10 September 2013

Carl Hansen
Chief Executive
Electricity Authority

Dear Carl

Re: 2013/14 work plan - proposed additional projects for the Retail Advisory Group

The Retail Advisory Group (RAG) met on Wednesday 21 August 2013 and discussed the additional projects the Authority proposes to assign to the RAG.

The RAG agreed to undertake the projects proposed by the Authority:

1. a review of barriers to group switching and mass market aggregation
2. a research project on the effects of low-user fixed charge (LFC) regulations.

The RAG is comfortable with the Authority's proposed approach for the group switching project, as set out in the project brief.

However, the RAG is suggesting an alternative approach for the LFC project, which would result in the RAG's recommendation to the Board moving from May 2014 to early 2015. Proposed changes to the LFC project brief are included as an attachment to this letter, for the Authority's approval.

The RAG considers it is important to recognise the tension between the different objectives (economic (Competition, Reliability and Efficiency (CRE)), social, energy conservation) of the project. As there is unlikely to be a solution that meets all of the objectives, the RAG considers the aim should be to minimise distortion from the policy.

The RAG discussed the Authority's proposed timeframe at length and concluded that it was not conducive to the RAG providing a quality recommendation to the Board due to:

1. the benefits of the RAG members and its stakeholders (including consumers, participants and service providers) having the opportunity to discuss and deliberate a contentious topic and achieve a consensus

2. the need to co-ordinate with a wide range of government agencies (Ministry of Business, Innovation and Employment (MBIE),Ministry of Social Development (MSD), Electricity and Gas Complaints Commission (EGCC) and Energy Efficiency and Conservation Authority (EECA)). Members noted that obtaining input from all these parties would be time-consuming, but was necessary to provide a considered recommendation

3. the possible disruption from the general election in late 2014, particularly if the RAG is publicly considering potentially contentious issues or options. In particular, the RAG was concerned that a recommendation made in the build-up to the general election could be dismissed for political reasons which would undermine the opportunity for any review for many years.

The RAG proposes that the LFC project be undertaken in two stages.

Stage 1 would involve investigating the extent to which the LFC regulations promote competition and efficiency in the electricity industry, and the effects of the LFC regulations on participants and consumers. Stage 1 would be completed by June 2014.

Stage 2 would involve investigating the extent to which:

- the LFC regulations promote energy conservation and social objectives
- other existing initiatives or mechanisms promote energy conservation and social objectives
- there is a role for the Authority to promote energy conservation and social objectives.

The RAG expects to make a recommendation to the Board on whether to continue or amend or remove the LFC regulations in early 2015.

Please feel free to contact me if you wish to discuss the RAG's proposed approach further.

Yours sincerely

Peter Allport

Peter Allport
Chair, Retail Advisory Group