

22 October 2013

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

Electricity Authority 2014/15 Levy-Funded Appropriations and Electricity Authority Work Programme

Contact Energy (**Contact**) would like to thank the Electricity Authority (**Authority**) for the opportunity to provide feedback on the Authority's 2014/15 Levy-Funded Appropriations and Electricity Authority Work Programme (**consultation paper**).

When Contact commented on the 2013/2014 Appropriations Consultation last year we said it was time for the Authority to take stock, and that the work stream proposed by the Authority was ambitious and should be scaled back. We continue to hold this view and believe the Authority should prioritise:

1. **progressing** its review of the Transmission Pricing Methodology (**TPM**) and other key work streams already underway.
2. **reviewing** programme implementation to date in order to determine whether these work programmes have been successful in achieving their stated goals or require further adjustment before another round of changes is embarked upon.
3. **retail initiatives** that are well thought through and based on the needs of a representative sample size of retail consumers.

Holding this view, we are therefore pleased to see the Authority's comment in the consultation paper that its emphasis over 2014/2015 will be on the retail market. In this regard we believe the best outcomes for consumers will be achieved by the Authority better understanding consumers' needs. In our view, this can only be achieved by the Authority talking to a wide range of consumers, engaging regularly with consumer groups, and undertaking market research of a representative sample size; for example, how much transparency do consumers want on a bill and is a one-size-fits all approach going to offer the best solution? From our perspective, change driven by evidence will also lead to increased support from market participants.

For any questions relating to our submission, please contact:

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General comments

1. We are pleased to note that the Authority is seeking to hold its operational costs constant for 2014/15. However, given that the bulk of the Authority's initial projects have been completed and implemented, we would expect to see a decrease in the amount required by the Authority for its ongoing operations in future years.
2. While it is useful to see a breakdown provided for electricity governance and market operation appropriations, it would be useful to understand the driver of the increased System Operator costs. As the numbers are only provided at a high level it is difficult to assess if these costs are appropriate.

Comments – Authority appropriations

1. The overall proposed Electricity Authority appropriations as set out in table 1 of the consultation paper	Please see pages 1 and 2.
2. The proposed changes to Authority appropriations	Please see pages 1 and 2.
3. Other key matters relating to the Authority's overall appropriations that you consider the Authority should address	Please see pages 1 and 2. Additionally we think that the Authority should focus on: <ul style="list-style-type: none">• clarifying which problems it is trying to solve; and• tightening up its problem definitions.

Proposed Authority work programme

Comments are invited on the proposed work programme in appendix C of the consultation paper.

4. Your level of support for the overall work programme as outlined in the consultation paper	Over half the items on the Authority's work programme appear to be projects that are to be designed and/or implemented over 2014/2015. As we have said before the speed and complexity of the changes proposed creates real issues for market participants. The Authority should focus on clear problem definitions and a work programmes supported by compelling cost benefit analysis. We also note (as we have said previously), that for every \$1 million the Authority spends on projects, the industry has to spend that in multiples to catch up. Please also see pages 1 and 2.
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<p>5. Comments on the overall programme</p>	<p>We reiterate our concern at the volume of activity proposed to be undertaken by the Authority over 2014/15 and would like to see:</p> <ul style="list-style-type: none"> • projects ranked in order of priority; • a guide to the time and resource these projects are expected to consume to assist us in planning our own work programmes, specifically resourcing and budgets; • a review of the low-user fixed charges given a higher priority. In our view this 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-user fixed charge regulations came into force in 2004. <p>Finally, we would like to see the Authority focus on tightening its problem definitions. We believe better results can be achieved if the Authority is clear about the problem it is trying to solve.</p>
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Comments on specific programmes

Programme Name	Competition in retail markets
<p>Your level of support for the proposed programme as outlined in the consultation paper</p>	<p>We are supportive of increased competition in the retail market. However, we recommend the Authority:</p> <ul style="list-style-type: none"> • is clear about the problems it is trying to solve with proposed developments before it embarks on change; • undertakes market research of a representative sample size to ascertain what it is consumers need and to determine whether a one-size-fits-all approach will be appropriate.
<p>Your views on the programme, eg, expected impacts, contributing projects, links and dependencies.</p>	<p>In order for the Authority to achieve its desired goals, the Authority must better understand what it is that consumers need and want. In order to do this the Authority must undertake research of a representative sample of consumers and engage with consumer groups.</p>

Programme Name	Competition in wholesale markets including ancillary services
Your level of support for the proposed programme as outlined in the consultation paper	<p>We are supportive of increased competition in the wholesale markets, however we recommend the Authority:</p> <ul style="list-style-type: none"> • Is clear about the problem it is trying to solve before it embarks on change • Has a clear understanding of the benefits, costs and priorities. <p>Changes will be required to the market system tools as a result of the work programme. There must be a clear upgrade plan of what is required so that costs can be minimised and costly ad hoc SPD changes reduced.</p>
Your views on the programme, eg, expected impacts, contributing projects, links and dependencies.	<p>Contact supports the development of a national reserve and frequency market due to the benefits it would bring. Accordingly we believe it would be more efficient for the Authority to focus on the national reserve and frequency market and drop the intermediate project D4. With the HVDC technically able to provide national products from the end of 2013, the Electricity Authority work programme is now key to the programme's completion.</p> <p>Finally reducing the gate closure would appear to be a simple change that would improve dynamic efficiency and provide positive benefits.</p>

Programme Name	Efficient pricing
Your level of support for the proposed programme as outlined in the consultation paper	Contact supports the alignment of forecast and settlement prices, improvements to the existing spot pricing process and progressing the review of the TPM.
Your views on the programme, eg, expected impacts, contributing projects, links and dependencies.	As the TPM work stream will consume significant resources, other initiatives should be co-ordinated to reduce overlap as much as possible.

Programme Name	Reliability
Your level of support for the proposed programme as outlined in the consultation paper	Contact is generally supportive of the reliability projects.
Your views on the programme, eg, expected impacts, contributing projects, links and dependencies.	<p>National multiple frequency keeping should be prioritised over C22.</p> <p>Following the Huntly triggered AUFULs event we see Project D3 as a priority.</p>