



Electricity Authority appropriations for 2013/14

Purpose

To recommend the Electricity Authority appropriations for 2013/14.

Date:		Priority:	High
Security Level:	Confidential—Budget sensitive	File number: 749799	Plan-appropriation

Action sought

	Action sought	Deadline
Minister of Energy and Resources	Agree to the Authority appropriations for the 2013/14 Budget	At the earliest opportunity
	Agree to the publication of this report	At your convenience

Contact for telephone discussions

Contact	Position	First contact	Telephone	
			Work	After hours
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17 December 2012

Minister of Energy and Resources

Electricity Authority appropriations for 2013/14

Executive summary

The Electricity Authority has consulted on its appropriations proposal for 2013/14.

Table 1 sets out the Authority's recommended appropriations after consideration of submissions and further analysis of its draft budget.

The appropriations proposal comprises a \$0.500 million reduction in the Electricity industry governance and market operations appropriation for 2013/14 relative to the amount proposed in the Authority's consultation paper. This adjustment includes fulfilling a commitment to Cabinet that the Authority would part-fund the establishment and on-going operation of the financial transmission rights market. This commitment has resulted in the Authority reducing expenditure on its own activities by \$1.1m, which is about 5% of its own expenditure.

The request for the Electricity industry governance and market operations appropriation represents a bid of \$4.240 million above the approved baseline. The increase is primarily to cover an increase in system operator costs and section 42 implementation costs.

Appropriations proposal after consultation

Electricity Authority	(\$ million)		
	2011/12 actual	2012/13 appropriations	2013/14 appropriations proposal
Total: Electricity industry governance and market operations appropriation	59.783	63.906	68.146
Security management appropriation	n/a		6.000 over five years (2012/13 to 2016/17)
Promoting and facilitating customer switching appropriation	3.409	3.500	2.092
Electricity litigation fund appropriation*	0.333	0.444	0.444

Note * The Electricity litigation fund appropriation is to provide funding to ensure that the Authority is able to participate in litigation effectively and without delay. This is a Crown expense appropriation, which is drawn on only for major litigation. There is no output class for this appropriation.

Electricity Authority appropriations for 2013/14

Purpose of report

1. Section 129 of the Electricity Industry Act 2010 (the Act) requires the Electricity Authority (the Authority) and the Energy Efficiency and Conservation Authority (EECA) to consult on proposed appropriations for the coming year. A combined consultation paper was published.
2. Consultation has been completed and the submissions considered. The purpose of this paper is to set out the Authority's appropriations proposal after consideration of the submissions.
3. EECA will provide a separate report on its proposed levy-funded electricity efficiency appropriation.

Consultation

4. The appropriation consultation paper was released on 25 September 2012 and submissions closed on 2 November 2012. The consultation paper is included as appendix A.
5. In conjunction with seeking submissions on the appropriations themselves, the Authority sought feedback regarding its work priorities.
6. The Authority will shortly publish the submissions, and a summary of submissions.

Submissions on the consultation document

7. Twelve submissions were received, from:
 - (a) Major Energy Users' Group (MEUG)
 - (b) Domestic Energy Users' Network (DEUN)
 - (c) Genesis Energy (genesis)
 - (d) Meridian Energy Limited (Meridian)
 - (e) Contact Energy (Contact)
 - (f) Mighty River Power (MRP)
 - (g) New Zealand Wind Energy Association (NZWEA)
 - (h) Powerco
 - (i) Orion
 - (j) Vector
 - (k) Transpower New Zealand (Transpower)
 - (l) KNX.¹

¹ The KNX document did not appear to provide a submission on the Authority's appropriations and work priorities. No relevant comments could be found. It is listed in this report for completeness only.

8. A summary of submissions is provided in appendix B. The summary analyses submissions according to the following deliverables in the planning process:
 - (a) appropriations report to the Minister (this report)
 - (b) Statement of Intent (SOI)
 - (c) The authority's internal Work Programme.

Appropriation levels generally

9. There was some support for the proposed appropriations.
10. Several submitters supported the Authority's commitment to maintaining its own operating costs. Others suggested that they should be further reduced. The Authority is proposing a \$0.5 million reduction from the amount consulted on for its electricity governance and market operations appropriations.

Service provider costs

11. Increases in service provider costs were noted, in particular for the implementation of section 42 matters and capital investment by Transpower as the system operator.
12. These cost increases were generally accepted. However, some submissions indicated a desire to see more cost-control pressure exerted on the system operator and more transparency around the system operator projects and performance measures.
13. The Authority notes that on-going cost-control for both the Authority and all of its service providers is a key priority for 2013/14.

Workload

14. Many of the submissions commented that there were too many projects in the Authority's proposed work programme. Comments included:
 - (a) the capacity of the Authority and participants to complete the planned work
 - (b) the need to ensure the major changes over the past year are well bedded in before further changes are implemented
 - (c) having a smaller, more focussed work programme
 - (d) reducing the cost to levy payers by reducing or spreading out the work programme timeframe.
15. The Authority has noted these concerns. The \$0.500 million reduction in the appropriation proposal will necessitate revisions to the proposed work priorities. The Authority will publish its finalised work programme in June 2013.

Project detail

16. A large number of project-specific comments were provided. These comments are being considered by the Authority as part of the process for developing its Statement of Intent and internal work programme.

Improving the Authority's processes

17. A number of submissions commented positively on Authority processes and they commented specifically on the increased transparency, greater use of working groups and the extent to which the Authority is getting out and meeting with the industry "on site". Comments were also received about possible improvements in the Authority's operational and planning processes. These have been included in section 8 of the summary of submissions (appendix B).

Appropriation proposal after consultation

18. Table 1 sets out the appropriations being sought by the Authority. Key points to note in the proposed appropriations are:
- (a) The Authority's **electricity industry governance and market operations** appropriation is increased by \$4.240 million
 - (b) This **electricity industry governance and market operations** appropriation proposal is \$0.500 million less than the amount consulted on. This adjustment includes fulfilling a commitment to Cabinet that the Authority would part-fund the establishment and on-going operation of the financial transmission rights market
 - (c) There is no change proposed to the **security management and electricity litigation fund** appropriations
 - (d) 2013/14 is the final year of the **promoting and facilitating consumer switching** appropriation (ending on 30 April 2014) and the appropriation proposal is for the forecast remaining unspent proportion of the multi-year appropriation.

Table 1: appropriations proposal after consultation

Electricity Authority	(\$ million)		
	2011/12 actual	2012/13 appropriations	2013/14 appropriations proposal
Total: Electricity industry governance and market operations appropriation	59.783	63.906	68.146
Security management appropriation	n/a	6.000 over five years (2012/13 to 2016/17)	
Promoting and facilitating customer switching appropriation	3.409	3.500	2.092
Electricity litigation fund appropriation*	0.333	0.444	0.444

Note * The Electricity litigation fund appropriation is to provide funding to ensure that the Authority is able to participate in litigation effectively and without delay. This is a Crown expense appropriation, which is drawn on only for major litigation. There is no output class for this appropriation.

Electricity industry governance and market operations

19. The **electricity industry governance and market operations** appropriation covers the operation and governance of New Zealand's electricity market under the Act, Code and regulations. This includes Board member costs, costs for advisory groups and the Security and Reliability Council, supporting the Rulings Panel, and the general operations of the Authority, including the following functions required by the Act:

- (a) operation of the electricity system and markets
 - (b) market development
 - (c) compliance
 - (d) industry monitoring and information
 - (e) security of supply governance.
20. Approximately two-thirds of the appropriation is to fund service provider contracts—\$48.421 million (\$43.681 million in 2012/13) of the proposed appropriation. Of that amount \$38.137 million (\$35.274 million in 2012/13), or 56 percent of the appropriation, is for system operator costs excluding emergency management actions.
21. Increased costs are primarily as a result of:
- (a) implementation of Code amendments that the Authority completed as required before 1 November 2011 in accordance with section 42 of the Electricity Industry Act (about 20 percent of the increased cost)
 - (b) capital investment by the statutory monopoly system operator (Transpower NZ) (about 80 percent of the increased cost).

Promoting and facilitating customer switching

22. The proposal for funding for this appropriation is unchanged from that approved by Cabinet as a part of the electricity reforms in 2010. A \$15m fund was established covering the period from 1 November 2010 to 30 April 2014 to promote to consumers the benefits of comparing and switching electricity retailers. Of this:
- \$4.500 million is administered by the Ministry of Consumer Affairs (MCA) in a multi-year appropriation through Vote Consumer Affairs for upgrading and promoting the Powerswitch website
 - \$10.500 million is administered by the Authority to encourage consumers to compare the benefits of switching retailers.
23. 2013/14 is the final year of the approved funding. The Authority plans to continue the What's My Number campaign in 2013/14, as it has recently been expanded to cover small and medium sized enterprises.
24. Joint programmes with welfare organisations, such as the Citizens Advice Bureau, will also be continued.
25. The Retail Advisory Group is conducting a review of the consumer switching fund programme and a report is expected to be completed in the second half of the 2013 calendar year.

Conclusions

26. The Authority has consulted levy payers on its proposed appropriations for 2013/14 as required by the Electricity Industry Act 2010.
27. The Authority has taken into consideration the views expressed in submissions.

28. The appropriations proposal has been reduced by \$0.500 million from that consulted on to address savings committed to as part of the FTR implementation.
29. The appropriations and key projects will be reflected in the Authority's draft Statement of Intent (SOI), to be provided to you in late March or early April 2013.
30. Detailed project priorities will be reviewed to address the feedback prior to finalisation of the Authority's internal work programme for the year.

Communication

31. The Authority will publish the submissions and the attached summary of submissions shortly.
32. In the interests of transparency, the Authority recommends that you agree to the publication of this report.

Recommendations

33. The Authority recommends that you:
 - a. **note** that the Authority has completed consultation on its proposed appropriations in accordance with section 129 of the Electricity Industry Act 2010 and has considered submissions received;
 - b. **note** that, having considered submissions, the Authority recommends the following appropriations:
 - i. \$68.146 million for electricity industry governance and market operations;
 - ii. \$1.200 million for security management (part of the \$6m multi-year appropriation covering 2012/13 to 2016/17);
 - iii. \$2.092 million (1 July 2013 – 30 April 2014) for promoting and facilitating consumer switching;
 - iv. \$0.444 million for the electricity litigation fund;
 - c. **note** that the proposed electricity industry governance and market operations appropriation includes an increase of \$4.240 million to the approved baseline;
 - d. **agree** to submission of the above appropriations into the Budget process;
 - e. **agree** to publication of this report; and
 - f. **note** that the Authority's work priorities will be further refined and a draft Statement of Intent will be provided to you for comment in late March or early April 2013.



Brent Layton
Chair
Electricity Authority

 Agreed / agreed with amendments / not
agreed



Hon. Phil Heatley
Minister of Energy and Resources

Appendix A: Consultation paper: 2013/14 Appropriations and Work Priorities, and EECA Work Programme

Appendix B: Summary of submissions: Electricity Authority 2013/14 Appropriations and Work Priorities

Summary of Submissions

2013/14 Appropriations and 2013-2016 Work Priorities Information paper

December 2012

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Executive summary

Twelve submissions were received, from: Major Energy Users' Group (MEUG); Domestic Energy Users' Network (DEUN); Genesis Energy (genesis); Meridian Energy Limited (Meridian); Contact Energy (Contact); Mighty River Power (MRP); New Zealand Wind Energy Association (NZWEA); Powerco; Orion; Vector; Transpower New Zealand Limited (Transpower); and KNX.

The summary of submissions analyses input in terms of the Authority's three key planning documents:

1. appropriations report to the Minister—due to be sent early in the 2013 calendar year (see section 5)
2. Statement of Intent (SOI) for 2013–2016—draft to be provided to the Minister in April 2013 (see section 6)
3. work programme—to be finalised in late June or early July 2013 (see section 7).

The analysis of the comments in submissions in this report is focussed on those matters to be addressed in finalising the proposed appropriations.

More detailed consideration of submissions will follow in the process of developing the SOI for 2013–2016 and the Authority's internal work programme.

Other matters were raised in submissions (see section 8). These will be given consideration as part of the on-going improvement of the Authority's planning and operating processes.

Overall appropriations proposal

There is some support for the overall appropriation levels sought.

Several submitters supported the Authority's commitment to maintaining its own operating costs.

However, others suggested that in an overall environment of belt-tightening and restraint all costs should be looked at for potential reduction, or further reduction.

Cost increases, other than directly associated with implementation of Code amendments or producing measurable service improvements were not generally supported.

These matters are being further examined in order to determine the final level of the *Electricity industry governance and market operations* appropriation to be sought for 2013/14. This will include a review of the Authority's budget to seek further savings and value for money improvements not already being implemented.

Service provider costs

Increases in a range of service provider costs were noted, in particular for the implementation of section 42 matters and other capital investment by Transpower. There was general acceptance that the Authority has to pass on service provider cost increases.

Some submissions indicated a desire to see more cost-control pressure exerted on the system operator and more transparency around the system operator projects and performance measures.

The Authority has noted that it has little control over the system operator's costs and is working to improve this situation. A review of the system operator service provider agreement (SOSPA) contract is being sought. The Authority considers that the global and national environment provides a strong requirement to examine all possible means of fiscal constraint. The Authority is looking to itself and all of its providers to restrain costs to levy payers, and ultimately all electricity consumers in New Zealand.

The Authority notes that only approximately 20 percent of the system operator capital-related costs are related to implementing Code amendments. It is working on improving its project planning and joint planning with the system operator to better forecast and communicate these costs in the future.

Statement of Intent input

Several comments were made in relation to development of the Authority's SOI. These comments will be given detailed consideration during preparation of the draft SOI for consideration by the Board in April 2013.

Workload

Several submissions commented that there are too many projects in the Authority's proposed work programme for 2013/14 and beyond. Comments included:

1. the capacity of the Authority and participants to complete the planned work
2. the need to ensure the major changes over the past year are well bedded in before further changes are implemented
3. having a smaller, more focussed work programme
4. reducing the cost to levy payers by reducing or spreading out the work programme timeframe.

These comments are being addressed in assessing the high-level work programme priorities for 2013/14. They have also been considered as part of the budget development and finalising the appropriations proposal.

Further consideration is to be given to the workload issues and the potential benefits of projects (in terms of the Authority's statutory objective and cost benefit assessment) prior to finalising the work programme for 2013/14.

Development of the work programme will also further consider alignment, dependencies and sequencing of projects.

Project detail

A large number of project-specific comments were provided. There were a range of comments seeking higher or lower priority for specific projects. Several submitters suggested more rigorous prioritisation based on cost-benefit analysis and intended outcome contributions.

These comments are being considered by the Authority as part of the process for developing its SOI (SOI) and internal work programme.

Improving the Authority's processes

A number of submissions made comments about possible improvements in the Authority's operational and planning processes. Comments were made in support of continuing to improve the role of advisory groups and for continued improvement in engagement with stakeholders.

Some of these comments will be addressed in the normal course of business and others will be addressed in the development of the work programme.

Glossary of abbreviations and terms

Act	Electricity Industry Act 2010	MUoSA	Model use of systems agreement
AMI	Advanced metering infrastructure	NPB	Net public benefit
AUFLS	Automatic under-frequency load shedding	NPV	Net present value
Authority	Electricity Authority	NZWEA	New Zealand Wind Energy Association
CBA	Cost benefit assessment	POCP	Planned outage coordination protocol
Code	Electricity Industry Participation Code 2010	RAG	Retail Advisory Group
CRE	Competition, reliability and efficiency (components of the Authority's statutory objective)	Regulations	Electricity Industry (Enforcement) Regulations 2010
DD	Dispatchable demand	SO	System operator
DEUN	Domestic Energy Users' Network	SOI	Statement of Intent
EA	Electricity Authority	SOSPA	System operator service provider agreement
EC	Electricity Commission	TPM	Transmission pricing
EECA	Energy Efficiency and Conservation Authority	Transpower	Transpower New Zealand Limited
FTR	Financial transmission right	UFE	Unaccounted for energy
MBIE	Ministry of Business, Innovation and Employment	UTS	Undesirable trading situation
MEUG	Major Energy Users' Group	VoLL	Value of lost load
MFE	Ministry for the Environment	WAG	Wholesale Advisory Group
Minister	Minister of Energy and Resources	WITS	Wholesale information and trading system
MRP	Mighty River Power		

1 Introduction and purpose of this report

- 1.1 Submissions were sought on the proposed 2013/14 annual appropriations for the Electricity Authority (Authority), and those activities of the Energy Efficiency and Conservation Authority (EECA) and Consumer Affairs that are funded by the levy on industry participants. The appropriation consultation period commenced on 25 September 2012 and submissions closed on 2 November 2012.
- 1.2 In addition to appropriations information, the consultation paper included the following appendices:
- (a) appendix C provided information about the Authority's strategic priorities and outcomes
 - (b) appendix D provided information about the Authority's outputs
 - (c) appendix E included information about proposed Authority work priorities for 2013–2016
 - (d) appendix F provided additional information about EECA's levy-funded electricity efficiency programme priorities for 2013/14.

2 Background

- 2.1 Section 129 of the Electricity Industry Act 2010 (Act) requires the Authority and EECA to consult on proposed appropriations for the coming year. Section 129 states:

129 Consultation about request for appropriation

- (1) The Authority and the Energy Efficiency and Conservation Authority must, before submitting a request to the Minister seeking an appropriation of public money for the following year, or any change to an appropriation for the current year, that relates to costs that are intended to be recovered by way of levies under section 128, consult about that request with—
 - (a) those industry participants who are liable to pay a levy under that section; and
 - (b) any other representatives of persons whom the Authority believes to be significantly affected by a levy.
 - (2) Each Authority must, at the time when the request is submitted, report to the Minister on the outcome of that consultation.
 - (3) The Ministry must consult in a like manner in respect of a levy to recover costs referred to in section 128(3)(g).
 - (4) This section applies to requests in respect of the financial year beginning 1 July 2011 and later financial years.
- 2.2 The Authority also consulted stakeholders about the details of proposed projects for its work programme.
- 2.3 EECA provides a separate report to the Minister on its proposed electricity efficiency appropriation.

3 Submissions

3.1 Submissions were received from:

- (a) Major Energy Users' Group (MEUG)
- (b) Domestic Energy Users' Network (DEUN)
- (c) Genesis Energy (Genesis)
- (d) Meridian Energy Limited (Meridian)
- (e) Contact Energy (Contact)
- (f) Mighty River Power (MRP)
- (g) New Zealand Wind Energy Association (NZWEA)
- (h) Powerco
- (i) Orion
- (j) Vector
- (k) Transpower New Zealand (Transpower)
- (l) KNX.¹

3.2 The submissions will be published at the same time as this report.

¹ The KNX document did not appear to provide a submission on the Authority's appropriations and work priorities. No relevant comments could be found. It is listed in this report for completeness only.

4 Consultation questions

- 4.1 The consultation paper included the following specific questions seeking feedback to assist with the development of the 2013/14 appropriations proposal, the 2013–2016 Statement of Intent (SOI), and the 2013–2016 work programme.

Authority appropriations questions

- 4.2 Comment was invited on the appropriations proposal:

Question 1: The overall proposed Electricity Authority appropriations as set out in table 1 of the consultation paper.

Question 2: The proposed changes to Authority appropriations.

Question 3: Other key matters relating to the Authority's overall appropriations that you consider the Authority should address in the 2013–2016 timeframe.

Statement of Intent questions

- 4.3 Input was sought on improving the Authority's non-financial performance information for its 2013–2016 Statement of Intent. (See pages 7 to 17 of the 2012–2015 Statement of Intent.)

Question 4: What changes in the Authority's operating environment do you consider need to be addressed in developing plans for 2013–2016?

Question 5: What are the key issues you consider the Authority needs to address?

Question 6: How should the Authority update its strategic priorities to reflect the environment and key issues?

Question 7: How could the Authority improve its outcome measures?²

Question 8: How could the Authority improve its output³ and impact⁴ measures?

Work programme questions

- 4.4 Comments were invited on the proposed projects for 2013–2016 as set tables A to G in appendix E of the consultation paper.

Question 9: Comments were sought on the level of support for the overall suite of proposed projects as outlined in the consultation paper.

Question 10: Comments were sought on the priorities assigned to proposed projects overall.

Question 11: Comments on specific proposed projects.

Question 12: Suggestions were invited for projects that the Authority should consider for its work programme that were not listed in the consultation paper.

² Outcome means a state or condition of society, the economy, or the environment, and includes a change in that state or condition. *s2 Public Finance Act 1989.*

³ Outputs (a) means goods or services that are supplied by a department, Crown entity, Office of Parliament, or other person or body; and (b) includes goods or services that a department, Crown entity, Office of Parliament, or other person or body has agreed or contracted to supply on a contingent basis, but that have not been supplied. *s2 Public Finance Act 1989.*

⁴ Impact means the contribution made to an outcome by a specified set of outputs, or actions, or both. *s2 Public Finance Act 1989.*

5 Analysis of responses relating to appropriations

- 5.1 The analysis framework follows the questions posed in the consultation paper, grouped according to the deliverables of the planning process ie the appropriations report to the Minister, SOI and work programme.

Question 1: Comments on the overall proposed Electricity Authority appropriations as set out in table 1 of the consultation paper

Comments provided in submissions

- 5.2 The following comments were included in the submissions:

MEUG agrees the Authority operations should remain constant nominal at \$20.225m. This approach reflects the business environment most MEUG members currently operate in where there is no margin for any cost increases. MEUG

DEUN supports the overall reduction of \$1.506 million (in the budgets of both the Electricity Authority and Consumer Affairs) to promote and facilitate consumer switching. While much has been achieved, DEUN considers that there are diminishing returns from future expenditure.

However, DEUN is concerned that there is no rebalancing of this expenditure towards other matters of interest to residential users, which would also work towards the efficient and competitive operation of the market. DEUN

Given the level of information provided in table 1 and table 2 it is very difficult for Contact to comment on whether the proposed spend is appropriate. In particular we would be interested in understanding what is causing the Authority's personnel costs to increase by nearly \$1 million or 11% over FY13. Given the Authority's assertion that it has delivered on the seven priority initiatives, we would expect to see a decrease in staff numbers as opposed to an increase.

Additionally we would encourage the Authority to consider that for every \$1 million the Authority spends the industry has to spend that in multiples to catch up. Contact

Given the challenging economic climate and rising cost of electricity, it is vital that the Authority's expenditure is cost effective. Consequently, it is reassuring to see that the expenses of the Authority's operations will be held at the 2012/13 level and that inflation will be absorbed through cost saving measures. The Authority should continue to lever off the industry's abundant expertise when considering policy changes and we support the move to augment internal capabilities and reduce the use of external consultants. Powerco

We consider the increase is explainable given the significant market development underway but would expect further market development takes into account impacts on growth of the Authority's appropriation. Transpower

Authority response

- 5.3 The Authority notes that there is some support for the overall appropriation levels sought.
- 5.4 Several submitters supported the Authority's commitment to maintaining its own operating costs.

- 5.5 However, others suggested that in an overall environment of belt-tightening and restraint all costs should be looked at for potential reduction, or further reduction.
- 5.6 Cost increases, other than directly associated with implementation of Code amendments or producing measurable service improvements were not generally supported.
- 5.7 The personal costs increase is the result of the Authority's intention to develop internal workforce capability over the next year while reducing the reliance on external consultants and contractors. The expectation is that the more complex issues that the Authority has been dealing with will reduce over time.
- 5.8 These matters are being further examined in order to determine the final level of the *Electricity industry governance and market operations* appropriation to be sought for 2013/14. This will include a review of the Authority's budget to seek further savings and value for money improvements not already being implemented.
- 5.9 In relation to the comment by DEUN on the consumer switching fund. The Authority notes that the Retail Advisory Group is currently conducting a review of the programmes conducted and the results of this review will be published and fed into Budget 2014, if appropriate. In regard to the comment about rebalancing this funding towards other matters, it is noted that, as a separate appropriation, the consumer switching fund monies cannot be transferred to other Authority functions.

Question 2: Comments on the proposed changes to Authority appropriations

Comments provided in submissions

- 5.10 The following comment was made:

We would appreciate greater effort in explaining both the changes to, and context of, service providers' costs.

Transpower

Authority response

- 5.11 The appropriations consultation paper notes that there have been only four substantive changes to the service provider costs – the inflation adjustment of the system operator contract (\$0.548m), the system operator capital plan (\$2.863m), the establishment of the new FTR manager role (\$1.199m) and changes in depreciation and amortisation costs associated with the implementation of substantive Code amendments such as FTR trading, Part 10 and demand side bidding and forecasting (\$0.560m). There have been no substantive changes to the majority of the service provider roles, and the contracts for the provision of these services are all available on the Authority's website.
- 5.12 Of these cost changes, it is only the system operator capital plan where participants did not have access to information to explain how these costs had been established. The Authority provided an information paper on the system operator's capital plan as a supporting paper to the appropriations consultation to address this information gap. The information paper describes how this capital plan is incorporated into the service provider agreement, and the types of projects undertaken under the plan.
- 5.13 The Authority notes it had asked Transpower to publish and seek feedback on the system operator's capital plan earlier in 2012, but they declined to do so. That process would have provided Transpower with the opportunity to explain and provide suitable context for the increase in the costs for the provision of the system operator role.

Question 3: Other key matters relating to the Authority's overall appropriations that you consider the Authority should address in the 2013–2016 timeframe

- 5.14 The following other key matters relating to the appropriations have been raised in submissions:
- (a) system operator costs

- (b) other service provider costs
- (c) Authority operating costs.

System operator costs

Comments provided in submissions

5.15 The following comments were included in the submissions:

We feel that the discussion around the Authority's appropriations is disproportionately focussed on System Operator (SO) costs. The forecast for 2013/14 shows an 8% increase on the 2012/13 budget, mainly driven by capital expenditure on industry development initiatives led by the Authority. Other service providers' costs, including those of the newly appointed FTR manager, show an aggregate increase in costs to the industry of 22%. Taken all together we consider these increases reflect the significant industry development both underway and proposed. Just in the last twelve months the System Operator has completed 35 market system changes, including the Demand Side Bidding and Forecasting project.

Following the release of the consultation paper, the Authority made available the accompanying paper Information on System Operator capital expenditure plan. Although this paper sets out the System Operator's capital costs it does not give the full context of how these costs are derived and why there are variations from year to year. Annual cost variation is a result of several components, not just capital expenditure in the actual year. Other factors include the payment of wash-ups to the Authority and the beneficial effect of tax depreciation provided to the Authority in previous years.

The Authority has also used this consultation to raise a range of issues relating to the System Operator Service Provider Agreement (SOSPA). We consider that some of the proposals are a fundamental change to the existing bilateral arrangement, and impact on the Commerce Commission regulatory processes. We would therefore expect any discussion that takes place to be between the parties to the contract and until then it is premature to bring to a wider audience

Transpower

It is disappointing the system operator was not pro-active in consulting ahead of this consultation round on its work programme as suggested by the EA (refer paragraph 2.3.2). The system operator work is crucial to the quantum of levies participants will pay and the increase in levies compared to last year. In 2011/12 system operator costs were 54% of the electricity governance and market operations appropriations. For 2013/14 those costs will be 56% of the total. Increasing system operator costs would be acceptable if there were at the least an equivalent lift in service. It is not obvious that has occurred.

From an overall appropriations and governance view, reassessing the system operator service provider agreement (SOSPA) is essential (Projects 6 "Research project - efficiency of system operator arrangements" and 8 "System operation alignment review", listed as second priority projects for completion in 2013.14, p31)

MEUG

Of obvious note is the continued increase in service provider costs, both from the System Operator and from other service providers. ... we support the review of the System Operator arrangements.

Genesis

Having noted that proposed SO related costs account for over 50% of overall EA proposed budget increases, Meridian appreciates the Authority's efforts to ensure a companion paper on system-operator (SO) costs was provided. We, are, however, concerned that a process of consultation was not undertaken by the SO at an earlier stage.

Meridian agrees with the Authority's suggestion regarding the need for investment approvals to be granted on the basis of efficiency gains, improvements in service quality, and / or increases in the scope of services provided. We consider insufficient qualitative information has been provided in this instance to enable these criteria as well as the needs case more generally to be assessed for the SO's proposed expenditure and consequential levy increases.

Given these concerns, Meridian supports the Authority adopting a focus on seeking to improve the transparency of capital expenditure arrangements under the system operator service provider agreement (SOSPA).

Meridian

Mighty River Power welcomes the Authority's intention to look carefully at the significant and ongoing increases in system operator costs. Improving the transparency of such costs to levy payers will assist in reducing the uncertainty in the amount and timing of costs arising from capital investment.

MRP

The overall proposed increase in Electricity Authority appropriations between 2012/13 and 2013/14 is approximately 7.5%. We recognise that a significant portion of this is due to the funding of capital related to System Operator costs and we accept that funding in this area is required from time to time. However, we agree with the Authority that greater transparency of capital arrangements and proposed capital expenditure is needed to ensure that these costs are justified and unavoidable.

Powerco

Authority response

- 5.16 The Authority notes that almost all submissions on the question of system operator costs indicate a desire to see more cost-control pressure exerted on the system operator and more transparency around the system operator projects and performance measures.
- 5.17 The Authority has noted that it has little control over the system operator's costs and is working to improve this situation. A review of the system operator service provider agreement (SOSPA) contract is being sought.
- 5.18 The Authority considers that the global and national environment provides a strong requirement to examine all possible means of fiscal constraint. The Authority is looking to itself and all of its providers to restrain costs to levy payers, and ultimately all electricity consumers in New Zealand. Excluding the fee changes resulting from the implementation of new Code amendments (that have been justified through appropriate cost-benefit analysis), significant cost reductions have been achieved across the other service provider roles.
- 5.19 The Authority notes that only approximately 20 percent of the system operator capital-related costs are related to implementing Code amendments for new market initiatives. The remaining 80 percent relate to the system operator's own systems and activities. The Authority is working on improving its project planning and joint planning with the system operator to better forecast and communicate these costs in the future.
- 5.20 The Authority considers that levy payers have a legitimate interest in the Authority's overall intentions in managing the system operator service provision. This interest relates to the services provided and the costs that are met through the levy. Transpower is the monopoly provider of system operator services, and the Authority considers it is appropriate for levy payers to

understand how the contract between the parties can impact on the costs for the provision of these services.

Other service provider costs

Comments provided in submissions

5.21 The following comments were included in the submissions:

The proposed \$1.877m increase for other service providers is a consequence of committed new projects. We have previously submitted that the FTR development costs (\$1.199m share of the other service provider cost increase) should have been amortised and recovered from those parties participating in the FTR market. That view still stands.

MEUG

The increase in costs for 'other service providers' by 14% in 2013/14 (discounting the costs of establishing the new FTR market) should be closely scrutinized, both in terms of minimising and reducing costs while ensuring tangible customer and market benefits are achieved.

Genesis

We note that other contracted service providers (WITS, Reconciliation Manager and Registry) show a decrease between the 11/12 actuals and the 12/13 budget appropriation. We would appreciate understanding the reasons for these changes.

Transpower

Authority response

- 5.22 In relation to the comment from MEUG, it is noted that the Authority is not currently able to set targeted levies (i.e. so that only those parties trading in the FTR market pay the costs for the operation of that market). Subsequent to MEUG's submission the Authority released a consultation paper (on 23 November 2012) proposing amendments to the Electricity Industry Act 2010 to enable the introduction of user fees, which could in the future be applied to the FTR market.
- 5.23 In relation to the comment from Genesis, the Authority notes that the cost increases in this area are of the depreciation and amortisation of the capital costs for the implementation of Code amendments such as demand side bidding and forecasting, the new Part 10 and the FTR market.
- 5.24 The service provider agreements for WITS, reconciliation manager, pricing manager and clearing manager provided for a 20 percent reduction in the fees in the event all four agreements were renewed for a further three years upon the expiry of the initial five year term on 30 April 2013. The fee reduction reflects the expectation the service provider will have achieved efficiency gains across the contracts over the initial term and the avoidance of re-tendering costs. The fee reduction comes into effect from 1 July 2012. The Authority has negotiated further cost savings and efficiency gains during the renewal process.

Authority operating costs

Comments provided in submissions

5.25 The following comments were included in the submissions:

While we are pleased to see that the Authority's operational costs are not forecast to increase from the 2012/13 budget, (Table 2, 2013/14 Appropriations Paper) we are disappointed that the Authority has not yet taken advantage of removing costs following the Section 42 achievements, nor demonstrated clear efficiency gains in how it manages its own operating costs. Table 2, 2013/14 Appropriations Paper: external

advice costs decrease from \$8 million (2012/13 budget) to \$6.9 million (2013/14 forecast), but personal costs increase from \$8.5 million to \$9.5 million. We have previously noted our expectation that the Authority should demonstrate efficiency gains or increased value for money, given its narrower set of functions, tighter statutory objective and greater use of advisory groups for market development work, when compared to the previous Electricity Commission. (Genesis Energy supports the Authorities focus on implementing the Ministerial Review, Genesis Energy submission to the Electricity Authority, 22 December 2012).

Genesis

We also note that the Authority intends to meet any inflationary pressures on its own operational costs via cost savings, particularly by developing internal capabilities rather than relying on external consultants. We consider that cost reduction could also be effectively achieved by greater refinement of work priorities through adopting a market vision and greater clarity around project materiality thresholds.

MRP

Given the challenging economic climate and rising cost of electricity, it is vital that the Authority's expenditure be seen to be cost effective. Consequently, it is reassuring to see that the costs of the Authority's operations will be held at the 2012/13 level and that inflation will be absorbed through cost saving measures. This goes a significant way to offsetting the increase in System Operator and other service provider increases.

Powerco

Vector supports the Authority's effort to build its internal capability and reduce reliance on consultants. However, it is unclear why this does not reduce operation costs to below the status quo. Intuitively, we would expect that a reduction in expenditure on external consultants would lead to overall cost savings, even after allowing for wage increases after inflation. Therefore it is not clear that there is justification for operation costs to remain unchanged.

Vector

A key issue for the Authority to address is how to accommodate possible market development proposals that have been industry-identified. One of the key aims for establishing the Electricity Authority was to enable more responsive Code development

Transpower

Authority response

- 5.26 The Authority notes that several submitters supported the Authority's commitment to maintaining its own operating costs.
- 5.27 However, others suggested that in an overall environment of belt-tightening and restraint all costs should be looked at for potential reduction, or further reduction. The Authority is proposing to hold its own costs constant over the two year period, in real terms this is a reduction of approximately \$1.2 million.
- 5.28 In response to the Genesis comment regarding their expectation that the Authority should demonstrate efficiency gains or increased value for money, given its narrower set of functions, tighter statutory objective and greater use of advisory groups for market development work, when compared to the previous Electricity Commission (EC), it should be noted that the Authority is responsible for the majority of functions that were previously carried out by the EC. The level of funding determined by Cabinet in establishing the Authority was that it would require a similar level of resources to the EC. The Authority did not receive additional resources in relation to its new obligations in relation to industry compliance, including monitoring and undertaking compliance and exemption requirements for lines and energy separation provisions (previously the responsibility of the Commerce Commission). It was expected that the costs of the new

obligations would be met through reprioritisation by the Authority and from savings from the Authority not carrying out the activities in relation to consumer fairness and equity issues. The electricity efficiency programmes undertaken by the EC were transferred to ECCA from 1 November 2010, including the transfer of the appropriation.

- 5.29 The amount required for governing the electricity industry decreased by \$1.034 million in 2010/11 and \$1.550 million per annum thereafter relative to the EC as follows:
- (a) a decrease of \$0.733 million in 2010/11 and \$1.100 million per annum thereafter as assessment of grid upgrade plan proposals transferred to the Commerce Commission
 - (b) a decrease of \$0.227 million in 2010/11 and \$0.340 million per annum thereafter as work to develop supply and demand scenarios transferred to MED
 - (c) a decrease of \$0.074 million in 2010/11 and \$0.110 million per annum thereafter for the Authority's overheads relative to the Commission.
- 5.30 In relation to MRP's suggestion about adopting a market vision and greater clarity around project materiality thresholds, it is noted that a market vision is being prepared and this is addressed in paragraph 6.6 below. The Authority will continue to pursue initiatives that deliver long-term benefit to consumers provided they show positive cost-benefit. The Authority is focusing on projects with High NPV (with High, Medium and Low defined in the consultation document).
- 5.31 In relation to Transpower's suggestion that the Authority address how to accommodate possible market development proposals that have been industry-identified, the Authority notes that it maintains and publishes a Code amendment register that lists stakeholder-initiated requests for Code amendments. This is available at <http://www.ea.govt.nz/act-code-regs/code-regs/code-changes/>. Furthermore, as part of the annual appropriations consultations process, the Authority requests feedback from stakeholders on its future work programme. This process can be used by stakeholders, including participants, to propose market development proposals.
- 5.32 These matters are being further examined in order to determine the final level of the Electricity industry governance and market operations appropriation to be sought for 2013/14. The comments do not impact the other appropriations.

6 Analysis of responses relating to SOI development

- 6.1 Input was sought on improving the Authority's non-financial performance information for its 2013–2016 Statement of Intent. (See pages 7 to 28 of the 2012–2015 Statement of Intent.)
- 6.2 Four questions were posed. Some of the comments provided in submissions covered more than one question but have only been included once below.

Authority response covering questions 4 to 8 below

- 6.3 The Authority has provided responses to some of the comments provided in submissions in the following sections.
- 6.4 In addition, the comments from submissions will be given further consideration during the development of the SOI. The review of the SOI performance information will address all of the relevant comments as well as further research into New Zealand and international practice.
- 6.5 The Authority provides a draft SOI to the Minister for comment in about April each year. The final SOI is published the day after Budget day (generally in mid to late May).
- 6.6 In relation to setting out a clearer long-term vision for the market it is noted that the Authority is currently developing a 10 year roadmap. This is expected to address some of the desire for a clearer long-term view. The road map work and the 2012–2015 SOI specifically consider the New Zealand Energy Strategy as part of the strategic context for the Authority's work.

Question 4: What changes in the Authority's operating environment do you consider need to be addressed in developing plans for 2013–2016?

Comments provided in submissions

6.7 The following comments were included in the submissions:

Given the industry's current operating environment is one of belt-tightening, in our view the Authority should be trying to minimise both costs and workload.

Contact in its recent submission to the Commerce Commission on the Electricity Default Price Quality Path also noted that regulated lines company businesses need to review their operating budgets. In our view the Authority should look closely at the projects it is proposing to ensure that in constrained economic times it is focusing its resources on what is necessary.

Contact

Last year the Government released an updated energy strategy. The strategy retains the target of 90% renewable electricity generation by 2025 (in an average hydrological year). Confirming of this policy is an important part of the Authority's operating environment. We would like the Authority to clearly articulate the steps it is taking to help New Zealand achieve this energy strategy target in its work programme.

NZWEA

Changes to the market supply and demand balance given possible decisions of large users and generally flattening demand.

Transpower

Authority response

6.8 In response to the comment from NZWEA, the Authority's statutory objective does not include renewable energy or other environmental goals. Accordingly, the Authority is not taking direct steps to promote the attainment of the 90% renewable target. However, many of its projects to improve market performance indirectly support the goals of the Strategy.

6.9 Other goals of the energy strategy are relevant for the Authority. The secure and affordable goals of the strategy, especially its sub-goals, competitive energy markets and reliable electricity system are relevant. With regards to these matters the Authority has a number of projects on its work programme to improve competition and reliability.

Question 5: What are the key issues you consider the Authority needs to address?

Comments provided in submissions

6.10 The following comments were included in the submissions:

DEUN considers that the Authority needs to address ways in which residential consumers can genuinely gain more market power. This needs to go well beyond consumers selecting the best priced power plan from several very similar offerings.

DEUN notes that in the feedback from stakeholders survey, carried out in 2011, the level of competition in the electricity industry was rated poorly by over 50% of respondents.

In the same feedback survey, stakeholders strongly disagreed that the current arrangements in the retail market facilitate timely and innovative investment in the electricity system.

While the promotion of consumer switching may have helped competitiveness in the short term, in the longer term, DEUN considers much more needs to be done to address structural issues in the market.

DEUN

In setting out its proposed projects it would be helpful if the Authority identified the outcome being sought, in the same way it does with its annual report; that is, would the proposed project be likely to improve competition, reliability or efficiency? In our view, it is very difficult to ascertain whether a project should proceed on the basis of the project's size and net public benefit. We would also like to see projects ranked in order of priority. Given the current top priority project for market development is Efficient Allocation of Extended Reserves, we do not believe that this is currently the case.

Contact

As outlined above issues that we consider the EA needs to focus on are; Reducing gate closure time, enabling wind to bid into the market, enabling wind to participate in the ancillary services market.

NZWEA

How to develop effective evaluation methods for already-initiated projects.

Transpower

Authority response

- 6.11 The Authority notes DEUN's comments about improving competition. The primary focus of the Authority's strategies and projects in its first two years, and continuing into 2013/14 is in fact on pro-competition initiatives across the industry. While these may not be directly visible to residential consumers the benefits are aimed firmly at long-term benefits for all consumers.
- 6.12 The Authority agrees with Contact's suggestion to identify the outcomes being sought from a particular project and already do so in the planning process. We will provide information on this assessment for future consultations on our work programme. However, the Authority does not intend to move to more granular ranking of projects. We consider that the current approach to project prioritisation- top priority, 2nd priority, 3rd priority and future/pending is sufficient.
- 6.13 In regards to Transpower's comment on effective evaluation methods for already-initiated projects, the Authority notes that it conducts cost-benefit analyses for all Code amendments and follows the good regulation-making processes set out in its Code development principles. This process affords the Authority with sufficient flexibility to amend or even cancel a project if circumstances change once a project has been initiated to the extent that a project is no longer likely to deliver a net public benefit. A good example of this is the recent change in approach for the Dispatchable Demand project.
- 6.14 Further, many projects once implemented, eg the section 42 projects, will be subject to post-implementation reviews.

Question 6: How should the Authority update its strategic priorities to reflect the environment and key issues?

Comments provided in submissions

- 6.15 The following comments were included in the submissions:

DEUN would like to see a strategic priority being the reduction in peak load relative to average load, for all classes of consumers. This would meet the Authority's objective for efficiency by enabling better utilisation of existing transmission assets and reducing the need to use more costly peaking thermal generation. It would also make sense

from an environmental perspective, and would hopefully lead to more cost-effective energy for residential users.

DEUN

The Authority's strategic priorities should be amended to reflect that development of the hedge market has probably reached its potential. Further targeting of increased volume is unlikely to result in any significant benefits.

Contact

As advocated in its previous submissions, Mighty River Power considers that a proactive step the EA should take is to develop a coherent vision for the development of the market. This would clearly set out the key strategic priorities as supported by industry and other key stakeholders and then have various work programmes allocated under these priorities. This will help to focus and keep coherent the various regulatory work streams and provide greater regulatory certainty to participants.

MRP

The strategic priorities should be updated to reflect the 90% renewable electricity generation target. The EA should outline the steps it will take to assist with achieving this target.

NZWEA

We would prefer a broader description of the industry issues that the Electricity Authority considers are problematic and the projects thought necessary to remedy them.

Transpower

Authority response

- 6.16 In regard to the comments from NZWEA, the Authority's statutory objective and statutory functions do not include renewable energy or other environmental goals. Accordingly, the Authority's strategies do not include renewable energy targets. Other government agencies, such as the Ministry for the Environment (MFE), are responsible for environmental aspects of energy regulation. Eg MFE recently released the National Policy Statement for Renewable Electricity Generation.
- 6.17 In regard to Transpower's comment, the Authority is open to considering a broader description of industry issues that it considers are problematic and the projects thought necessary to remedy them. The Authority is currently preparing an indicative Road Map and as part of this process will investigate the potential to identify a broader set of issues (and description thereof) that could be addressed.

Question 7: How could the Authority improve its outcome measures?⁵

Comments provided in submissions

- 6.18 The following comments were included in the submissions:

There is a need for metric(s) to measure progress towards becoming a world class electricity regulator.

MEUG.

⁵ Outcome means a state or condition of society, the economy, or the environment, and includes a change in that state or condition. s2 Public Finance Act 1989.

A key organisational development strategic priority for the Authority is “delivering productivity and quality gains at the Authority and its service providers” (Electricity Authority Statement of Intent 2012–2015). We consider that, as a basic principle, the management of the Authority’s own costs, and those of service providers, are key measures of success against this priority.

Genesis

By explicitly including the reduction of compliance costs as an outcome measure.

Powerco

Authority response

- 6.19 The Authority considers the matters raised in the above comments are valid measures, but more applicable to output and input measurement than the measurement of outcomes. The Authority will consider these suggestions further in the development of its SOI.
- 6.20 In regard to MEUG’s comment, the Authority is currently seeking to define measures for its vision of being recognised as a world class regulator. Question 8: How could the Authority improve its output⁶ and impact⁷ measures?

Comments provided in submissions

- 6.21 The following comments were included in the submissions:

It should include an estimate of the change to industry compliance costs that result from amendments to the Electricity Industry Participation Code as an explicit impact measure.

Powerco

Market Monitoring: Consistent with previous comments, Meridian submits greater clarity is needed on how market monitoring investigations will feed into future market design work. Has the Authority considered a formal rule change proposal list arising from these investigations?

Meridian

Authority response

- 6.22 The Authority considers the matters raised in the above comments are valid measures. The Authority will consider these suggestions further in the development of its SOI.
- 6.23 In regard to Meridian’s comment, the Authority has existing internal planning processes to ensure market performance findings are addressed in the planning process. Consideration will be given to how this process can be made more transparent. .

7 Analysis of responses relating to the work programme

Question 9: Comments on level of support for the overall suite of proposed projects

- 7.1 Comments were invited on the overall suite of proposed projects for 2013–2016 as set tables A to G of appendix E of the consultation paper.
- 7.2 Comments on overall Authority priorities have been grouped into three sets below. However, there was considerable overlap in the nature of the comments covering the three sets.

⁶ **Outputs** (a) means goods or services that are supplied by a department, Crown entity, Office of Parliament, or other person or body; and (b) includes goods or services that a department, Crown entity, Office of Parliament, or other person or body has agreed or contracted to supply on a contingent basis, but that have not been supplied. s2 *Public Finance Act 1989*.

⁷ **Impact** means the contribution made to an outcome by a specified set of outputs, or actions, or both. s2 *Public Finance Act 1989*.

- (a) **Prioritisation process** – comments were made on how the Authority should be prioritising its work programme.
- (b) **Authority workload** – several submissions indicate a view that the Authority is taking on too much work and that this may adversely impact its ability to deliver the highest priority projects on time and to a high quality standard.
- (c) **Stakeholder workload** – several submissions indicate a heavy workload for stakeholders in contributing to consultation processes and implementing changes. Workload and compliance costs are considered significant issues.

Comments provided in submissions – prioritisation process

7.3 The following comments were included in the submissions:

We suggest that the Authority creates space in its programme for recognising industry-initiated Code changes.

We consider net public benefit a useful selection tool. Also, many projects are interrelated and the prioritisation in the work programme could better reflect that. Projects that are currently underway or will start in the near future have been scoped in terms of effort required by the Authority and industry participants. Projects yet to start need to undergo this level of detailed planning to assess if the milestones indicated are realistic

Transpower

The Authority should consider its proposed projects and appropriations through the lens of “must haves” rather than “nice to haves”. The proposal to change the Transmission Pricing Methodology (TPM) will be a significant departure from current arrangements, and have such widespread impact across all participants that the Authority should focus its attention on this one new project throughout 2013-2016.

Contact

We are surprised that the paper still lists a number of projects that are described as having “low” public benefit. What is more some of these projects, for example “Breakdown of customer billings” and “Domestic contracting arrangements”, have only recently been through a consultation process and we had thought they were complete, or at least in a mode where some time could be allowed to pass to gauge the impact of the last process.

More generally the overall workplan appears to be somewhat “siloed”, with little attention paid to interdependencies and sequencing. A recent example is the load management decision referred to in paragraph 3 (of the submission).

Orion

Comments provided in submissions - Authority workload

7.4 The following comments were included in the submissions:

It's time to take stock – the work stream proposed by the Authority is ambitious and should be scaled back. Since the Authority's inception in November 2010, there has been a high level of activity resulting in a substantial workload for the Authority and its stakeholders. While a number of positive outcomes have been achieved for consumers (and the industry), we are concerned at the Authority's ongoing activity level, particularly when there appears to be no opportunity to review whether changes are effective before a further round of changes is implemented.

Focus on 'getting it right' – substance over quantity. In our view, the Authority's success will be determined by, and accordingly it should focus on, the quality of its outputs and thoroughness of its thinking, rather than the sheer volume of projects it undertakes. In our view, a handful of projects undertaken well will offer greater

benefits to consumers and the industry than the 10 implementation and review projects, the 10 priority projects and the 22 second-and third-priority projects that the Authority currently proposes take place over 2013/2014.

Over the next 12 months we would like to see the Authority focus on concluding its current work streams and undertaking post implementation reviews of its work to date in order to assess whether these work programmes have been successful in achieving their stated goals or require further adjustment before another round of changes is embarked upon. Our favoured approach would enable a rolling plan of work which combines reviewing completed adjustments, work in progress and preparing for new areas of focus.

... We reiterate our concern at the volume of activity proposed to be undertaken by the Authority over 2013/14 and would like to see the projects better prioritised. Contact

The Authority has outlined a very ambitious work programme. There are twenty 'top priority' projects for completion in 2013/14, 22 second and third priority projects, and a further eight projects that are expected to be underway during that year, but completed in 2014/15. Such an ambitious work programme raises concerns as to achievability, resourcing and implementation costs for the Authority, and for market participants, and in the prioritisation of the programme.

We would encourage the Authority to operate within the confines of the resources reasonably available to it, and to not unnecessarily overextend its work programme as this both over extends the Authority and market participants. To this extent, we suggest that the Authority review its work programme to identify those projects that are most likely to deliver substantial efficiency gains to the operation of the market for the long term benefit of consumers. Genesis

While Mighty River Power welcomes the above efficiency focus on the EA's operational costs, the consultation paper indicates that the current programme represents a heavy project workload for the Authority and by proxy stakeholders. Our primary concern is how this increased workload will be managed to ensure quality proposals are progressed with adequate time allocated for consultation.

While it is considered that the current workload should lessen in subsequent years as the EA moves away from implementation to focus on ongoing performance of the industry, Mighty River Power considers the EA should more clearly illustrate to participants the pathway to this transition.

The consultation paper highlights there are currently 32 disparate projects of varying priorities for delivery in 2013/2014. While several of these are residuals of Section 42 reforms, it is apparent that additional matters have been added to the EA work programme in an incremental manner. We note the purpose of the reforms establishing the Authority was to avoid a similar lack of work plan focus that had emerged in its predecessor the Electricity Commission over time.

The Authority has established an economic efficiency objective and requires any code amendments to proceed where net benefits can be clearly demonstrated or there is evidence of regulatory or market failure. Mighty River Power supports this approach and appreciates that quantifying efficiency benefits, especially those arising from dynamic responses into the future, can be an inherently uncertain exercise. MRP

We recommend the Authority prioritise quality over quantity by focusing on a smaller number of projects with high potential net benefits and devoting more time and resources to each one.

Powerco

...The Authority has promoted a rapid pace of change that has created a heavy workload for industry participants. This environment has stretched both the Authority's and industry participants' resources and, on occasion, has led to suboptimal final outcomes that have needed to be reworked. The proposed work programme for 2013/14 not only contains the same level of priority projects as previous years but also contains ten key implementation and review projects that will require significant industry participant resources.

The volume of consultations makes it difficult for some organisations, particularly the smaller ones, to consider and respond adequately to the Authority's proposals. We would recommend that the Authority prioritise quality over quantity by reviewing the number of priority projects it is committing to completing in 2013/14 and focusing on a smaller number of projects with high potential net benefits and devoting more time and resources to each one.

Powerco

Projects that require System Operator resource and system modelling have been identified as a result of the budget and business planning process under the joint development programme between the System Operator and the Authority. Several of these projects have the objective of refining the SPD tool for the purposes of modelling losses, constraints and the spot pricing process. In addition SPD is proposed as providing key outputs to the Transmission Pricing Methodology (TPM).

We consider the proposed programme of work is ambitious and will present resourcing challenges across industry participants particularly due to the implementation phases of significant projects already initiated. We think it is sensible to prioritise using net public benefit (NPB) as a selection tool and that the market development projects are all classified as 'high' become 'top priority'. Therefore, and assuming that the Electricity Authority appropriations have been reconciled against the agreed joint development plan, we generally support the top and second priority projects.

Transpower

Comments provided in submissions - Workload and costs for participants and other stakeholders

7.5 The following comments were included in the submissions:

Adapting to regulatory change takes time.

The last two years has been a very active period of reform for the electricity sector. Although many of these reforms have been completed, a number of substantial reforms still require implementation and participants to not only change the way that they participate in the market, but to also develop specific resources or dedicated teams. For example, Genesis Energy has created specific roles and functions to actively participate in the ASX Futures market.

These changes require time and money to be effectively incorporated into participant's strategies and businesses. We suggest that the Authority should take account of the impact of these changes on participants when considering the work programme.

Genesis

Meridian submits the suite of projects proposed for 2013/14 and beyond will need to be developed and then implemented by industry participants that are already dealing with number of significant implementation projects – several of which involve, or are

likely to involve, system changes – ranging from FTRs and Transmission pricing, to Part 10 changes. Because of this, we urge the Authority to adopt a cautious approach in seeking to progress these projects by focusing efforts on projects offering at least the potential to deliver moderate net benefits and by seeking to package together related projects where possible with a view to limiting major market changes to one per year.

Meridian

Give greater consideration to the compliance costs created by the ever increasing burden of regulation.

Powerco

We note the comment in the paper (E.4, page 21) that the Authority has a “heavy project workload”. As a recipient of the project outputs we can confirm that the workload weighs heavily on participants as well.

Orion

Authority response – prioritisation and workload

- 7.6 The Authority notes the comments on prioritisation and workload. These will be addressed as part of the high level budget-setting exercise to determine the final appropriations proposal to be provided to the Minister of Energy and Resources.
- 7.7 The Authority agrees that the tabular way in which its work priorities are set out does not show the broader strategies and programmes being progressed, or the synergies and alignment between projects. It will seek to set this information out in its published work programme.
- 7.8 A key driver for the Authority's establishment, arising out of the Ministerial Review, was for the regulator to progress expeditiously much needed reform of the sector. Eight of the Authority's top 10 market development initiatives for 2013/14 are pro-competition initiatives, which need to be progressed expeditiously to further improve the performance of the market and consolidate stakeholder support for the current market approach to electricity. However most of the proposed second and third priority projects are to do with the general operational efficiency of the electricity industry and consideration will be given to whether those with low initial NPV assessments should be further deferred. The Authority is also very open to considering improvements to its processes, including consultation, to make it easier and simpler for parties to input into the Authority's processes.
- 7.9 In regard to the comments on prioritisation, the Authority will be carrying out a further review of its priorities, including further assessing the possible costs and benefits, how complex the work is and the level of support from affected parties. Funding pressure in 2013/14 and out-years means that lower priority projects are likely to be postponed or taken off the work programme altogether.
- 7.10 In regard to the comment from Transpower (paragraph 7.3), it should be noted that the Authority has an on-going process for receiving, assessing and prioritising industry-initiated Code amendment proposals. The Authority formally considers the proposals as part of developing its work programme, and also may add proposals to the work programme during the year through its change management process. A large proportion of the current (2012/13) work programme is made up of projects that have arisen from industry Code amendment proposals. For example, “allocation of constrained-on costs” is an existing project that arose from a Code change proposal from Transpower.
- 7.11 In regard to Contact's response (paragraph 7.3) that we should progress the “must haves” rather than “nice to haves” and Orion's similar comments that the work programme includes projects with low public benefits, the Authority notes that an expected small public benefit does not preclude it from progressing changes and making amendments to the code or introducing/amending market facilitation measures. The Authority's prioritisation process includes taking into account the public benefits of a particular project. Other things being equal, a project with a small public benefit will be addressed latter than one with a large public benefit. The Authority takes into account the views of stakeholders in determining its priorities.

- 7.12 In regard to the comments from Orion on interdependencies and sequencing (paragraph 7.3), the Authority considers that this is not the case, but appreciates that the summary and tabular nature of the work programme proposals does not explain the detail of the links, interdependencies and sequencing that exists between projects. The Authority will consider how it can better present this information in future. The Authority also notes that this consultation process is a specific opportunity for stakeholders to share their view on interdependencies and sequencing.
- 7.13 The Authority intends to have a "rolling plan of work" as expressed by Contact (paragraph 7.4), and will be considering how this can be more clearly expressed in the finalised work programme, to be published in June or July 2013.
- 7.14 In regard to the comment from Contact (paragraph 7.4), it should be noted that all of our major initiatives have a review of effectiveness scheduled at an appropriate time after they have been implemented. The Authority does not intend to make significant further changes in these areas until these post-implementation reviews are completed.
- 7.15 In regard to the comment from Genesis (paragraph 7.5), it should be noted that all Code amendment initiatives include consideration of participant costs and timelines in the CBA.
- 7.16 In regard to Meridian's comment (paragraph 7.5), the Authority acknowledges that industry participants are already dealing with number of significant implementation projects. However, the Authority also notes that the Code development pipeline is often a long one and progression of key market initiatives now will mean that most current implementation projects will be completed before the Code is finalised on the new projects. The Authority will monitor implementation progress and if necessary delay go-live dates for new Code amendments to ensure that affected parties have sufficient time and are not overwhelmed by implementation projects.

Question 10: Comments on the priorities assigned to proposed projects

Comments provided in submissions

- 7.17 The following comments were included in the submissions:

Apart from one exception we support the overall suite of 20 highest priority projects listed in either Appendix E, section A, implementation and review projects, or section B, top priority market development projects. ...The one exception that MEUG believes should have a higher priority is the distribution pricing review. MEUG

We broadly support the programme of work that has been suggested, subject to our specific comments below regarding coverage, certain priorities and the Authority's approach to progressing its work, and our more detailed comments set out in Appendix One. Meridian

Overall NZWEA supports the top priority market development projects. The most important project for NZWEA is the national market for ancillary services and we are keen to see focus on this maintained. NZWEA

We note that the focus of the priority projects is primarily on the wholesale market and the competition element of the Authority's statutory objectives. We support this strategy, as significant work has already been conducted on the interaction of retailer and distributors and there are now multiple projects in the implementation phase. Reducing the number of projects with a focus on distribution will allow the sector to consolidate the work that has already been completed and fits with the Authority's

market performance cycle model that anticipates a shift of focus on to market performance monitoring.

Powerco

Powerco is generally supportive of the priorities assigned and considers the use of net public benefit to be a key assessment criterion.

Powerco

The scale of the list of projects may require the Authority to adopt a focus on pursuing those projects offering the potential to deliver at least moderate to high net benefits.

Meridian

DEUN asks for a fair allocation of electricity levy funds to concerns relevant to residential consumers. Residential users currently fund around one third of the levies and are an important part of the market. DEUN wishes to see this level of funding reflected in spending on projects and initiatives which address the concerns of residential users.

DEUN

Authority response

- 7.18 The Authority notes the comments on assigned priorities include broad support for the top priorities listed by the Authority.
- 7.19 Some submissions indicate the need for further prioritisation, including more stringent testing against net public benefit and contribution to the desired outcomes. The Authority already has stringent testing through assessment of the net public benefits of its market development initiatives. There is an initial assessment in the work programme stage and more stringent assessment later in a project as cost and benefit assessments can only be done more robustly when a project has commenced and the various options considered.
- 7.20 All of the Authority's projects on its work programme promote the long term interests of consumers. The Authority does not intend to assign money to projects on the basis of their contribution to particular classes (eg residential customers) of consumers. That said, most of the Authority's projects will lead to benefits for residential consumers, especially those designed to improve competition, which represent the majority of the top 10 projects, and those focused on reliability.
- 7.21 These matters will be further reviewed as part of development of the work programme.

Question 11: Comments on specific projects

- 7.22 Comments were invited on specific proposed projects for 2013–2016 as set out in tables A to G of appendix E of the consultation paper.
- 7.23 In the sections below, projects are referred to by the table letter and number as they appear in the consultation paper. At the right margin is the page number in the consultation paper.

General Authority response – work programme development

- 7.24 Unless there are specific comments provided below, the submissions relating to specific projects will be addressed as part of developing the work programme.

Table A: key implementation and review projects

A1. Transmission pricing page 26

- 7.25 The following comments were provided in submissions:

MEUG supports this as a top priority project.

MEUG

Meridian continues to view Transmission pricing as a particularly important project and endorses the Authority's categorisation as a "key implementation" project for 2013/14.

Meridian

Mighty River Power considers that the most significant issues for the market currently is ensuring a credible and robust consultation process around developing an enduring Transmission Pricing Methodology (TPM) and providing greater clarity around expected market participant trading behaviour, particularly in relation to net pivotal situations.

In terms of the TPM, we note the EA have not included reference to this project as a priority in 2013/14 on the basis that the currently proposed framework should be largely tracking toward implementation. We are currently reviewing the proposal put forward by the Authority and will provide more detailed feedback on process in that forum.

MRP

Vector agrees with the prioritisation of the transmission pricing and retailer default projects and acknowledges the significant progress made in these work streams over the past year. However, the Authority ought to recognise the degree of additional work involved should any of the transmission pricing proposals be adopted. For instance, implementation of proposals is likely to require contractual and/or Code changes between retailers and Transpower, as well as changes to distributed generation rules, which will require significant time and resourcing to develop and implement in practice.

Vector

- 7.26 The Authority's draft process for introducing a new TPM proposes that Transpower would implement a new TPM in April 2015. However, the Authority notes that no decision has been made to amend the TPM and that consultation on the TPM proposal could lead to changes in the milestones and timeframes for this project.

A2. Frequency regulation: multiple frequency keepers..... page 26

- 7.27 The following comments were provided in submissions:

Supports various underfrequency management projects ie multiple frequency keepers, efficient allocation of extended reserves, national market for ancillary services as a top priority projects.

MEUG

A3. Dispatchable demand – implementation page 26

- 7.28 The following comments were provided in submissions:

Delays to implementation of Dispatchable Demand were noted in MEUG letter to Transpower dated 11th September 2012 where we stated (Refer <http://www.meug.co.nz/includes/download.aspx?ID=123971>): "The immediate concern is potential delays to the implementation of dispatchable demand (DD). The Code provides for implementation of DD effective June 2013. We understand that because of problems within the System Operator that deadline may not be met. MEUG members view DD as an essential development to ensure better spot price discovery and allow for the first time since the market started in 1996 direct countervailing pressure from the demand side to offset supplier dominance. DD will also give the System Operator more certainty on demand from some otherwise difficult to predict GXP. Given all of these positive features of DD, and that it's a section 42 New Matter listed in the Electricity Industry Act 2010, the prospect that implementation of DD may

be delayed because of problems within the System Operator needs to have some urgency accorded to it at the highest levels within Transpower."

Since September Transpower and the Authority have undertaken intensive discussions on implementing Dispatchable Demand. We look forward to decisions that will ensure early implementation for the net benefit of consumers rather than be beholden to the requirements of service providers.

MEUG

- 7.29 The Authority notes that the work with the system operator is continuing to progress and relevant information on the project status has been published in the market brief newsletter and on the Authority website.

A4. Retailer default..... page 26

- 7.30 The following comments were provided in submissions:

Vector agrees with the prioritisation of the transmission pricing and retailer default projects and acknowledges the significant progress made in these work streams over the past year.

Vector

- 7.31 The Authority notes that the Retail Advisory Group has been developing proposed arrangements for managing retailer default situations. The Authority wants to finalise a process for managing retailer defaults, including making necessary Code amendments, by June 2013.

A5. Grid configuration arrangements – implementation page 26

- 7.32 No comments received.

A6. Wholesale market information page 26

- 7.33 The following comments were provided in submissions:

MEUG supports this as a top priority project.

Agreement that as part of the wholesale market information project some enhancements to red spider should be considered (Table A, p26).

MEUG

- 7.34 The Authority is progressing improvements to the red spider (planned outage coordination protocol (POCP)) system. This is being done in coordination with the system operator, and will be discussed at the next POCP Technical Advisory Group meeting, scheduled to take place during March 2013.

A7. More standardisation programme - impact review..... page 27

- 7.35 The following comments were provided in submissions:

Vector disagrees with the placement of the "more standardisation" programme impact review in Table A. Vector supports a review of this programme, however, we recommend that it is delayed by one year each to allow for the impacts of the programme to become more apparent before the review is conducted.

Vector

- 7.36 See the Authority's response in paragraph 7.42 regarding the timing of post-implementation reviews.

A8. Scarcity pricing – impact review page 27

- 7.37 The following comments were provided in submissions:

Meridian submits it is critical an assessment of the impacts and outcomes associated with the stress testing regime is undertaken as part of the review. Meridian

- 7.38 The Authority agrees there is merit in reviewing the effectiveness of the stress testing regime, but considers this review can only be effectively undertaken after the market has experienced several stress events that are consistent with those being modelled in the regime. The high spot market prices experienced in the first half of 2012 (due to record low hydro inflows over that period) represent only one such event and the Authority will want to see the very favourable management of the situation by parties exposed to spot prices repeated in future events.

A9. Locational price risk management - impact review..... page 27

- 7.39 No comments received.

A10. Metering (Part 10) impact review..... page 27

- 7.40 The following comments were provided in submissions:

Meridian would strongly support a post implementation review of the Part 10 project that incorporates an assessment of associated industry implementation costs, for instance, arising from flow-on implications for the switching process. Meridian

Vector disagrees with the placement of the metering (Part 10) impact review in Table A. Vector supports a review of the project, however, we recommend that it is delayed by one year each to allow for the impacts of the project to become more apparent before the review is conducted. Vector

See the Authority's response in paragraph 7.42 regarding the timing of post-implementation reviews. Post implementation reviews - general

- 7.41 The following comments were provided in submissions:

Meridian welcomes the inclusion of post-implementation impact reviews. We submit it is critical that the impacts of the stress testing regime and associated industry implementation costs are assessed as part of reviews of scarcity pricing and Part 10 reforms. Meridian

Consideration should be given to reviewing projects which have been implemented as required by Section 42, to determine their effectiveness, for example Stress Testing.

...This should not just be a review of whether the code has been written or scheme has been implemented, but should be focused on whether the intended outcome is being realised. Contact

There needs to be a post implementation review of the stress test just as there are planned post implementation reviews of all other s.42 projects. . In considering any changes we recommend end consumers be consulted on what they would find useful. Relying on the system operator and EA to make changes on the belief they understand what MEUG members need is risky. MEUG

We suggest that the Authority allocates more time to the process of project evaluation. Transpower

- 7.42 The Authority intends completing post-implementation reviews of the effectiveness of all of its major initiatives, including the section 42 projects. These reviews will focus on whether the intended outcomes are being achieved. The appropriate timing for these reviews will be considered during the Authority's annual work planning process, and will include consideration of the amount of time required post-implementation for the impacts of the Code amendments to be identifiable.

Table B: top priority market development projects

B1. Efficient allocation of extended reserves..... page 27

- 7.43 The following comments were provided in submissions:

Powerco's fifth highest priority project.

Changes to AUFLS will have widespread implications for distributors – both in relation to reviewing the feeders that could potentially be subject to AUFLS and the expense of installing new relays at substations.

Demand aggregators also present a risk to meeting AUFLS requirements and clear guidance is needed. Robust consultation is essential if the best policy is to be developed.

Powerco

Vector disagrees that the extended reserves project should be the top priority project of 2013/2014. Paragraph E23 states that the projects in Table B have a "compelling net public benefit". This has not been proven for the extended reserves project (at least based on the current consultation paper (Electricity Authority, Efficient procurement of extended reserves: consultation paper, 2 October 2012), and its placement at the top of the list cannot therefore be justified.

Vector

- 7.44 The Authority has recently completed the first round of consultation on this project and will determine how it will proceed following a review of the submissions that have been received. The Authority had not intended the order of the projects in the Top 10 priority list to indicate prioritisation within that list.

B2. National market for ancillary services..... page 28

- 7.45 The following comments were provided in submissions:

The most important project for NZWEA is the national market for ancillary services and we are keen to see focus on this maintained. In the coming months we would like to further explore this priority with the Electricity Authority.

NZWEA

- 7.46 The National Market for Ancillary Services project comprises two work streams - the national market for frequency keeping and the national market for instantaneous reserves. The Authority has developed a conceptual design for a national frequency keeping market and the system operator has been contracted to investigate the detailed design requirements.

- 7.47 Work on introducing a national market for instantaneous reserves is being progressed by the Wholesale Advisory Group (WAG), and in accordance with its work plan, the WAG will progress this as a high priority early in 2013.

B3. Intra-island locational price risk management..... page 28

- 7.48 The following comments were provided in submissions:

We suggest that the new FTR market should be monitored first to inform further development of management of intra-island locational risk management. Transpower

- 7.49 The Authority's work plan for intra-island locational risk management project includes two rounds of consultation. The first being a high-level consultation on the problem definition and possible solutions, and if it is decided to progress the matter further, the second round of consultation will include detailed Code amendment. This timeframe will allow experience of the two-node FTR to be observed before making a final decision on any intra-island locational price risk solution. In addition, analysis of intra-island locational price risk has been undertaken and reviewed by the Locational Price Risk Technical Group. This analysis indicates that intra-island locational price risk is a material problem and should continue to be addressed as a high priority.

B4. Review of half hour switching..... page 28

- 7.50 The following comments were provided in submissions:

We agree with top priority project (4) Review of half hour switching rules, with particular focus on smart meter switches. Contact

B5. Improving forecast and settlement prices..... page 28

- 7.51 The following comments were provided in submissions:

MEUG supports this as a top priority project. MEUG

B6. Review of undesirable trading situation (UTS) provisions..... page 29

- 7.52 No comments received.

B7. Settlement and prudential security review..... page 29

MEUG supports this as a top priority project. MEUG

B8. Pivotal pricing project..... page 29

- 7.53 The following comments were provided in submissions:

In terms of net pivotal pricing behaviour, Mighty River Power supports the intention to review the UTS provisions and the current review being undertaken by the WAG. We agree with the most recent WAG analysis that the materiality of net pivotal events, if left unchecked, could result in significant efficiency losses for the market and have implications for retail competition.

We consider the WAG review could usefully focus on emerging international experience in developing standards for electricity market manipulation and consider what regulatory measures might be relevant and efficient within the New Zealand context.

MRP

- 7.54 The Authority is preparing an initial draft of a discussion paper for the WAG's consideration at its meeting on 28 November 2012. In accordance with the WAG's instructions, the Authority has included detailed analysis of international experience and mechanisms to address market manipulation concerns. The review of the UTS provisions will continue to be undertaken as a separate but related project.

B9. Consumer switching fund..... page 29

- 7.55 The following comments were provided in submissions:

Consistent with our previous submission, we also note that it will be important for work in connection with reviewing and determining future phases of the Consumer Switching Fund to adopt a broad focus that encompasses consideration of trends in customer awareness / perceptions and "non-price" aspects of retailer offerings e.g. related to customer service.

Meridian

Consistent with previous comments, Meridian submits it is important that the review and future phases of the initiative adequately weight "non-price" forms of competition, for instance, in the area of customer service, and trends in customer perceptions (this being an indicator of potential effectiveness) and awareness (this being an indicator of the extent to which initiatives are successful in targeting a wide range of consumers). To this end, we consider it is important the work incorporates an assessment of the extent to which the components comprising the 'Switchme' tool may preclude consideration of non-price aspects of retailer offerings. Meridian also submits it is important the suitability of the "dual charge" arrangement for funding the tool (whereby participants are charged a fee in addition to the electricity industry participant levy) and the extent to which it may discourage wide-spread participation is also considered in seeking to evaluate the programme's impacts.

Meridian

- 7.56 The Authority notes that the Retail Advisory Group is undertaking a review to consider the performance of the Consumer Switching Fund and to identify what actions the Authority can take to promote to consumers the benefits of comparing and switching retailers. The RAG is scheduled to report back to the Authority by June 2013.

B10. Hedge market development..... 30

- 7.57 The following comments were provided in submissions:

MEUG supports this as a top priority project.

MEUG

Powerco's top priority.

Monitoring industry progress and developing further market facilitation initiatives to improve the hedge market. We consider this a high priority because of the lack of a liquid hedge market is the major gap in New Zealand's wholesale market arrangements.

Powerco

Table C: Second priority – other projects for completion in 2013/14

C1. Second priority: Improved market modelling of losses..... page 30

- 7.58 No comments received.

C2. Second priority: Alternative funding arrangements investigation..... page 30

- 7.59 No comments received.

C3. Second priority: Distribution pricing review..... page 30

- 7.60 The following comments were provided in submissions:

The one exception that MEUG believes should have a higher priority is the distribution pricing review. This is also related to the review of Part 6 (pricing principles) listed in section C as second priority project and research project – distribution company arrangements listed as a third priority project for completion in 2013/14. The

multiplicity, variability, inconsistency and lack of transparency of distributor charges are evident to MEUG members with sites throughout New Zealand. This must also be a problem for small new entrant retailers. MEUG suggests the EA re-bundle these distributor pricing related projects into a single higher priority item for 2013/14. MEUG

As illustrated in Vector's recent pre-consultation submission on Part 6, Vector considers the review of distributed generation pricing principles to be highly important, as currently it results in inefficient outcomes. Accordingly, it should be given greater prioritisation and listed in Table B – to be addressed in 2013/2014. Vector

- 7.61 The Authority intends progressing the distribution pricing review during 2012/13 and 2013/14. The Authority is cognisant of the potential relationships between the distribution related projects in the work programme.

C4. Second priority: Improvements to existing spot prices..... page 31

- 7.62 The following comments were provided in submissions:

Improvements to existing spot price process (section C, other projects for completion in 2013/14) could be incorporated into the top priority market development project "Improving forecast and settlement prices." MEUG

Ensure there are no slippages or reprioritization of effort away from this project. NZWEA

- 7.63 The Authority notes that the "improvements to existing spot prices" project progresses specific and relatively straightforward improvements to the existing spot pricing process. Whereas, the "improving forecast and settlement prices" project is a fundamental review and is being undertaken by the WAG. The output of the WAG's work will be a cost-benefit analysis of the value of moving towards settlement on real-time prices.

- 7.64 Given these significant differences the Authority plans to continue to progress these projects separately. However, the Authority agrees there should be close coordination between these projects.

C5. Second priority: Allocation of constrained-on costs page 31

- 7.65 No comments received.

C6. Second priority: Research project – efficiency of system operator arrangements..... page 31

- 7.66 No comments received.

C7. Second priority: Definitions under the Act..... page 31

- 7.67 No comments received.

C8. Second priority: System operator alignment review..... page 31

- 7.68 No comments received.

C9. Second priority: NZX hardware refresh..... page 32

- 7.69 No comments received.

C10. Second priority: Review of Part 6 page 32

- 7.70 The following comments were provided in submissions:

We would like to see a change of scope for (10) *Review of Part 6 (pricing principles)*. In our view, if this is to be undertaken it should also revisit the distribution pricing principles.

Contact

Ensure there are no slippages or reprioritization of effort away from this project. NZWEA

- 7.71 The Authority notes that a review of distributors' alignment with the pricing principles is on the Authority's current work programme. In the event the alignment review identifies the need for changes to the distribution pricing principles this would be reflected in the approach taken in this Part 6 project

C11. Second priority: Code upgrade project..... page 32

- 7.72 The following comments were provided in submissions:

Meridian submits it is important this work also seeks to align provisions of the Code concerning indemnities with any new legislative provisions introduced as part of reforms to consumer legislation. Based on the recommendations of the Commerce Select Committee on Consumer Law Reform, we consider this will involve, at a minimum, incorporating Transpower into the provisions of the Code. It is, however, Meridian's preference that full alignment is achieved by seeking to replicate provisions set out in legislation.

Meridian

We are also concerned that the complexity of regulation and, consequently, the compliance costs that it creates, have been increasing continuously. We would suggest that the Authority prioritise a project to review elements of the Code to determine whether some requirements could be simplified or deleted.

Short description: Examine the Code with a view to simplifying requirements and reducing compliance costs.

Rationale: The burden of regulation and its associated compliance costs has increased very significantly in recent years. It is likely that modified arrangements could achieve the benefit of lower compliance costs in some instances. The net present value of these benefits could be substantial.

Deliverables: Identify ways in which the Code could be simplified in order to achieve its objectives more efficiently by reducing compliance costs for industry participants.

Powerco

We suggest that caution is applied in the Code Upgrade project, since in our experience of the transition from the EGRs it is not straightforward to make corrections that don't impinge on substantive matters.

Transpower

- 7.73 The Authority is aware that it may need to align provisions of the Code with any new legislative provisions introduced as part of reforms to consumer legislation. This will be done as separate exercise from the Code Upgrade Project.
- 7.74 The Code Upgrade Project is intended to simplify the Code, remedy legal deficiencies and reduce compliance costs.

- 7.75 The Authority is cognisant of the difficulty in making what appear to be minor amendments to the Code without raising substantive policy matters. This will be carefully addressed during the project.

Table C: Third priority – other projects for completion in 2013/14

C1. Third priority: Value of lost load page 33

- 7.76 The following comments were provided in submissions:

We notice that the VoLL project, which apparently has a "high" public benefit, and has been going on for several years now, is a third priority project?

Orion

Vector considers that the value of lost load (VoLL) project should be accorded higher priority. The VoLL number is critical to key decisions and there is value in completing the review earlier.

Vector

We suggest that the Value of Lost Load project should be a higher priority for completion, given that it is assessed as a 'high' NPB but classed as 'third priority'.

Transpower

- 7.77 The Authority is progressing the value of lost load (VoLL) project and expects to publish the results of the project and to consult on potential Code changes in relation to VoLL in the fourth quarter 2012/13.
- 7.78 Consideration will be given to increasing the project priority.

C2. Third priority: Breakdown of customer billings page 33

- 7.79 The following comments were provided in submissions:

We would like to see (2) *Breakdown of customer billings* removed from the work programme. We note this has been reviewed a number of times by the Authority and its predecessor without any conclusion being reached. As consumers generally choose their retailer based on the delivered retail price, not on the network or energy price (or any other pricing component), it should be left to the market to determine what is appropriate.

Contact

- 7.80 The Authority notes that the RAG has been requested to undertake the breakdown in customer billings project. It is scheduled to make a recommendation to the Board on this matter by the December 2013.

C3. Third priority: Domestic contracting arrangements page 33

- 7.81 The following comments were provided in submissions:

Having noted that the Commerce Select Committee's report on Consumer Law Reform has recommended the Bill incorporates prohibitions on the use of unfair contract terms, Meridian recommends the Authority seeks as part of this project to confirm the consistency of existing minimum terms and conditions for domestic contracts with requirements under legislation. We also recommend the Authority considers the need to ensure a co-ordinated approach with the Commerce Commission to new requirements as part of its investigations.

Meridian

- 7.82 The Authority notes that the RAG is undertaking the domestic contracting arrangements project. The RAG is scheduled to release an issues paper in early 2013 to seek feedback about problems

with the domestic contracting arrangements and is scheduled to make a recommendation to the Board by December 2013.

C4. Third priority: Extend Consumer Guarantees Act indemnity to Transpower..... page 33

The Authority may not need to address any Transpower indemnity under the Consumer Guarantees Act, as the same proposal is part of the Consumer Law Reform Bill. Transpower

We suggest any new requirements and / or changes to legislative indemnity provisions arising from the reform of consumer legislation are considered in the context of reviewing domestic contracting arrangements and the "Code upgrade" project.

Meridian

Any attempt to extend the Consumer Guarantees Act indemnity to Transpower now seems unnecessary given the recent Select Committee report on the Consumer Law Reform Bill. This item could be removed from the work programme. Vector

- 7.83 The Authority has deferred this project while the Consumer Law Reform Bill is progressing through Parliament. The Authority will not proceed with this project if the Bill is passed with the indemnity included.

C5. Third priority: Research project – distribution company arrangements..... page 33

We would like to see a change of scope for (5) *Research project – distribution company arrangements* to include embedded networks. In our view, the project should have a wider scope and higher priority. Our rationale for this is that there are now over 40 embedded network owners and around 100 embedded networks. Ultimately, local networks recover their loss of revenue (resulting from embedded networks), from other consumers. As a result, retailers incur significant costs of trading in embedded networks, which ultimately flows through to customers. Contact

Powerco's third highest priority project.

Research project to review the efficiency of distribution network company arrangements. Powerco fully supports this research. The "standardisation" work has not tackled the underlying problem, which is that there are 29 distribution companies in a country of 4.4million people.

Powerco recommends that this research project include an analysis of the costs and benefits of consolidating the current 29 electricity distributors to a smaller number (e.g. five). If the net public benefit is found to be positive, the research should then:

- investigate the barriers to consolidation; and
- recommend possible means by which to reduce the barriers.

Powerco

We note that this project is to be scoped in 2012/13 (page 33). However, it remains unclear what the nature of the scoping is. We would appreciate more detail into why this is on the work programme at all.

Orion

- 7.84 The Authority intends to release for consultation a project scope in the first half of the 2013 calendar year giving interested people an opportunity to comment on the proposed scope. At the scoping phase an analysis of costs and benefits will not be undertaken as it is not intended that the project scope propose a preferred approach. The research project will be undertaken according to the project scope.

C6. Third priority: Review of liability limits for market operations service providers page 33

- 7.85 No comments received.

C7. Third priority: Review of use of profiles page 34

- 7.86 The following comments were provided in submissions:

We would like to see (7) *Review of use of profiles* removed. The Authority should leave market forces to determine the benefit of profiles. Once smart meters are widely deployed, all retailers will be in a better position to determine their strategy around submitting half hour data, profile data or accepting the default residual profile.

Contact

- 7.87 The Authority agrees that the increased use of AMI meters will influence the use of profiles. The first step in this project is to understand the extent to which profiles are being used, and how this is likely to change in the future. Whether any action is required will be determined after that initial review. That this project has been identified as a lower priority project reflects that more information may be available as the roll-out of AMI meters progresses.

C8. Third priority: Frequency regulation: review of normal frequency band and asset owner performance obligations page 34

- 7.88 No comments received.

C9. Third priority: Under frequency management – instantaneous reserves asset owner performance obligations page 34

- 7.89 The following comments were provided in submissions:

Ensure there are no slippages or reprioritization of effort away from this project NZWEA

C10. Third priority: Service provider software review page 34

- 7.90 No comments received.

C11. Third priority: Review use of seasonal adjustment shape page 34

- 7.91 The following comments were provided in submissions:

We would like to see (11) *Review use of seasonal adjustment shape* removed. The reconciliation process already allows retailers to use their choice of shape for initial submissions at BD4, and shapes are required to be applied at BD13. Given settlement wash-ups are subject to use-of-money interest, there is no benefit in the Authority reviewing this area.

Contact

- 7.92 As with the project to review the use of profiles discussed above, the Authority considers the increased use of AMI meters will have implications for the use of seasonal adjustment shapes. Changes will not be progressed unless clear efficiency gains can be identified.

Tables C & D: Wind dispatch

- 7.93 The following comments were provided in submissions:

As per our previous submission, Meridian recommends the Authority investigate the potential to bid and dispatch wind generation as part of a "second priority" project to

be progressed by 2015/16. As discussed further below, we consider this project should follow the Authority's work on shortening the gate closure period. Meridian

In October this year NZWEA ran a workshop that focused on the electricity market of the future. Priorities for adjusting the electricity market included enabling wind to participate in ancillary services markets. In the coming months we would like to further explore this priority with the Electricity Authority. NZWEA

- 7.94 The Authority agrees that consideration of reducing the gate-closure period should be progressed as a high priority project and the system operator is currently preparing more detailed advice to the Authority on the potential for this. The offer and dispatch Code development project includes a review of the intermittent generation re-offer provisions to begin in the 2013/14 financial year.

Table D: Second priority – other projects for completion in 2014/15 or out-years

D1. Second priority: Dispatchable demand – phase 2 – conforming load..... page 35

- 7.95 No comments received.

D2. Second priority: Under frequency management – including AUFLS technical review page 35

- 7.96 The following comments were provided in submissions:

Vector queries why the under-frequency management technical review is not given greater priority. Given the importance of the management of AUFLS, one would expect such a review to be undertaken earlier. Vector

Ensure there are no slippages or reprioritization of effort away from this project NZWEA

- 7.97 The Authority notes that this project represents the implementation of any Code amendments and system changes resulting from the existing AUFLS technical review. For example, the project is expected to result in the installation of new AUFLS relays by Transpower and distributors. This implementation will need to be appropriately phased, and this may need to extend into the 2014/15 year. The technical review has also identified the potential for new ancillary services products (such as very fast reserves and inertia) that will need appropriate investigation and consultation before they are completed.

Table D: Third priority – other projects for completion in 2014/15 or out-years

D1. Third priority: Review of Part 12 page 35

- 7.98 No comments received.

D2. Third priority: Offer and dispatch Code development: Gate closure..... page 36

- 7.99 The following comments were provided in submissions:

Meridian supports prioritising gate closure work. It recommends a review of gate closure rules is progressed as a priority for the wholesale work programme for 2013/14 and as a precursor to work investigating the potential to bid and dispatch wind generation, which we consider will deliver efficiency gains in the wholesale market. (As mentioned for example, in Meridian's presentation to the 2012 Annual NZWEA Conference, available at: http://windenergy.org.nz/images/stories/conf12/MIKE_ROAN.pdf) We also recommend that the work described above to review the design of the low fixed user charge regime is progressed as part of the retail work programme by 2014/15.

Consistent with our previous appropriations submission, we recommend that the gate closure project be elevated to rank as a second priority project for 2013/14. We consider this project should be undertaken as a pre-cursor to the "wind dispatch" work described above. Meridian has indicated support for further work in these areas in a number of forums due to the potential it offers to deliver efficiency gains in the wholesale market. (Refer, for example, 2012 Meridian Presentation to NZWEA Conference, available at:

http://windenergy.org.nz/images/stories/conf12/MIKE_ROAN.pdf). We also note the Authority's previous assessment suggests gate closure would be a small project with the potential to deliver high net public benefits. (Refer Table 13 of the EA's 2012/13 Appropriations, Authority Path to CRE, and EECA Work Programme Consultation Paper, available at: <http://www.ea.govt.nz/dmsdocument/12141>).

Meridian

Ensure there are no slippages or reprioritization of effort away from this project, particularly on gate closure. In the coming months we would like to further explore this priority with the Electricity Authority

NZWEA

- 7.100 As discussed above, the Authority agrees that consideration of reducing the gate-closure period should be progressed as a high priority project. The Authority is on track to publish a detailed feasibility study on gate closure by June 2013, largely based on advice currently being sought from the system operator. The Authority will reconsider the prioritisation of the reducing gate closure project after the detail of that study is known.

D3. Third priority: Instantaneous reserves cost allocation methodology..... page 36

- 7.101 No comments received.

D4. Third priority: Trading arrangements (Part 13) review..... page 36

- 7.102 No comments received.

D5. Third priority: Asset owner performance obligations: voltage rules..... page 36

- 7.103 No comments received.

D6. Third priority: Review of the potential to improve retail competition in embedded and customer networkpage 36

- 7.104 No comments received.

Table E: Future projects

E1. Future project: Potential Research project – low fixed charges page 37

- 7.105 The following comments were provided in submissions:

Powerco's second highest priority.

A potential research project looking into the effects on efficiency and competition of the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004. A review of the low fixed charge tariff requirement is appropriate given that the regulations have been in force since 2004. Many distributors and retailers are concerned that the regulations do not meet the policy objective, as low electricity usage does not necessarily mean the customers concerned have low incomes. These regulations also create cross subsidies that promote inefficiency.

Powerco

Requires greater priority than currently assigned. The low fixed charge user regulations are causing inefficient and unintended outcomes for the sector, which need to be addressed to better meet the Authority's efficiency objective.

Vector

Meridian recommends this project is preceded by a "second priority" "fit for purpose" review of the regime by 2014/15, investigating, for instance, interactions with DG charging (e.g. in the case of solar panels that export excess generation into a network), to address wide-spread industry demand (Evidenced, for example, by suggestions raised in response to the EA's "*Decision making and economic framework for distribution pricing review*" consultation).

Meridian

We would like to see (1) *Low fixed charges* given a higher priority. In our view, it currently creates distortions and significant cross subsidies in distributor and retailer pricing, and is not well targeted. Furthermore, the 15 cents per day (distributor) and 30 cents per day (retailer) maximum low-user fixed charges have not been revisited since the low fixed charge regulations came into force in 2004.

Contact

- 7.106 The Authority is aware of these concerns. They are consistent with the concerns that have been relayed to the Authority on this matter by a number of parties. The Authority will reassess the priority it gives to this project, taking into account other important projects and the Government's appetite to consider this issue, as, being a regulation, change can only be made through Cabinet.

E2. Future project: Optimisation of non-technical distribution losses page 37

- 7.107 The following comments were provided in submissions:

We would like to see (2) *Optimisation of non-technical losses* removed as unaccounted for energy (UFE) is allocated in a fair and transparent manner (and if a UFE issue is identified then participants and/or the Authority should be actively seeking answers).

Contact

- 7.108 The Authority notes this project has been placed on the list of proposed future projects as it is not expected to provide the benefits of other projects that have been scheduled into the work plan. The initial step of the project would be to identify whether there is any potential for improvements to be achieved (in a cost-effective manner). In the event no clear benefits can be established the project will not proceed any further.

E3. Future project: Responsibility for maintenance of consumer service lines

- 7.109 The following comments were provided in submissions:

Requires greater priority than currently assigned. Consumer lines issues affect consumers and should be resolved as soon as practicable.

Vector

We would like to see (3) *Responsibility for maintenance of consumer service lines* removed as, as far as we are aware, there is no issue.

Contact

Powerco's fourth highest priority project.

Powerco supports completing this project in 2013/14. It is an area that needs clarification for consumers and distributors.

Powerco

- 7.110 The Authority will consider whether to re-prioritise this project during its 2013/14 work planning process early in 2013.

E4. Future project: Guidelines for secondary networks – network extensions and customer networks page 38

- 7.111 The following comments were provided in submissions:

We would like to see (4) *Guidelines for secondary networks* removed as there is no work required. The guidelines were last reviewed in 2009, and there have been no changes that would mean they require alteration since.

Contact

- 7.112 As per 'optimisation of non-technical distribution losses' above, the Authority will only pursue this project in the event that the potential for net benefits can be demonstrated.

E5.Pre-certification stage investigation page 38

- 7.113 No comments received.

E6. Frequency regulation: frequency keeping cost allocation..... page 38

- 7.114 The following comments were provided in submissions:

We are keen to ensure there are no slippages or reprioritization of effort away from the Frequency regulation: frequency keeping cost allocation project.

NZWEA

- 7.115 The Authority will return to this project once the proposed national market for frequency keeping services has been established.

E7: Credible event management: under voltage management..... page 38

- 7.116 No comments received.

E8: Common quality development plan – further items page 38

- 7.117 No comments received.

E9: Short-term hedge instruments page 38

- 7.118 No comments received.

E:10: Demand side bidding and forecasting – impact review..... page 38

- 7.119 No comments received.

E11. Future project: review of arrangements for management of load control..... Page 39

- 7.120 The following comments were provided in submissions:

We note that the distribution system operator concept is to be considered as part of the "Review of arrangements for management of load control", identified as a "Future project" in the paper for commencement in 2014/15, and completion in 2015/16. Given the recent changes to the MUoSA regarding load management property rights, and the perspective that these rights should only be determined in a "market" context, we are strongly of the view that this project should be brought forward to the current financial year, and commence as soon as possible. The horse may have well and truly bolted if we wait until 2015/16 for resolution.

Orion

- 7.121 The Authority will consider whether to re-prioritise this project during its 2013/14 work planning process. It is also possible this project could be brought into some of the other AUFLS-related work, or that a need for action is identified through the pending 'impact review' of project to increase the standardisation of distribution arrangements.

E:12: Fit for purpose review of information papers and guidelines page 39

- 7.122 No comments received.

E:13: Review of definitions..... page 39

- 7.123 No comments received.

E:14: Review of market administrator role page 39

- 7.124 No comments received.

Table G: Organisational development projects

G1. Data warehouse..... page 40

- 7.125 The following comments were provided in submissions:

MEUG agreement that the data warehouse project should be an ongoing priority organisational development project (section G). If this were not listed in section G then we would recommend it should be listed as part of the wholesale market information project (section A).

MEUG

G2. Path to world class..... page 40

- 7.126 The following comments were provided in submissions:

Aspiring to be a world class electricity regulator (Refer EA strategic framework, figure 2, p15, the EA vision is "To be recognised as a world class electricity regulator, delivering long-term benefits for consumers and contributing to the New Zealand economy") and having a project path (section G) to achieve that is agreed. There also needs to be some appropriate indices for levy payers to know if progress is on track.

MEUG

G3. Information systems strategic plan page 40

- 7.127 No comments received.

G4. Improving project management practice page 40

- 7.128 The following comments were provided in submissions:

In improving project management practices (section G) an assessment of the efficiency and opportunities to improve how working and technical groups operate should be undertaken. For example perhaps it would have been quicker to have established the Settlement and Prudential Security Technical Group earlier to progress detailed code changes.

MEUG

- 7.129 The Authority notes this comment. Planned improvements in project management include earlier identification of stakeholders and assessment of the most effective and efficient means of ensuring timely input.

- 7.130 On the specific example provided, the Authority established the Settlement and Prudential Security Technical Group immediately after the WAG's recommendations were finalised. The Authority is on-track to publish a consultation paper on proposed Code amendments earlier than the June 2013 target outlined within the Authority's work programme.

G5 – G8. Other organisational development projects..... page 40

- 7.131 No comments received.

Question 12: Other projects the Authority should consider

- 7.132 Suggestions were invited for projects that the Authority should consider for its work programme that were not listed in the consultation paper.

Contestable fund for projects

- 7.133 The following proposal was provided by DEUN:

DEUN asks for a contestable fund for projects, innovations, and/ or education relevant to residential consumers. Furthermore DEUN requests that independent consumer advocates such as itself be allowed to set some of the agenda.

DEUN

- 7.134 The Authority has no plans to establish a contestable fund of the nature requested. However, the Authority continues to work on ensuring effective stakeholder input through the advisory groups and across all relevant projects. The matters raised by DEUN as being worthy of further study will be considered as part of developing the Authority's work programme for 2013/14.

Lines Company metering project

- 7.135 The following proposal was provided by DEUN:

Short description: Research into the customer experience of having a smart meter installed, and resulting impacts on energy bills.

Rationale for the project: The Lines Company (TLC), a distribution company based in Te Kuiti has faced challenges managing the demand on their network at peak loading times. The network is old, and capacity constrained. TLC bills its customers directly for their lines charges; one of only three companies nation-wide that does so. To help manage capacity constraints, it charges a capacity charge which is based on the average of the six highest peak loads a customer takes during a two hour period when TLC is load controlling. This sets the capacity component of the customers bill for the next year.

The method of charging has caused some domestic customers distress, as without precise information about when the company was load controlling, many customers were playing safe and under utilising energy. Many who failed to successfully do this were upset by subsequent high charges.

In response to customer concerns, and to enable more accurate billing, TLC has begun a roll-out of smart meters which will have several features designed to help customers understand their energy consumption and manage their load. One feature will be an in-home display which will show a light when the company is load controlling. Another feature will be a display of the average of the six highest chargeable readings to date and an estimate of whether the current load is at risk of exceeding that average.

The work TLC is doing is of interest to DEUN, as they are sending clear pricing signals which are reflective of transmission costs (and are applicable on a wider scale than just TLC). We are interested in whether these meters help customers understand and manage their energy costs, and how well they are able to respond to pricing signals

Deliverables:

Measure the effectiveness of better metering information in reducing energy bills (by reducing overall demand and/or peak load)

Qualitative information (via in depth interviews) on the consumer experience of having a smart meter.

DEUN

- 7.136 The Authority is open to investigating the customer experience of having a smart meter installed, and resulting impacts on customer bills. This could be part of a broader research-type project which looked at whether smart meters have improved efficiency and competitive options for consumers. The Authority will give consideration to such a project as part of developing its 2013/14 work programme.

Smart tariffs for residential consumers

- 7.137 The following proposal was provided by DEUN:

Short description: Working in tandem with selected retailers to promote easily understood smart tariffs for residential consumers. These could include time of use tariffs and/or critical price offers. An education campaign around the smart use of appliances and other energy efficiency measures, so that the benefits of smart tariffs can be understood and implemented.

Rationale for the project: At present, most residential consumers pay a fixed rate for their electricity regardless of when they use it. Retailers cover their risk by charging (on average) higher prices than they need to. Helping residential consumers understand the variable cost of supplying energy and helping them respond to more realistic costs should improve the competitiveness and efficiency of the market. Smoothing out the peaks in residential load will enable better utilisation of fixed assets, avoid high cost thermal generation and should help reduce industry costs.

Deliverables:

Deliver lower costs to consumers in the trial.

Reduce peak demand for consumers in the trial.

Foster a greater awareness of how the electricity market works amongst residential consumers (measured by survey of those involved).

DEUN

- 7.138 The Authority notes that a number of retailers and distributors are installing smart meters and are developing time of use tariff and/or critical price products.

Economic benefit of a smoothing of the peaks in residential load

- 7.139 The following proposal was provided by DEUN:

Short description: Research into the economic benefits of achieving a reduction (say 10%) in the "peakiness" of domestic load, and how this might be best achieved.

Rationale for the project: While there may be an overall surplus of generation in the next few years, there will likely still be a shortage at peak loading times especially in the North Island. Residential consumers contribute significantly to these peak loads. Reducing peak loads (by alternative heating methods, better insulation, tariffs which incentivise off peak usage, smart metering to enable savings, and so on) would enable better utilisation of energy and transmission infra-structure. This should result in cheaper average energy, encourage households to use the energy they actually need, and make energy available for other purposes. All of this adds to overall economic

efficiency for NZ. It will also stand NZ in good stead when demand increases again, and/or NZ faces renewed energy constraints.

Deliverables: Report on the efficiency gains/ economic benefits to NZ of a reduction in domestic peak load.

Also possible: An outline of the measures domestic consumers could take that would most help. An outline of the measures the industry could take that would most help. An assessment of the actions the Authority could take that would facilitate implementation of these measures.

DEUN

- 7.140 The Authority is open to investigating this matter and will give consideration to such a project as part of developing its 2013/14 work programme.

8 Other matters raised in submissions

- 8.1 A range of other matters were raised in submissions that are not directly related to the setting of 2013/14 appropriations, development of the 2013–2016 SOI, or development of the 2013–2016 Work Programme. These matters have been set out below.

Authority response

- 8.2 Some of these comments will be addressed in the normal course of business and others will be addressed in the development of the work programme for 2013–2016.
- 8.3 These comments do not impact consideration of the appropriations proposal.

Advisory groups

- 8.4 The following comments were provided on embedding and enhancing the role of advisory groups.

The development of the Retail Advisory Group has also been a positive step and we support the use of the group where possible to lead initial industry discussions. The quality and thoroughness of the consultation papers published by the group should be commended as it helps ensure that future Authority work in this area is well focused and adequately evaluated.

Powerco

We agree that “embedding and enhancing the effectiveness of advisory groups” should be a key priority for the Authority as utilising the skills of the sector is an essential tool if the Authority is to deliver on its statutory objective.

We suggest that the current use of the Wholesale and Retail Advisory Groups can be substantially improved in three ways:

1. Ensure that Advisory Groups are representative of the sector on key issues when there is consideration of issues that have the potential to fundamentally affect the operation of the market. This is most concerning when some of the largest operators in particular segments are not represented effectively on either Advisory Group. We suggest that this concern can be addressed by enabling stakeholders, who have a clear interest in a topic, to ‘opt-in’ to the group on these issues.

2. Embedding the independence of Advisory Groups to enable them to evaluate proposals directly from participants, and if those proposals are found to be meritorious, develop and recommend them to the Authority. This could be achieved through the empowerment of the groups to identify and prioritise their own agenda. This should not restrict the ability for the Authority to request a review from the

Advisory Groups on specific issues – but we consider that this should be the exception rather than the norm.

3. The Advisory Groups should also be used to test any assumptions on the possible benefits and costs of market improvement projects. Although the current “initial assessment” undertaken by the Authority for new projects is a good start, we consider a more robust assessment should be undertaken for a project to be developed. We suggest that the Advisory Groups would be a good forum for providing this assessment.

Genesis

Meridian strongly supports continued transparency and effective use of working groups. Regarding general work practices, Meridian appreciates the Authority's efforts over the course of the year to provide greater transparency and visibility on their work, for instance, via industry briefings and quarterly work programme updates. We strongly support a continuation of this approach. We also strongly support the continuation of appropriate use of technical and other working groups, as is being used to further develop the Wholesale Advisory Group's prudential and settlement policy proposals. Meridian considers both will be critical to ensuring the extensive work programme set out by the Authority for 2013/14 and beyond is progressed in an appropriate way.

Meridian

We note that the EA's view is that it is not possible to have all interested parties represented on the various advisory groups, however we consider that the effectiveness of the groups would be improved through greater transparency. For example, Mighty River Power appreciated the recent opportunity to a present to the WAG Net Pivotal Pricing Review in regards to its views.

Where possible, we would support advisory group meeting papers being posted on the Authority's website at least a week before meetings so any interested market participants can actively monitor the work of the groups and provide timely input if appropriate.

MRP

Authority response

- 8.5 The Authority notes these comments on the effectiveness of the advisory groups and the supporting processes. Some of these matters will be covered in the review of advisory groups' terms of references which will be released for consultation shortly. The Authority is conscious of ensuring that advisory group processes are transparent and will consider the suggestions put forward to improve transparency.

Engagement with the industry / stakeholders

- 8.6 The following comments were provided on engagement with the industry / stakeholders

We continue to welcome the level of industry engagement by the Authority in the last two years. Adequate and open-minded consultation is an essential part of the decision making process. In addition to formal engagement, our informal communication with the Authority on matters such as clarifying the information in submissions has continued to be positive and productive. We welcomed the opportunity to give the Retail and Network Market team a tour of our operations on their recent visit to Powerco's offices in New Plymouth. This helped the Authority staff to gain an appreciation first hand of how a distributor is managed and operated in practice, while also allowing Powerco staff to further their understanding of the Authority's current work.

Powerco

In April this year the Authority Board came to Auckland for an interactive session arranged with Mercury Energy and Metrix. The focus of the session was investigations and trials into innovative retail and metering products and services. We understand the Board also visited other retail and metering businesses as part of the Authority's ongoing commitment to keeping up to speed with industry developments.

Mighty River Power found the April session a useful opportunity to engage with the Board to highlight the impact of regulation on business strategy and market competition. Where possible, we would support future engagement with the EA board in this way across the industry and suggest that the Authority consider organising further meetings with market participants to deepen its appreciation of the issues and opportunities within the industry.

MRP

We note the section on Coordination with the system operator (E18 to E.20, page 25). We recommend that the Authority also have a specific section on coordination with the Commerce Commission. A number of the projects are affected by or affect Commerce Commission activity. A specific example is the distributed generation regulations, where the latest Commerce Commission input methodologies mean we are no longer able to treat avoided transmission payments to distributed generation (DG) as a recoverable cost (previously called pass-through cost), even though we are still required to make the payment under the DG regulations in Part 6 of the Code.

Orion

The use of discussion forums when preparing SOI has in the past been useful and should continue.

MEUG

- 8.7 The Authority has placed an emphasis on stakeholder engagement, and the Board and senior staff intend to continue to engage regularly with customers and participants. The Authority is most appreciative of the stakeholders that have hosted the Board and staff over the past year or so.
- 8.8 The Authority has a Memorandum of Understanding with the Commerce Commission and the two agencies meet regularly to clarify areas of common interest and avoid potential confusion amongst stakeholders in respect of 'border issues'.

Authority planning

- 8.9 The following comments were provided on the Authority's planning processes.

Consultation calendar

We urge the Authority to ensure its consultation calendar is kept up to date and to ensure "peaks" in consultations are avoided, such as that which was experienced over the course of April-May 2012 which involved industry being asked to respond to 15 different regulatory topics.

Meridian

Appropriations consultation process

Vector appreciates the proactive approach that is being taken to the 2013/2014 consultation round by publishing the consultation two months earlier than in previous years. The timeliness allows parties to properly provide useful and constructive feedback on the forthcoming work programme and allocation of expenditure.

Vector

When the Authority next prepares its appropriations document, we would ask that it provides within the table a guide to the time and resource these activities are expected to consume. This will assist participants in planning their own work programmes and provide the Authority with a way of measuring at a later date what it is able to achieve against what it is proposing, and allow for a more sensible balance to be achieved in the future.

Contact

The consultation paper provides an indication of potential net public benefits associated with each project and ranks each into higher to lower priority categories. Mighty River Power appreciates that the appropriations document simplifies the net benefit analysis for ease of presentation. However we consider there would be value in a table that summarises the efficiency losses or net benefits for the various projects and also outlines the framework the EA uses to determine materiality as well as any qualitative commentary.

MRP

Vector notes the statement made in paragraph 2.2.2 that "a detailed budget has not yet been prepared for the 2013/2014 year". This is cause for concern as it is unclear how robust levies can be set, and consultation can be properly undertaken, without an underlying detailed budget. Vector recommends the Authority clarify the basis of its levy proposals.

Vector

Consistent with our submission last year, Meridian would welcome further details on actual expenditure to date for the current financial year.

Meridian

Table E: information about proposed future projects: Meridian is unsure why it is being suggested that project milestones will not apply for certain work-streams including, for instance, the demand side bidding and forecasting impact review.

Meridian

Project progress: We feel the Authority has been generous in its interpretation of progress on section 42 matters, given the number of projects here that have been delayed or deferred. In our view, the Authority must drive projects to completion and cannot reward itself with a green light by, for example, blaming software changes on the NZX.

Authority response

- 8.10 The Authority notes that the high-level budget is prepared for consultation purposes, this is prepared nearly 10 months prior to the commencement of the budget year. The detailed budget will be completed following the consultation process and prior to the setting of the levy rates in May 2013.
- 8.11 To the extent that it can the Authority plans its projects and consultation processes to avoid "peaks" in consultation. Unfortunately, because of particular circumstances and events it is not always possible to avoid the "peaks".
- 8.12 In relation to MRP's comments regarding tabularising the efficiency gains and losses for projects, the Authority notes that the initial estimate of net public benefits (NPB) is a high-level estimate. The Authority does not believe that a more detailed initial assessment of NPB is appropriate because it is preferable to defer making more accurate estimates of a

NPB when the project has been more fully investigated and the issues and possible remedies are better defined.

- 8.13 In respect to the project progress comment, the Authority notes that it met the 31 October 2011 deadline to gazette necessary Code amendments to provide for the section 42 matters. The Authority is committed to implementation of the section 42 matters and is devoting considerable resources to ensure that they are implemented effectively and in a timely manner. The implementation component of many of the projects are complex, for example involving complex IT system changes and changes for multiple participants.