



22 April 2013

Electricity Authority  
Level 7, ASB Bank Tower  
2 Hunter Street  
**WELLINGTON**

Via email: [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

## **Strategic Directions for Market Development – Consultation Paper**

This letter responds to the Authority's consultation on its paper 'Strategic directions for market development' published on 12 March.

Contact Energy Limited (**Contact**) supports the Authority setting out its assessment of the challenges facing the electricity sector in the next ten years. In principle Contact also supports the strategic directions identified by the Authority as:

- Reducing barriers to entry, exit and expansion
- Facilitating consumer participation
- Providing efficient price signals
- Promoting flexibility and resilience

## **Additional Challenges – Consumer Behaviour/ politically driven structural change**

The Authority considers that the challenges facing the electricity sector over the next ten years reflect the broad themes of 'uncertainty, rapid development of technology and changing consumer expectations'. Contact believes the electricity sector faces two additional major challenges in the form of consumer behaviour and politically driven structural change.

The consultation paper acknowledges the role and impact of consumer behaviour on the market. However it should explicitly acknowledge that the consumer's ability to pay for electricity will have an impact on the Authority's function of promoting competition, reliability and efficiency in the electricity market.

An additional challenge for the electricity sector will be the increasing likelihood of political intervention in the electricity market. The recent announcements of the Labour-Green energy policy highlight the regulatory risks. Significant structural change is an additional challenge which should be acknowledged by the Authority.

## **Regulatory Framework**

Contact agrees with the Authority's statement that "The Authority should provide a regulatory environment that is resilient, and that provides tools and capability to achieve outcomes that are for the long-term benefit of consumers". This must mean:

- Ensuring the regulatory environment is sufficiently stable so as not to discourage capital investment;

- Focusing on getting the balance between simplicity and complexity right. The Authority should recognize that unnecessary complexity acts as a disincentive to new entrants and makes the market seem complicated to analysts and consumers.
- Ensuring regulatory change is proportionate and necessary to achieve the Authority's objective.

We would be happy to discuss this response with the Authority.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Catherine Thompson', with a long horizontal flourish extending to the right.

**Catherine Thompson**  
**Regulatory Affairs Manager**