

30 January 2024

Electricity Authority
PO Box 10041
Wellington 6143

By email: appropriations@ea.govt.nz

Submission on: *Proposed levy-funding appropriation consultation 2024/25*

Introduction

Thank you for the opportunity to make a submission on the *Proposed levy-funding appropriation consultation 2024/25*. This submission is from the Consumer Advocacy Council, the independent advocate for residential and small business electricity consumers in Aotearoa New Zealand.

If you have any questions regarding our submission, please contact:

- Emma Sturmfels, acting manager, Consumer Advocacy Council
- Email: [REDACTED]
- Phone: [REDACTED]

Responses to questions

Q.1 Do you support the Authority's proposal for a permanent baseline increase to its Electricity Industry Governance and Market Operations appropriation of \$14.2 million for 2024/25, bringing the total appropriation to \$115.0 million?

- 1.1 We agree with the Authority that New Zealand's electricity system faces significant changes as the country transitions to renewable energy and we welcome the Authority's commitment to a sustainable, affordable, secure and resilient electricity system.
- 1.2 We also note changes to the Electricity Industry Act have given the Authority a new objective to protect the interests of domestic and small business consumers, and it is essential that the Authority is adequately resourced to achieve this objective.
- 1.3 We therefore acknowledge additional funding to the Authority's baseline is warranted in order to ensure it can meet its statutory obligations and support a consumer-focused transition to an electrified low-emissions economy.
- 1.4 Key work areas we consider require an increase in resources are consumer protection (including implementing and monitoring mandatory consumer protection standards) and supporting the development of distributed energy resources.

- 1.5 We note the Authority considers the additional funding sought under option 2 would only allow it to address “acute pressure points”, rather than enable a consumer-focused transition. We acknowledge that higher levy increases would result in extra costs for consumers at a time of rising cost of living pressures.
- 1.6 However, a consumer-focused transition is essential – not simply a nice to have. We therefore consider the Authority should further review how its existing funding, and additional appropriations under option 2, can be used more effectively to help ensure its work supports this transition.
- 1.7 We note the Sapere review, commissioned by the Ministry of Business, Innovation and Employment, identified areas where the Authority may be able to make more effective use of its resources, thereby delivering potential cost savings that could be used to support the Authority’s work on behalf of consumers. This should be a priority.
- 1.8 The Council does have questions about the proposed increase in levy funding to cover the costs of third-party service providers.
- 1.9 We note that about 70% of the Authority’s budget currently goes to third-party providers (para 3.6). We also note the Authority’s comment that it wishes to be “better equipped to extract more value from our service arrangement contracts” (para 3.27).
- 1.10 Given the significant proportion of the Authority’s budget that goes to third-party providers, scrutiny of how this money is spent is essential to ensure consumers can have confidence that levy funding is appropriate and service providers deliver good value.
- 1.11 The Council questions whether there is currently sufficient scrutiny and transparency of third-party costs. The proposed increase of \$7.6 million for third-party service providers equates to an 11% increase and it is not clear whether such a substantial rise is justified.
- 1.12 While we acknowledge inflation may have increased costs in some instances, it is also possible new technology (e.g., new automated processes) has provided opportunities for cost reductions.
- 1.13 There is also little information in the consultation paper for submitters to gauge the cost pressures that may be facing third-party providers and therefore whether additional funding is warranted in all cases.
- 1.14 We therefore recommend the proposed increase for third-party providers be reviewed. If the increase remains as proposed, a detailed plan for assessment of third-party providers’ costs must be put in place.
- 1.15 We also recommend the Authority considers the potential cost savings of bringing some services in-house. The costs of managing third-party contracts, and the costs of service providers’ own management fees, mean consumers may be incurring significant costs that could be avoided if services were delivered in-house.

Q.2 Do you support the Authority’s proposal for maintaining the contingent appropriation for Managing the Security of New Zealand’s Electricity Supply at its current level of \$6.0 million over five years?

- 2.1 We support maintaining a contingent appropriation for Managing the Security of New Zealand's Electricity Supply. However, the Council suggests the figure of \$6 million may be higher than required. If the system is being well managed, a contingent appropriation of this size should not be required.

Q.3 Do you support the Authority's proposal for maintaining the contingent appropriation for the Electricity Litigation Fund for 2024/25 and outyears at \$1.5 million?

- 3.1 We support maintaining the contingent appropriation for the Electricity Litigation Fund.

Q.4 Do you have any comments on the Authority's proposed funding 2024/25?

- 4.1 See comments in Q1.

Q.5 Do you have any comments on the Authority's vision and intended outcomes?

- 5.1 The Authority's vision and intended outcomes must be guided by its statutory objectives, which require it to carry out its function for the "long-term benefit of consumers" as well as "protect the interests of domestic consumers and small business consumers in relation to the supply of electricity to those consumers".
- 5.2 To guide its work, we recommend the Authority develops a statement or set of principles that specifically identifies consumer interests and the long-term benefits they expect to be delivered by the electricity system.

Q.6 Do you have any comments on the Authority's indicative work programme for 2024/25?

- 6.1 While the indicative work programme identifies "consumer centricity" as one of five strategic ambitions, we consider this should be an overarching objective that guides all the Authority's work, better reflecting its statutory objectives.
- 6.2 We consider the Authority's work programme must be consumer centric, regardless of the level of levy appropriation, in order to ensure it delivers the consumer benefits envisaged in its legislative mandate.
- 6.3 We note the indicative work programme includes projects of major significance for consumers. We would welcome the opportunity to discuss with the Authority how it will ensure consumers can be involved in these projects and that their interests are represented in decision making.

Yours sincerely,



Deborah Hart

Chair – Consumer Advocacy Council