to incremental benefits has raised with us a question on the efficacy of the expenditure allocators and levy classes used. This is a matter we may discuss separately with MBIE.

Yours sincerely

Ralph Matthes
Executive Director

---

[5] Qu. 6.5.
[6] Qu. 6.6. Section 4, p25-26.
[7] Qu. 6.7. Section 5, p27.
[8] Levy classes refer to Generators, Purchasers, Retailers, Distributors, and Transpower.