

From the Electricity Networks Association

Submission on “2015/16 Levy Funded Appropriations, Electricity Authority Work Programme, and EECA work programme” consultation

Submission to the Electricity Authority

12 December 2014

The Electricity Networks Association makes this submission along with the explicit support of its members, listed below.

Alpine Energy Ltd
Aurora Energy Ltd
Buller Electricity Ltd
Centralines Ltd
Counties Power Ltd
Eastland Network Ltd
Electra Ltd
E A Networks Ltd
Electricity Invercargill Ltd
Horizon Energy Distribution Ltd
Mainpower NZ Ltd
Marlborough Lines Ltd
Nelson Electricity Ltd
Network Tasman Ltd
Network Waitaki Ltd
Northpower Ltd
Orion New Zealand Ltd
OtagoNet Joint Venture
Powerco Ltd
Scanpower Ltd
The Lines Company Ltd
The Power Company Ltd
Top Energy Ltd
Unison Networks Ltd
Vector Ltd
Waipa Networks Ltd
WEL Networks Ltd
Wellington Electricity Lines Ltd
Westpower Ltd

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1. Introduction

1. The Electricity Networks Association (ENA) appreciates the opportunity to submit on the Electricity Authority's (Authority's) consultation paper "2015/16 Levy Funded Appropriations, Electricity Authority Work Programme, and EECA work programme".
2. This submission relates to the Electricity Authority's proposed work programme and levy-funded appropriations. The ENA will be submitting separately on the EECA work programme.
3. The ENA submits that:
 - a) The levy allocations should be reviewed to determine whether it is appropriate to create more or different categories of expenditure. For example, it is our view that expenditure related to promoting customer switching through the *What's my number?* campaign should be allocated entirely to retailers.
 - b) The work programme and therefore budgeted expenditure is expected to reduce over time and the Authority should be vigilant to savings that can be made. For example, the Authority should consider whether the significant increase in expenditure on personnel since 2012/13 should be sustained permanently.
 - c) The ENA strongly urges the Authority to make the review of low fixed charge tariff regulations a high priority for resources in the coming year. Given likely political sensitivities around reform initiatives in this area, it is critical that the Authority works with other government department stakeholders to ensure that recommended actions are able to be implemented.
 - d) Any distribution pricing review should proceed with caution to ensure that industry initiatives are not negatively affected, and Part 4 regulation is understood and considered.
 - e) A review of the distributed generation pricing principles in Part 6 of the Code should be undertaken to ensure that consumers understand the life cycle costs of such investments prior to making a decision.
 - f) The proposed use of system agreement project should be deferred and the Authority should commit to allowing a process of voluntary negotiation to occur. If a mandatory approach were to be adopted, we would appreciate the opportunity to work with the Authority to ensure that the MUoSA is commercially and operationally practicable, particularly in respect of the provisions relating to even-handedness, load management and liability.
4. We provide more detailed comment on these points in the body of our submission.
5. The ENA's contact person for this submission is:

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2. Levy allocations

6. The allocation of the levy is established in the Electricity Industry (Levy of Industry Participants) Regulations 2010 (the Regulations). The Regulations specify certain categories of expenditure for which different allocations between generators, purchasers and distributors apply. The ENA submits that it would be timely to review whether additional categories should be created.
7. For example, the Regulations specify a separate category for the consumer switching fund which was a time- and value- limited amount of expenditure related to promoting the benefits of comparing and switching retailers. The ENA submits that since this promotion activity has not been limited in time or amount, as was anticipated when the Regulations were promulgated, this category should now be broadened to include all such expenditure.
8. We submit that this category of expenditure should then be allocated to retailers (as currently specified in the Regulations) as they are the participants driving the cost. At present half the expenditure related to promoting customer switching is allocated to Electricity Network Businesses (ENBs) although the customer cannot switch network and ENBs neither create the need for the expenditure nor benefit from the activity.
9. There may be other Authority expenditure that is not currently allocated to the best participant and we consider a review could highlight these anomalies.

3. Appropriation level

10. The ENA notes that the Authority has identified a fairly significant scope of work for 2015/16. The ENA expects that the Authority's work programme will diminish over time, and that the budget will reduce in line with the decline in activity.
11. The ENA notes that the level of expenditure on personnel is forecast to have increased by more than 25% between 2012/13 and 2015/16. The ENA questions what has driven this sharp increase, and submits that the Authority should review whether such a significant increase is warranted permanently.

4. Work programme

4.1 Low fixed charge tariff regulations

12. The ENA strongly supports the proposed review of the Low Fixed Charge Tariff (LFC Tariff) regulations.
13. The ENA submits that reviewing the LFC Tariff regulations is critical to allowing the development of efficient distribution pricing. These regulations have a strong influence on the structure of distributors' charges. This review also has a role in ensuring that the price signals to prospective distributed generation customers are efficient.

14. We believe that of all the initiatives the Authority is considering, change to the obligation to offer a low fixed charge option is most likely to provide substantial long-term benefits to consumers by improving the efficiency of electricity use. Accordingly, we strongly urge the Authority to give this review priority. The ENA suggests that the politically sensitive nature of the regulations reinforces the importance of bringing this review to a timely conclusion. We submit that the Authority should ensure that it dedicates sufficient resources to this project to complete it in the short term.
15. The ENA also submits that it will be critical to the acceptance of any recommendations for reform to work with other key stakeholders including the Ministry of Business, Innovation and Employment, and the Ministry for Social Development. This engagement would be most beneficial and efficient, in our view, if it occurred throughout the review process rather than at the end in a consultation format.

4.2 Distribution pricing review

16. The ENA agrees with the Authority that prices should encourage efficient behaviour, both in terms of use of electricity and investment in assets that supply electricity. As we have already noted, we consider relieving the obligation to offer a LFC tariff to be critical to the development of efficient prices. ENA members also have initiatives underway to simplify distribution pricing, including initiating a Distribution Pricing Working Group (DPWG) to lead, support and co-ordinate distributor efforts to review and, where appropriate, establish more durable, efficient pricing. We would welcome the opportunity to discuss our proposals with the Authority, and have written to you separately about this.
17. Electricity distribution is highly regulated, and it is difficult to make rapid movements in tariff structure because of the nature of price regulation, retailers' system constraints and caution by retailers and end-users who often perceive little benefit in moving to an alternative distribution tariff. The ENA submits that more gradual changes in tariff structure should not be unexpected.
18. The process of review and feedback through the Authority's review of pricing methodologies (completed by Castalia) was useful from our members' perspective and we expect it to have resulted in improvements to pricing methodologies. Such reviews highlight best practice and foster continual improvement. There is a risk that focussing on reviewing the regulatory arrangements will distract from making meaningful improvement in pricing methodologies.
19. The ENA submits that the Authority should consider allowing light-handed interventions such as the review of the alignment of methodologies with the distribution pricing principles and information disclosure guidelines a reasonable time period to take effect before imposing further regulation.
20. The ENA considers that care will be required in determining the scope of any review of distribution prices given the Commerce Commission's role. We suggest that a collaborative process between the ENA and the Authority, and potentially including consultation with the Commerce Commission, would be valuable in this regard.
21. The ENA also agrees with the Authority that it is important to ensure that consumers understand the longer term system costs of installing increasing levels of distributed

generation, and make investment decisions that are based on complete life cycle information. Given these comments, the ENA is surprised to note that a review of Part 6 of the Code and in particular the Distributed Generation Pricing Principles is not part of the Authority's work programme. We consider that this is an important aspect of the Code that does not currently work toward the long-term benefit of consumers.

4.3 Use of System Agreements

22. The ENA submits that the Authority's proposed project relating to use of system agreements (UoSA) should be deferred.
23. In the ENA's view the time period that the Authority has allowed for distributors and retailers to adopt modified UoSA since the voluntary process was established in 2012 is insufficient. The process to negotiate and agree new UoSA with retailers is not insignificant, and retailers have limited ability to engage with multiple distributors simultaneously. By signalling very early (in mid-2013) that it had concerns with a voluntary process, the ENA's view is that the Authority has stifled negotiations. It is not costless to engage in UoSA negotiations, so the risk that the Authority ultimately decides to override recently negotiated contracts inevitably has a bearing on appetites to commit resources to negotiations.
24. As experience with the process is gained, the ENA expects that change would gather pace. In fact, an ENA survey of distributors undertaken in October 2014, showed that, of the 20 responses received 10 distributors are currently negotiating UoSAs with retailers, largely based on the Authority's model. Nine of these distributors are optimistic that negotiations will be complete by April 2015.
25. The ENA continues to recommend that the Authority provides clearer expectations for voluntary negotiations, rather than adopting a mandatory approach. If a mandatory approach were to be adopted, we would appreciate the opportunity to work with the Authority to ensure that the MUoSA is commercially and operationally practicable, particularly in respect of the provisions relating to even-handedness, load management and liability.

4.4 Transmission pricing investigation

26. The ENA is pleased to note that the Authority intends to make a decision on the TPM guidelines in 2015/16. The very lengthy review process appears not to have been well planned and has created unnecessary uncertainty and cost for the industry.