Summary of Submissions

2015/16 Appropriations and Work Programme

Information paper

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Corporate Services

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Executive summary

The Electricity Authority (Authority) has consulted on its proposed appropriations (its funding) and work programme (the programmes and the key projects we plan to carry out) for 2015/16.

Consultation on appropriations is required by section 129 of the Electricity Industry Act 2010 (the Act). We report to the Minister of Energy and Resources (Minister) on our recommended appropriations.

The consultation also informs the development of our Statement of Performance Expectations (SPE)[1] and work programme. The draft SPE for 2015/16 will be provided to the Minister in April and published in June 2015. The work programme is expected to be published in June or July 2015.

Submissions were received from: the Association for the Promotion of Electric Vehicles (APEV), Contact Energy Limited (Contact), Electricity Networks Association (ENA), Genesis Energy Limited (Genesis), Grey Power Federation (Grey Power), Major Electricity Users' Group (MEUG), Meridian Energy Limited (Meridian), Mighty River Power Limited (MRP), Nova Energy Limited (Nova), Orion New Zealand Limited (Orion), Pioneer Generation Limited (Pioneer), Powerco Limited (Powerco), Pricewaterhousecoopers (PwC) (on behalf of 20 distribution companies), Transpower New Zealand (Transpower), Unison Networks Limited (Unison) and Vector Limited (Vector).

Overall support for the proposed appropriations

Where comment was provided, there was general support for the proposed appropriations.

Section 4 addresses the submission comments about the appropriations.

Feedback was received on the proposed work programme

Most comments in the submissions dealt with the work programme for 2015/16 and key projects within the programmes. The comments, and our initial responses, are set out in section 5.

These comments from submissions will be considered further during development of the SPE and work programme.

Overall workload

Some submissions suggested that there may be too many projects in our proposed work programme, putting too much demand on participants and service providers. In contrast, other submissions considered that the overall workload will be a reduction over previous years.

[1] Under amendments to the Crown Entitles Act 2004 enacted in 2013, the Authority now has a four-year Statement of Intent (SOI) and one-year Statement of Performance Expectations (SPE). The SOI does not need to be published every year. The Authority has reviewed its strategic intentions set out in the 2014–2018 SOI. It has concluded that the strategy in the SOI will continue with minor fine-tuning in terms of the projects in the work programme. A new SOI will therefore not be published for 2015–2019.

It is important to note that the planned projects represent our core regulatory function, which we seek to progress as speedily, efficiently and effectively as possible.

While parties still express concern about our workload, we consider that this concern has reduced relative to past years. We are taking a more strategic and targeted approach to prioritising our work. As a result there are a large number of projects on the pending list (being projects that have merit, but that cannot currently be resourced).

Workload, including for affected parties, will be considered in further development of the 2015/16 work programme.

Strategic focus

The market development focus outlined on page 15 of the consultation paper was generally supported by comments in submissions and will be refined and finalised for the SPE and work programme.

Significant progress has been made in both the wholesale and retail markets since the Authority was formed. However, further enhancing retail market competition will further drive prices towards efficient costs and remove misleading prices. This work is essential to enhance consumer confidence in the competitiveness of the market.

Particular emphasis is therefore being placed on competition in the retail market for 2015/16, including continuing the programme to facilitate consumer participation.

In 2015/16, we will increasingly turn our attention to advancing work to further the strategy of providing efficient price signals. Inefficient prices are ‘misleading’ prices as they do not inform consumers about the true costs of their consumption of electricity services. Inefficient and misleading prices are not to the long-term benefit of consumers.

Other matters were raised in submissions

Other matters were raised in submissions that were not directly related to the 2015/16 appropriations and work programme. These are covered in section 6. We will further consider these submissions later in our planning process.

Glossary of abbreviations and terms

Act	Electricity Industry Act 2010
Authority	Electricity Authority
CBA	Cost benefit analysis
Code	Electricity Industry Participation Code 2010
CRE	Competition, reliability and efficiency (components of the Authority's statutory objective)
EECA	Energy Efficiency and Conservation Authority
FTR	Financial transmission right
LFC Regulations	Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004
MBIE	Ministry of Business, Innovation and Employment
Minister	Minister of Energy and Resources
MOSP	Market operation service providers
MUoSA	Model use-of-system agreement
RAG	Retail Advisory Group
Regulations	Electricity Industry (Enforcement) Regulations 2010
SO	System operator
SOI	Statement of Intent
SOSPA	System operator service provider agreement
SPE	Statement of Performance Expectations
TPM	Transmission pricing methodology
Transpower	Transpower New Zealand Limited
UoSA	Use-of-system agreement
VoLL	Value of lost load
WAG	Wholesale Advisory Group

1 Introduction and purpose of this report

1.1 Submissions were invited on the proposed 2015/16 appropriations for the Electricity Authority (Authority), and those activities of the Energy Efficiency and Conservation Authority (EECA) that are funded by the levy on industry participants. The consultation period was 29 October to 12 December 2014.[2]

1.2 In addition to appropriations, the consultation paper outlined the Authority's proposed work programme and EECA's levy-funded electricity efficiency programme priorities for 2015/16.

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.

"**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 This report has been prepared to support the process of reporting to the Minister with our recommended appropriations required by section 129(2).

2.3 Further analysis of submissions will be carried out as part of developing our 2015/16 Statement of Performance Expectations (SPE) and work programme.

2.4 EECA provides a separate report to the Minister on its proposed electricity efficiency appropriation.

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[2] The consultation paper and submissions are available at www.ea.govt.nz/about-us/corporate-projects/201516-planning-and-reporting-/

3 Submissions

3.1 Submissions were received, from:

(a) Association for the Promotion of Electric Vehicles (APEV)

(b) Contact Energy Limited (Contact)

(c) Electricity Networks Association (ENA)

(d) Genesis Energy Limited (Genesis)

(e) Grey Power Federation (Grey Power)

(f) Major Electricity Users' Group (MEUG)

(g) Meridian Energy Limited (Meridian)

(h) Mighty River Power Limited (MRP)

(i) Nova Energy Limited (Nova)

(j) Orion New Zealand Limited (Orion)

(k) Pioneer Generation Limited (Pioneer)

(l) Powerco

(m) Pricewaterhousecoopers (PwC) (on behalf of 20 distribution companies)

(n) Transpower New Zealand (Transpower)

(o) Unison Networks Limited (Unison)

(p) Vector Limited (Vector).

4 Overall appropriations

Overall proposed Electricity Authority appropriations

4.1 The overall proposed appropriations were set out in Table 1 of the consultation paper. Submissions included the following comments on the overall proposed appropriations.

> In general, APEV supports the proposals for funding of the Authority's functions… There is, however, some areas where we believe a greater level of funding can assist the uptake and optimisation of electric vehicles, and their benefits to energy efficiency, public health, and NZ's balance of payments.

APEV

> We are pleased to note that the Authority is working to hold its own operational costs flat over the 2015/16 financial year.
>
> Contact

> 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. 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.
>
> ENA

> We appreciate the focus on improving market services, but we suggest more can be done to reduce the Authority's own operational costs. We suggest that, in order for future projects to deliver real outcomes to end-customer while delivering cost-savings, the Authority must look to more actively leverage industry technical expertise.
>
> Genesis

> MEUG agrees with the EA's aggregate proposed level of appropriations for 2015/16 of $76.7m for electricity industry governance and market operations, carried over multi-year appropriation of $6m over the 5 years 2012/13 to 2016/17 for security management and $0.444m for the electricity litigation fund.
>
> MEUG

> While the Authority has signalled an increase in its appropriations the majority of this increase relates to system operator costs.
>
> MRP

> Vector broadly supports the proposed work programme.
>
> Vector

4.2 Grey Power, Meridian, Nova, Orion, Pioneer, Powerco, PwC, Transpower and Unison did not provide specific comment on overall appropriations.

Authority response: appropriations

4.3 We note that, where a view is expressed, there is general support for the overall appropriation levels sought.

4.4 We have an ongoing commitment to holding our own operating costs constant. We made a conscious decision, in 2012, to increase internal capability and to reduce reliance on consultants. This strategy has been implemented over the past two years. As a result, personnel cost has increased and external advice costs have decreased. This trend continues into the 2016/17 proposed budget.

5 Proposed work programme

5.1 The consultation paper provided an outline of the proposed 2015/16 work programme. It covered the programmes and key proposed projects within the programmes to deliver the intended impacts as set out in the SOI.

5.2 The consultation paper did not set out all possible projects for 2015/16.

Comments on the overall work programme

Strategic focus and prioritisation

5.3 The following comments were made in submissions.

> We are pleased to see that, while still ambitious, the Electricity Authority's ("the Authority's") work programme for financial year 2015/16 ("the FYE2016 work programme") appears more targeted than previous years. An important aspect of any work programme is to ensure that it appropriately prioritised with projects that are likely to result in tangible value to end-customers in the near-to-medium term. Genesis Energy suggests that these types of projects should make the top of any list.
>
> …
>
> The Authority work programme for FYE2016 consists of 34 individual projects (10 of which are implementing previous year projects). This is a significant commitment for any institution to deliver on. Whilst the Authority may be confident that it has the resources to effectively deliver on these projects, this has wider implications for the market.
>
> The Authority's FYE2016 work programme includes a number of projects that may deliver tangible benefits to end consumers. We particularly welcome the focus on reducing unnecessary costs for retailers and improving spot market risk and risk management tools. But a number of projects remain that are either secondary, or should not be there at all. For example, we suggest that transmission pricing methodology review should be regarded as a secondary priority, particularly when compared to those projects focused on delivering more tangible value to end-consumers.
>
> …
>
> The overall cost of the market continues to increase year on year, and although we appreciate the Authority's efforts to maintain a similar operational budget to last year, simply maintaining costs is not enough. Like all market participants, we suggest the Authority must constantly aim to reduce its own cost to consumers.
>
> Cost savings are achievable through substantially better prioritisation of projects, improving the project development processes, as well as continually reviewing the need for existing regulation on retailers and other market participants. In particular, the Authority needs to become

more effective in leveraging participant resources when developing new policies or Code changes. For example, the Authority and market participants have focused serious resources on reviewing and critiquing the Authority's Transmission Pricing Methodology (TPM) Review papers and processes. In our view, these resources would have been more wisely spent if the Authority had taken a more collaborative approach to developing their original TPM proposal.

A collaborative approach will not always resolve the issues, but it will enable participants to focus their resources more constructively and narrow any disagreement.

Genesis

We welcome that the Authority, in comparison to previous years, is not seeking to add significant additional projects to its work programme.

…

We support the focus on the retail market, particularly ensuring that consumers have access relevant information when making investment decisions around photovoltaics, battery storage or electric vehicles. The competitiveness of the retail market has increased substantially with innovative service offerings from both new entrants and existing retailers clearly evident. Given the natural progression of the market, we urge the Authority to carefully consider the need for Code-based measures to promote retail competition.

MRP

We support the continued focus on reducing costs to the industry through market design and operations, and the strategy of providing efficient price signals.

Nova

The proposed EA work programme represents the EA's prioritisation of various initiatives that advance its statutory functions and objective. We consider that the Treasury's 2014 briefing to the incoming Minister for Regulatory Reform[3] (Steven Joyce) provides timely context for industry regulators in setting their priorities and associated funding requirements. In particular, we note that the Treasury briefing highlights its aspiration for New Zealand's regulators:

- to deliver best practice regulation; and
- to focus on areas of particular strategic importance to New Zealand.

We suggest that these objectives are useful for assessing the merits of the EA's proposed 2015-16 work programme and corresponding funding levels. For instance, we consider that the EA needs to be appropriately funded to deliver high quality regulatory outcomes. This

3 http://www.treasury.govt.nz/publications/briefings/2014-regulatory-reform

needs to be tempered however, by a work programme that prioritises the most strategically important initiatives for New Zealand's electricity sector.

There are many areas in the proposed work programme that meet both of the objectives set out by Treasury. We note that the work programme also appears very full with more than 30 individual work streams proposed. Many of these are identified as of a low or medium benefit. Importantly, we consider that a number of the work streams appear to be poorly defined, lack a clear problem definition, or are only supported by a generic efficiency objective.

Accordingly, we consider that there is room for a more targeted approach to scoping and prioritising the work programme. We submit that this should focus on delivering quality outcomes in strategically important areas. In particular, we consider that there is an opportunity to defer some workstreams (eg the UoSA review) as well as encourage sector lead initiatives (eg distribution pricing). Conversely, we consider some workstreams should be prioritised as critical (ie the LFC regulation review).

PwC

We support the direction of the 2014-17 work programme to continue the focus of the current period on enhancing retail market competition. We note that the programme remains very busy but the number of initiatives has reduced from the 14/15 work plan. We encourage the Authority to continue to scrutinise the justification for each initiative in its work programme and to defer or drop low value activities.

Transpower

Authority response: Strategic focus and prioritisation

5.4 We note comments about prioritisation. Our work programme will be further assessed in light of the submissions received and other information, for example Government priorities, our statutory objective and any CBA information available at that time. Prioritisation will include assessment of all candidate projects as well as the proposed key projects outlined in the consultation paper. Priorities will also be reviewed as necessary during the year. The prioritisation process is intended to ensure that our work programme is challenging, but not too ambitious for the Authority, its providers, and its stakeholders.

5.5 We note that the budget for consultation purposes is prepared over nine months prior to the commencement of the financial year. This enables consultation with stakeholders prior to submission of our appropriations proposal to the Minister in February 2015. The detailed budget is completed following the consultation process and prior to the setting of the levy rates in May 2015.

5.6 We note that several comments show support for our continued focus on retail competition; including ensuring consumers have access to relevant information to assist their decision-making on providers, services and new technologies.

Reducing compliance costs

5.7 The following comment was made in submissions.

> We support efforts to increase compliance where such compliance advances the Authority's statutory duty. We do not support increasing compliance with outdated or unnecessary Code provisions that unduly impose regulatory burdens. As Peter Drucker said: there is nothing so useless as doing efficiently that which should not be done at all. To that end, and recognising the proliferation of new regulation and ever increasing complexity, we recommend that the Authority adopt an explicit objective to simplify regulation and to reduce the regulatory burden on participants.
>
> For example, we have been working with the Authority this year to simplify or dispense with some historic Code obligations that have little or no value in their current form but which are costly to comply with. We encourage the Authority to continue in this direction and pursue this activity with increased zeal.
>
> Transpower

Authority response: Reducing compliance costs

5.8 We agree with the comments about the need to simplify, where possible, and ensure cost-effective regulation. We have a focus across all of our projects on improving the readability and applicability of the Code provisions, which should lead to improved compliance. Some of our work has this as a key focus, eg we have an ongoing Code review programme to tidy up the Code, remove references to outdated technologies etc. Specific projects have also sought to simplify the Code, for example, taking some of the detail out of the Code and putting it in the FTR allocation plan has enabled quite an adaptive and efficient process for enabling compliance.

5.9 We seek a collaborative approach in our work whenever possible to enable stakeholders to contribute, ensuring that there is opportunity to address implementation and compliance cost for stakeholders as part of our consideration during decision-making.

Regulatory 'performance assessment': monitoring results of initiatives

5.10 The following comments were made in submissions.

> Last year, when Contact commented on the 2014/2015 Appropriations Consultation, 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. Accordingly we are pleased to see the Authority note that an increased emphasis will be placed on monitoring the results of the initiatives to date. In our view, this is critical.
>
> Contact

> The Authority has been particularly focused on programme delivery during its establishment phase. That phase is now complete and, while delivery remains important, greater focus is needed to link those programmes, and individual decisions, to its strategies and to explaining, ex ante, what success looks like i.e. what, in practical terms, it is trying to achieve and how it assesses whether the intervention achieved the intended outcome. This feedback loop is a critical part of the regulatory process and should be baked in to each of Authority initiative.
>
> We support adoption of impact (performance) measures as part of a regulatory performance assessment and encourage the Authority to expand further on how these will operate in practice. For example, we would like to know more about how the impact measures help the Authority to articulate the intended effect of each regulatory decision (i.e. link to strategy, anticipated effect) and measure the success that decision, as part of the *post-implementation review*.
>
> Transpower

Authority response: Regulatory 'performance assessment': monitoring results of initiatives

5.11 We note the comments about evaluating completed projects. The proposed 2015/16 work programme continues the ramp-up of the evaluation programme, focusing on significant projects that have been in place for sufficient time to enable meaningful evaluation to take place.

5.12 Examples of potential post-implementation reviews in 2015/16 are demand-side bidding and forecasting, FTR market and stress testing (p 35 of the consultation paper). The wholesale market programme also contains projects with a significant component of review of the performance of the market and past initiatives, for example, the spot market review and demand side response review.

5.13 We consider monitoring sector developments and the impacts of our work to be essential parts of delivering our statutory functions. The information from monitoring and evaluation provides vital feedback for the planning process. Impact measures were published in the 2014–2018 SOI. These impact measures are being monitored and progress will be reported in the 2014/15 Annual Report.

Work programme approach

5.14 The following comment was made.

We recommend the Authority:

- 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
- remains mindful of consumers in all decisions, as ultimately they bear any additional cost.

Contact

Authority response: work programme approach

5.15 We note the comments from Contact and consider this consistent with our planning approach. There is a strong focus on the long-term benefits for consumers. Market research techniques are used where appropriate and cost effective relevant to the work at hand.

Comments on specific programmes

Programme: Competition in retail markets

Enabling new entrant retailers

5.16 The following comment was made.

We support the Authority's strategy of 'reducing barriers' with the 2014-18 impact measures described as:

- a more level playing field for new and expanding retailers
- reduced set-up costs for new retailers

Our views also resonate with the Authority's view that:

"New entrant and growing retailers are critical drivers of competition and innovation in the retail market. They need to be confident they are operating on a level playing field."

In our view, new entrants will never face a level playing field when the complexity of the rules and operating environment imposes significant costs on new entrants who do not have the scale to absorb these costs in the way that the larger incumbent operators can.

The proposed work programme includes projects that, in our view, continue to create more complexity and cost for the industry and particularly new entrants, for example the transmission pricing methodology review and the retail data project, which conflicts with the Authority's strategic themes.

If projects that create complexity were dropped from the work programme, and/or replaced with projects that promote simplicity, the amount required from electricity consumers to fund the Authority would decline over time.

…

Pioneer recommends the Authority's work programme include three key projects that, in our view, would promote simplicity and significantly reduce the costs associated with complexity for all electricity retailers, including new entrants, which should flow into more efficient prices for consumers:

1. rationalise the several thousand network company tariffs and pricing structures: The Authority's 'distribution pricing review' (project 1.11) has an initial focus on "the implications for efficient distribution pricing of disruptive technologies" with other issues to be considered subsequently[4]. Our concern is that this review may end up mirroring the Authority's work on the transmission pricing review.

   Contact Energy has made a similar call for more simplicity – made in their submission on increasing transparency:

   "For regulated transparency of charges to be effective it is Contact's view that there should be a regulated obligation on distributors to publish distribution and transmission tariff rates (at least for mass market consumers) that are billable and able to be passed through without repackaging."

2. reduce the number of spot price nodes in the wholesale market that are used for market reconciliation: Our suggestion is one node is selected to provide the price paid by retailers for electricity delivered to customers within that specific region. We have undertaken some preliminary analysis which shows there is mostly minimal deviation in half hour prices for nodes that are geographically close, however a retailer has to manage the data and price risk for each individual node within a region when setting retail prices once they have signed a use of system agreement with that network company.

   These reconciliation nodes could coincide with nodes used in the hedge market which could be expected to make hedging more

4 Page 14 of the presentation to Regulatory Managers and Consumer Representatives meeting 11 December 2014.

relevant and liquid. We note the limited number of pricing nodes in Australia and the liquidity of their futures market.

Pioneer discussed this with the Wholesale Advisory Group in the context of WAG's review of hedge market arrangements (a priority 1 project) and this is also relevant for the Authority's spot market review (a priority 2 project).

3. implement a programme to adopt AMI half-hour reconciliation as opposed to residual profiles: This will enable more innovative customer pricing products to be delivered at a lower cost. An increasing number of residential customers have AMI meters and hear about the opportunities to influence their power bills by changing their consumption patterns yet each bill they receive is based on the assumption that they have consumed electricity in the same pattern as a fictitious residual profile.

In our view, the Authority should be focused on simplifying the industry as the current complexity creates confusion and distrust from consumers and represents a significant barrier to new entrants and innovation. We would welcome the opportunity to discuss our 'simplicity projects' with you.

Pioneer

Authority response: Enabling new entrant retailers

5.17 Our strategy of reducing barriers to entry, exit and expansion of parties in electricity markets has the objective of promoting competition. A key focus is to promote retail competition, for example through initiatives to reduce set-up costs for net retailers and by providing a more level playing field for new and expanding retailers.

5.18 As an example, an expected outcome of the retail data project is to facilitate new retailers to compete with existing retailers by providing a more level playing field around access to consumers' consumption data. Similarly, an expected outcome of the more standardisation of use-of-system agreement (UoSA) project is to reduce barriers to entry and expansion for new and growing retailers by reducing costs of negotiating UoSAs.

5.19 We assess the costs of initiatives (eg implementation costs for retailers) against the benefits from promoting competition, reliability and efficiency.

5.20 We note that a more level playing field does not necessarily mean less complex rules as this could interfere with achieving workable competition. We also note that organised markets tend to operate within detailed rules and these rules tend to be more extensive and detailed in competitive markets because well designed rules reduce the costs of exchange.

5.21 We note that the potential value in reducing the number of spot price nodes is being considered as part of the spot market review project. We are providing the Wholesale Advisory Group (WAG) with an opportunity to comment on a draft version of the review before it is released.

5.22 Our pending project list includes a project to look at increasing the efficiency of market settlement through greater use of half-hour data (project 3.21 in the 2014/15 work programme). This project will be further considered for the 2015/16 work programme.

5.23 Other relevant Authority comments are included in the sections on the wholesale market programme, efficient pricing programme and retail data project.

Low fixed charge regulations

5.24 The following comments were made in submissions.

> The obvious simplicity-promoting project in the work programme is the research project to investigate the effects of the low fixed charges regulations and their impacts on competition and efficiency. Pioneer strongly supports the Authority undertaking this work which has the potential to simplify the tariff structures for residential consumers (and note the Commerce Commission also support this review). We agree with the Authority's reason for undertaking this project that "the current duplication of tariffs and restrictions on some tariffs may be harming retailer innovation and competition".

Pioneer

> This is an important project for the sector that needs good momentum for the RAG to complete its review within the current financial year. Unison submits that another 2015/16 deliverable should be added to strengthen the findings of this review: *"EA to report to the Ministry of Business, Innovation and Employment (MBIE) and the Minister on alternative options to the low fixed charges regulations"*.

Unison

> We support "**Research project: effects of low fixed charges**". Meridian considers the low user regulations are poorly targeted, create significant administration costs, and stifle innovation in retail tariffs. We support the Retail Advisory Group (RAG) investigating these issues.

Meridian

> We support the proposed Retail Advisory Group (RAG) project to investigate the effects of the **low user fixed charge regulations**[5] and their impacts on competition and efficiency. However, we believe this proposed work should be extended to become a project which will involve the Authority working with the Ministry of Business, Innovation and Employment, the Ministry for Social Development and industry stakeholders with a view to recommending to the Government that the low user fixed charge regulations be substantially amended or rescinded.

[5] Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004.

There is little doubt that these regulations are currently impeding the implementation of efficient cost-reflective charges by distributors and retailers. It is also true that any action to amend the regulations is likely to be politically contentious. Consequently, we believe it is essential that the work needed to review and amend or rescind the regulations should be undertaken early in the political cycle and expedited to the extent practicable.

It would also be very advantageous from a policy perspective if any changes to the low user fixed charge regulations were able to be completed before substantial progress is made on the Authority's proposed review of distribution pricing, as the regulations currently substantially restrict the ability of distributors to modify their prices, particularly their fixed charges, to make them more cost-reflective and hence more likely to promote efficient consumption and investment decisions.

Powerco

The ENA strongly supports the proposed review of the **Low Fixed Charge Tariff (LFC Tariff) regulations**.

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.

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.

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.

ENA

With respect to para C.11 of the paper, there are two key areas of existing regulation that are currently supporting inefficient investment by some consumers, generally at the expense of other consumers. These are the low fixed charge regulations, and the distributed generation regulation under Part 6 of the Code. Both of these limit the ability of distributors (and retailers in the case of the low fixed charge regulations) to appropriately signal cost to consumers, particularly those with their own generation. We are pleased that project 1.8 - Research project on the effects of low fixed charges - is still a priority, but we note that in the meantime the number of PV installations is taking off. It might be appropriate, in the meantime, for the Authority to work with MBIE to put in place an additional exemption or exclusion under the regulations so that distributors and retailers are no longer required to offer low fixed charge compliant pricing to connections with PV.

Orion

Vector recommends the Authority gives a higher priority, in the next year's work programme, to the research project on the effects of the 'low fixed user charges'. Resolving the problems caused by the low fixed charge regulations will help promote efficient price signals.

Vector also recommends that the research project explicitly consider whether the low user fixed charge is inefficiently distorting the relevant markets, and whether such distortion, if found, could be justified on the basis of it being the most effective tool available for addressing fuel poverty.

Vector

Contact fully supports this work stream and believes a change could have real value to consumers. Our preference would be to see this work stream accelerated with recommendations for change (if any) consulted on by the end of FY15.

Contact

The low fixed charge regulations review should be prioritised as critical.

…

A Retail Advisory Group (RAG) review of the current LFC regulations is planned for 2015-16. Issues identified for consideration include the duplication of tariffs and the harmful effects to retail innovation and competition.

The EDBs which support this submission consider that there is broad dissatisfaction with the current regulations and as such, we believe there is strong support for prioritising the proposed review. From a distributor perspective, the regulations impact significantly on pricing efficiency and need to be resolved as soon as possible as they inhibit other efficiency initiatives. Issues that need to be addressed include:

a) Identifying the purpose and objective of the regulations, which we consider are currently not well defined or understood;

b) Considering the changing nature of domestic users. For instance, more than 50% of domestic consumers are now on a LFC tariff. Many consumers also fall into this low use category as a result of taking up dual fuel offerings (eg natural gas, LPG, and PV) and from making energy efficiency improvements;

c) Addressing incentives to inefficiently switch to alternative energy sources (eg gas, PV, energy efficiency). These arise from capping fixed tariffs at artificially low levels;

d) Addressing economic cross-subsidies that arise between consumer groups, particularly at very low levels of consumption; and

e) Shifting the focus of the regulation from consumption based measures in order to better align with efficient distribution pricing structures (eg demand or capacity utilisation).

Given these concerns, we submit that the proposed review needs to have a wide scope; focusing on all aspects of the EA's statutory objective. We consider that the outcome of this review should be to develop practical reform options, which are able to be progressed with the Ministry of Business, Innovation and Employment and other interested agencies (eg EECA, the Ministry of Social Development). Accordingly, the review needs to be appropriately funded, in order to be able to deliver robust and timely recommendations.

PwC

Authority response: Low fixed charge regulations

5.25 The Retail Advisory Group (RAG) is undertaking a research project to consider the market effects of the Electricity (Low Fixed Charge Tariff Option for Domestic Users) Regulations 2004 (LFC Regulations). The RAG is scheduled to report its findings to the Authority Board by December 2015. We will consider the RAG's recommendations and provide a response to the Minister for Energy and Resources, who is responsible for the LFC Regulations.

Retail data project

5.26 The following comments were made in submissions.

We think the retail data project is a positive initiative and welcome the Authority's recent verbal confirmation that one outcome of the project should be an improvement in distributors' ability to access retailer metering data. Such access could substantially improve the accuracy of distributors' demand forecasts and consequently assist us to make more economically efficient investment decisions.

Powerco

Contact is supportive of the Authority's retail data project.

Contact.

Authority response: Retail data project

5.27 We note the positive comments about the retail data project. The objectives of the retail data project are to promote retail competition and to promote the efficient operation of the electricity industry. We assess the costs of initiatives (eg implementation costs for retailers) against the benefits from promoting competition, reliability and efficiency.

5.28 The expected outcomes of the project are: consumers being able to obtain better retail information; and enhanced retail competition and innovation. The project outcomes do not specifically include an improved ability of distributors to access retail metering data, however, distributors may seek to provide services to consumers that result in them seeking and obtaining access to those consumers' retail data.

What's my number

5.29 The following comment was made.

> Given the significant sum spent on this to date and proposed to be spent over the coming financial year, we think it would be worthwhile for the Authority to check that this programme is still resonating with consumers.

Contact.

Authority response: What's my number

5.30 We note the comment from Contact.

5.31 What's My Number remains an important component of our pro-competition initiatives. We regularly review the performance of the campaign to ensure it continues to engage consumers and helps facilitate a more competitive retail market. Examples are the regular surveys to track consumer awareness of the campaign and attitudes towards comparing and switching electricity retailers.

Hedge market

5.32 The following comment was made.

> We endorse the 'education' aspects of the programme…. We imagine that some form of education might be useful in the context of 'Hedge market development' (1.4) as well.

Orion

Authority response: Hedge market

5.33 Submissions have been received on the WAG's discussion paper. The discussion paper outlined a range of potential options for improving the hedge market. Education was included within this list of options. The WAG is on target to make its recommendations by May 2015.

Spot market review

5.34 The following comments were made in submissions.

> Contact is unclear as to what is envisaged around reviewing the spot market to identify refinements to improve spot market conditions and accordingly is unable to provide comment.
>
> Contact

> Work project No. 2.11, spot market review, is part of the existing 2014/15 work programme: Competition in retail markets. Perhaps this should be part of the work programme: Competition in wholesale markets, because the outcome of the project should enable competition and efficient pricing in the wholesale market for all parties. That includes all types of spot purchasers and parties that trade financial derivatives linked to spot prices, not just small new entrant retailers.
>
> MEUG

> Whilst we support a review of the stress-testing requirements for parties who purchase directly from the spot market, we are concerned that demonstrating efficient spot market risks to consumers is best left to the retailers who are providing these types of products. It is not the place of the market regulator to prove, or improve, the viability of any retail model.
>
> Genesis

Authority response: Spot market review

5.35 Our work on the spot market review is primarily focused on refinements to improve retail competition. However, the objectives of the review are not limited to that. The review acknowledges the potential benefits for the hedge market and other forms of wholesale market participation that could arise from refinements to the spot market, such as demand-side response.

5.36 We are providing the WAG with an opportunity to comment on a draft version of the review before it is expected to be released in April 2015.

5.37 We note the support from Genesis for a review of the stress-testing requirements for parties that purchase directly from the spot market. We do not intend to prove, or improve, the viability of any retailer model but rather to ensure retailers inform consumers (in this case especially residential consumers) about the potential level of exposure they face from “going on spot”. Ensuring consumers are well-informed is essential for enhancing the durability of market arrangements when significant adverse events occur in the spot market.

New proposal: consumer preferences

5.38 The following comments were made in submissions.

> With retail-related work continuing to be an important area of focus, we consider active steps should be taken by the Authority to further develop its knowledge of the way retailers meet the needs and preferences of their customers. Greater knowledge of retailers' current approaches will assist with ensuring any interventions are well designed and maximise value to consumers. One way this could be achieved would be to meet with all retailers regularly to discuss how their retail offerings are evolving and future plans for innovation.

Meridian

> In order for the Authority to achieve its desired goals and the best outcomes for consumers, the Authority must understand what it is that consumers need and want. 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. From our perspective, change driven by evidence will also lead to increased support from market participants.
>
> In our view, in order to make the best use of the 'facilitating consumer participation fund', it is fundamental for the Authority to understand who an average mass market customer is. For example, research would suggest that the average mass market consumer has financial literacy skills below the deemed minimum suitable for coping with the demands of everyday life and modern society.
>
> Consumers have busy lives and need to think about childcare, getting the laundry done, and paying the rent/mortgage amongst other things. Accordingly, while there are a small number of consumers who want real time pricing and efficient price signals, it is dangerous to design the whole system around this sub group. There is an equally large group of consumers that would prefer to pay one set amount each pay period and not have to worry about usage. Just as broadband companies have removed peak period charges, any price signals should start with customers rather than with the network. It would be a shame, in our view, to see efficiency pursued over the best outcomes for the consumer.

Contact

> The Authority has a number of initiatives focussing on facilitating consumer participation and increasing their engagement with retailers. Not only does this represent a significant investment by the Authority, but a number of the initiatives have the potential of increasing costs to retailers. Nova Energy believes that it is important that:
>
> - consumer views are well represented in the Authority's deliberations, and

- consumer-focussed initiatives are undertaken with an evidence-based approach, supported by targeted market research.

Given the importance of this, Nova Energy suggests the Authority include a project to investigate how it can best achieve these requirements.

Nova

Authority response: Consumer preferences

5.39 We undertake market research, where necessary, to obtain information about and better understand consumer preferences. Examples are the regular surveys to track the performance of the What's My Number campaign and the research commissioned on behalf of the RAG as an input to the improving transparency of consumers' electricity charges project.

5.40 We are also speaking with universities and others that undertake research of consumer preferences relating to electricity. We expect to continue to evolve our research practices and requirements.

Authority response: Overall programme for competition in retail markets

5.41 Where there were comments, submissions indicated support for our competition in retail markets programme. However, some submissions raised concerns about the need for, or scope of, several of the proposed key projects.

5.42 Some submissions also encourage the Authority to understand what consumers need and want and to provide appropriate evidence of a problem, particularly when an initiative is intended to affect retail competition by affecting consumer preferences or expectations.

5.43 We have placed a particular emphasis in our 2014–2018 SOI on promoting competition in retail markets by undertaking initiatives to facilitate consumer participation and to reduce barriers to entry, exit and expansion. These are two of our strategic directions for market development.

5.44 We believe there is considerable potential to deliver long term benefits to consumers by increasing the propensity of consumers to exercise choice of supplier and service and by lowering the barriers for retail entry and expansion. In particular, we consider substantial efficiency gains may be achieved by making sure consumers have the information they need to make decisions and by reducing the costs of making decisions.

5.45 We expect to continue progressing and refining initiatives that have the primary purpose of facilitating consumer participation and reducing barriers to entry and expansion. However, competition across the electricity market appears to have improved markedly over the last four years so there may be fewer pro-competition initiatives worth pursuing in the future. As a result we are beginning to shift our emphasis to projects that promote the operational efficiency of the electricity industry.

5.46 Consistent with its legislative requirements, and those in its foundation documents, we will provide its analysis of market/regulatory failures and the net benefits expected from an initiative when it is consulting on Code amendment proposals or market facilitation measures.

5.47 We note the suggestions in relation to consumer preferences. We will continue to use surveys of consumer preferences and expectations of the electricity sector to inform market development. Other opportunities to develop a more in-depth understanding will be considered in development of the work programme detail.

Programme: Competition in wholesale markets

Wholesale market information: fuel disclosure

5.48 The following comment was made.

> We welcome the addition of the project "Wholesale market information: fuel disclosure". Information is critical to the functioning of the wholesale and hedge markets. In particular, we support investigations into making more thermal fuel price, contract and storage information available.
>
> Meridian

Authority response: Wholesale market information: fuel disclosure

5.49 We intend to progress the wholesale market information: fuel disclosure project early in the 2015/16 year. This will include consideration of improved and mandatory disclosure for all generation fuel types, including those for thermal generators.

National markets for frequency keeping and instantaneous reserves

5.50 The following comment was made.

> We support the projects to develop national markets for frequency keeping and instantaneous reserves. We encourage the Authority to work closely with industry on these projects, given implications for changes to participants' system and processes. We recommend formation of an industry working group to assist with development of these markets.
>
> Meridian

Authority response: National markets for frequency keeping and instantaneous reserves

5.51 We are working closely with the system operator to ensure that considerable opportunity is provided for stakeholders to provide feedback and be involved throughout the national markets development process. There have already been several joint workshops held by the system operator/Authority on the topic.

5.52 We consider that stakeholder feedback is of particular importance when considering the implications of the system operator's trial operation of new HVDC controls on the need and type of frequency keeping services. We may request that the WAG provide recommendations in this area and there may be value in establishing a technical working group.

Demand-side response review

5.53 The following comments were made.

> We note project 2.17 – Demand side response review. We welcome the recognition of the importance of demand side response and in particular the risk associated with ad hoc response, and the importance of coordination. We are keen to share with the Authority our own views and experience on this subject as it progresses this project.

Orion

> For the existing 2014/15 work project No. 2.17, demand side response review, MEUG suggests this reference the Commerce Commission's approval of $8m for Demand Response (DR) expenditure by Transpower as part of the 5 year Individual Price-Quality Path commencing 1st April 2015. The Commerce Commission decision and reasons paper[6] of 29th August 2014 (paragraph 5.184) noted:
>
> *"We, along with the Authority, expect Transpower to act in good faith regarding the development of DR. This applies in the application of DR in electricity market, and as a developing area in its business operations. We encourage Transpower to continue to work with the Authority and other stakeholders to develop a programme for the development, consultation and finalisation of a DR protocol as set out by the Authority."*

MEUG

Authority response: Demand side response review

5.54 We expect to publish the demand-response principles paper during May 2015. We will encourage feedback from a broad range of stakeholders who have an interest in demand-response.

5.55 While not directly a part of the demand side response review, we will continue to engage with the Commerce Commission regarding any approval for Transpower's demand-response programme. We have recently agreed with Transpower, and subsequently published, a protocol relating to Transpower's demand response programme. This protocol, once implemented, has been established to address our concerns regarding Transpower's demand-response programme.

[6] Document URL http://www.comcom.govt.nz/dmsdocument/12336 at http://www.comcom.govt.nz/regulated-industries/electricity/electricity-transmission/transpower-individual-price-quality-regulation/transpowers-price-quality-path-from-2015-to-2020/

Authority response: Overall programme for competition in wholesale markets

5.56 We note the support for specific projects within the competition in wholesale market programme.

5.57 National markets for frequency and instantaneous reserves are top priority projects in the 2014/15 SPE.

5.58 We acknowledge the close linkages between the projects within the wholesale markets programme. This is especially true for the ancillary service market related developments. We will continue to work closely with the system operator and seek regular feedback from stakeholders to ensure this work is well planned in terms of both design and eventual implementation).

Programme: Efficient pricing

Transmission and distribution pricing

5.59 The following comment was made.

> MEUG agrees with the observation in paragraph C.10 “the most pressing area to improve price signals is in the electricity network sector – transmission and distribution”. In finalising its work programme next year MEUG suggest the details and timing of that work be co-ordinated with the Commerce Commission’s review of Input Methodologies (IM) determined pursuant to subpart 3 of Part 4 of the Commerce Act 1986. Some of the IM are important parameters in how prices are set and the quantum of prices set by regulated monopolies. The Commerce Commission must make final decisions on any changes to IM by end of 2017 after consulting. We expect consultation by the Commerce Commission may commence early 2016 and therefore should be considered in the EA’s planning for 2015/16.

MEUG

Transmission pricing investigation

5.60 The following comments were made.

> Unison remains concerned about the length of time this project has taken. We submit that the EA again consider condensing the timeframes on this project.

Unison

> We support the Authority’s ongoing work on the transmission pricing investigation. We consider there to be significant inefficiencies with the current Transmission Pricing Methodology (TPM). In Meridian’s view, these inefficiencies can only be fully addressed through changes to the TPM Guidelines. We support the Authority continuing its investigation of alternative allocation approaches in accordance with its statutory objective.

Meridian

We are pleased to see that the Authority is intending to bring its review of the transmission pricing methodology (TPM) to a conclusion at the end of 2015. This has been a lengthy review that has followed a convoluted process that has often appeared to lack cohesion and a clear focus. The current exercise is the latest of a series of reviews of transmission pricing that began in September 2004. The uncertainty created by these investigations has added an unnecessary element of additional risk to the industry which will hopefully be removed, or at least reduced, by the announcement of final decisions at the end of 2015.

Powerco

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.

ENA

Vector has concerns with the 'TPM review'. As we have expressed in a previous submission[7] we are not convinced this project adds value and do not believe it needs to be included in the 2015/16 work programme.

Vector

We suggest that transmission pricing methodology review should be regarded as a secondary priority.

Genesis

TPM / Transpower TPM

5.61 The following comments were made in submissions.

We note the inclusion at WP no. 1.12 of a project to consider any changes eventuating from Transpower's TPM operational review.

We appreciate the Authority incorporating this into its planning cycle and consider it will assist with coordination between this work and the Authority's own TPM review (WP no. 1.6). We also appreciate the Authority's support with the TPM operational review to date and will continue, ahead of any Code change proposal, to coordinate this work with Authority staff.

Transpower

We support the proposals:

a) to consider and consult on Transpower's TPM proposal

[7] Vector, *Submission to the Electricity Authority Transmission Pricing Methodology: Beneficiaries-pay options,* 25 March 2014.

> b) to progress the EA's own TPM review with a second issues and options paper.
>
> Given the obvious synergies in these work streams, we submit that Transpower's TPM proposal should first be considered as a potential option to improve the TPM and address the EA's concerns.
>
> While a reasonable level of funding is required to complete the TPM work programme, we consider that most of the analysis will be informed by the initial consultation and working papers which have been completed to date. We therefore expect funding to be targeted at assessing and developing options that have already been consulted on and the recent work of Transpower.
>
> PwC

Authority response: Transmission pricing

5.62 We intend to continue with the TPM review as a high priority project. Potential changes to the TPM have been identified that may deliver long-term benefits to consumers.

5.63 We note MEUG's suggestion to coordinate with the Commerce Commission in finalising the 2015/16 work programme. We regularly liaise with the Commerce Commission about our work programme and activities.

5.64 We acknowledge the comments on the two transmission pricing projects – the Authority's TPM project and Transpower's operational review of the TPM. The milestones, timing and funding requirements for undertaking these projects will be considered as part of finalising the 2015/16 work programme.

Distribution pricing review

5.65 The following comments were made in submissions.

> Unison notes the ENA has formed a Distribution Pricing Working Group, and is writing separately to the Authority to explain the scope of the working group's activities. We note the Castalia review was the first review of distributor's compliance with the regulatory requirements and guidelines and that distributors have taken on board the feedback to improve their disclosures. Unison submits that it would be preferable for the Authority to commit to annual reviews for a period, as best practice in this area emerges. Unison submits that if the Authority and stakeholders can successfully achieve meaningful change in the low user fixed charge regulations, distributors will have strong incentive and ability to improve the cost reflectivity of tariffs, and therefore that should be the immediate focus and priority for the Authority, rather than undertake a review of distribution pricing arrangements.
>
> Unison

APEV supports the Authority's work programme on distribution pricing and notes there would be significant NZ Inc benefits and consumer benefits from distributors offering heavily discounted overnight distribution tariffs to send a clear signal to consumers to charge EV's overnight.

APEV

We understand that the Authority has decided to defer the commencement of its review of distribution pricing until around May 2015. We believe this is a positive move, as it will allow the Authority to make genuine progress on the review of the low user fixed charge regulations, and their possible amendment or rescinding, ahead of the distribution pricing review. If the regulations are able to be modified or rescinded this should clear the way for an unimpeded and potentially more beneficial review of distribution pricing. The rescheduling of the Authority's review should also enable the ENA's recently established Distribution Pricing Working Group to make meaningful progress on a number of pricing-related issues. The ENA Working Group looks forward to working constructively with the Authority as the review exercise progresses and its objectives, and the process it will follow, become clearer.

We would also urge the Authority to take account of the practicalities associated with changing distribution pricing arrangements. Retailers' charging systems often need considerable time to accommodate significant changes to charging arrangements (such as the introduction of time of use tariffs) and, consequently, extensive consultation is necessary before such changes can be implemented. The time required to roll-out new arrangements can also be lengthy. Similarly, end consumers are typically averse to rate shocks and have often planned ahead on the assumption that current charging approaches will continue. Hence, any significant changes require consultation with end consumers and careful management. Given this environment, we would recommend that the Authority take an incremental and light-handed approach to the implementation of any change in this area. The early involvement of the Commerce Commission would also be advisable, given the Commission's role in price-quality path regulation and information disclosure regulation for distributors.

Powerco

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.

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.

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.

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.

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.

ENA

We note that a key component of the work programme is network pricing signals (para C.10 and project 1.1 1[distribution pricing review]). We certainly agree network pricing signals are important, but we urge the Authority as it progresses this work stream to be mindful of the wider regulatory context, and in particular Transpower and (non-exempt) distributor price regulation under Part 4 of the Commerce Act. The Authority will also need to:

- carefully identify the nature and materiality of any existing problems,
- be able to demonstrate clear cases of operational and investment inefficiency, and
- be able to show how any proposed changes improve the situation.

We believe it is the failure to complete these three steps that explains the sustained lack of traction of the project 'Transmission pricing investigation' (1.6). It would be unfortunate if the same process was followed in the context of distribution pricing.

…

We look forward to an early update on the Authority board's November 2014 decisions on scope and timetable for project 1.11, and then to a subsequent robust and constructive consultation process.

Also with respect to project 1.11, we note that the project 'Review of the efficiency of distribution company arrangements' which was in last year's equivalent paper no longer appears in the list of projects. We think this change is a fair reflection of the relative value of that project, but we are not sure whether aspects of that project, which had no clear scope, are being picked up within project 1.11. We would appreciate clarification.

Orion

Vector notes the Authority intends to review distribution pricing in the next financial year. Vector recommends that before the Authority develops options for regulation it should take the following steps:

a) Consult on the problem definition and the principles it will apply to any review.

b) Then, if the Authority can demonstrate a clear mandate for reform, it should provide industry with an opportunity to resolve any issues requiring attention in a reasonable and clearly specified timeframe.

Vector

Simplify the market

Contact supports making the market simpler to reduce barriers to entry.

One of the barriers to more innovative pricing for customers is network simplicity. The more complicated network pricing becomes, the harder it is for retailers to develop customer-centric products as the retailers struggle to pass through the different cost structures. It may be timely for the Authority to review whether the price signals that networks attempt to send to mass market consumers actually work.

Prevent cross subsidisation

Contact is firmly of the view that consumers without distributed generation (DG) should not end up subsidising those with DG. While it makes sense to have complexity on the generation and transmission side to ensure physical supply, and it is efficient for larger organisations to employ people with the technical expertise to manage the risk, this is not the same on the consumer side.

…

In Contact's view, as they stand, the distribution pricing principles are not achieving anything for retailers or consumers and a change in approach is required to drive more consistency and simplicity in network pricing structures, and transparency to the extent it is wanted by customers.

Contact supports a review of distribution pricing being undertaken; however, it is unclear what is going to be looked at under this. Will it look at commonality in network tariffs across regions?

Should the Authority decide to regulate transparency of charges, it also needs to regulate that network prices must be structured to support transparency by being predictable and billable without requiring repackaging.

Contact

Encourage the sector to lead distribution pricing initiatives.

…

The proposed review of distribution pricing appears to be targeted towards more efficient distribution pricing arrangements. We set out below our general views on the focus of this work stream.

We support a regulatory framework that promotes more cost-reflective and enduring distribution pricing methodologies. The current principles-based regulatory framework has proven valuable in this regard, with many distributors prompted to reassess their pricing approaches in order to improve the cost-reflectivity, efficiency, and transparency of their pricing. However, these voluntary arrangements need time to mature and develop. Distributors also need flexibility to innovate and respond to changing market dynamics (eg the uptake of smart meters and PV). We therefore do not support investigation of more prescriptive approaches to regulating distribution pricing.

We note that distributors are taking a lead in this area, with the ENA recently initiating a distribution pricing project that seeks to co-ordinate efforts in:

a) developing and sharing industry-led solutions to common pricing issues;

b) identifying and promoting opportunities for greater standardisation of distribution pricing;

c) sharing information between distributors and stakeholders, including regulators, retailers and consumers, through forums, case studies and resources and experiences.

The recent experience of distributors in working with the Commerce Commission on regulatory solutions (eg the ENA's quality of supply working group) has shown that industry led initiatives can provide higher quality and more enduring regulatory outcomes. Accordingly, we support such initiatives.

We therefore submit that the focus of the distribution pricing review should be on identifying areas where the sector can focus its efforts in order to best meet the EA statutory objectives. In addition, we note that the EA could assist distributors through:

a) providing practical guidance. In particular, we support the continuation of annual pricing methodology reviews, which have been helpful in highlighting best practice and in facilitating continual improvements in pricing practices;

b) providing input into the development of pricing solutions and/or examples of best practice pricing (ie working with the ENA); and

c) addressing regulatory issues which impact on the efficiency of distribution pricing (eg. LFC regulations and the review of the Part 6 pricing principles).

PwC

We agree that it is crucial that prices accurately reflect the cost of providing network services and that regulatory frameworks do not inhibit technological developments. We support the Authority's work of reviewing distribution pricing but note that this project has not been materially progressed in the past year. We understand that scoping work has been further delayed until mid-next year. We would support further attention to progressing this work stream as a priority and ensuring a robust problem definition from the outset.

Ensuring distribution pricing is consistent with current principles is, in our view, of higher priority and greater value to consumers, than the current focus on resolving transmission pricing. Distribution charges are of a far higher significance to residential consumers and, as the Authority has noted, the current trend of flat electricity demand is likely to continue. This suggests the efficiency gains from reform to transmission pricing are likely to be limited. Further, Transpower's current operational review of the TPM has demonstrated there are practical and industry-supported incremental revisions to the TPM that can be progressed and should be integrated into the Authority TPM review.

MRP

Authority response: Distribution pricing

5.66 We note the comments on the distribution pricing project. Submitters' views will be taken into account as the scope and approach for this project are developed. We intend to consult on an issues paper for the distribution pricing review in May 2015.

5.67 In relation to the current pending project to review distribution company arrangements, we note that pending projects were not included in the consultation process but will be included in the published work programme. We will consider possible milestones and timeframes for this project during development of our 2015/16 work programme.

Suggested review of the pricing principles in Schedule 6.4 of Part 6 of the Code

5.68 The following comments were made in submissions.

> Given the increasing importance of distributed photovoltaic generation in many networks, we suggest that the Authority consider including in its work programme a review of the pricing principles in Schedule 6.4 to Part 6 of the Code. The current pricing principles limit the ability of distributors to apply charges that reflect the true life cycle costs of photovoltaic connections.
>
> Powerco

> 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.
>
> ENA

> With respect to para C.11 of the paper, there are two key areas of existing regulation that are currently supporting inefficient investment by some consumers, generally at the expense of other consumers. These are the low fixed charge regulations, and the distributed generation regulation under Part 6 of the Code. … Regarding Part 6, this does not appear to be in the work programme at all, and this concerns us. We trust that it will be picked up within project 1.11.
>
> Orion

> The Authority should also review the suitability of the current distributed generation pricing principles in the Electricity Industry Participation Code. Vector has previously highlighted the problems with these pricing principles[8] and in our view those problems could be addressed reasonably quickly and discretely from any distribution and transmission pricing reviews.
>
> Vector

> We note that the EA has previously suggested it would review the pricing of distributed generation under Schedule 6.4 of Part 6 of the Code in order to address efficiency issues that have previously been identified (eg including the calculation of avoided interconnection charges)[9]. This work stream does not appear to be mentioned in the Consultation Paper. However, there is a general discussion regarding

8 Vector, *Submission on Distributed Generation pre-consultation*, 11 November 2011.

9 Electricity Authority, Transmission Pricing Methodology, Avoided Cost of Transmission (ACOT) payments for distributed generation – working paper, 19 November 2013, Paragraph 1.18.

the importance of cost reflective network pricing in signalling efficient investments in PV:

"For individual consumers making long-term decisions about installing PVs it is important they face the correct price signals, especially transmission and distribution prices which flow through to retail prices" – paragraph c.11

These concerns appear to be dealt with under the proposed distribution pricing review.

We submit that any review of distribution pricing arrangements targeted at addressing the efficiency of PV investments will be incomplete without also considering the impact of the Part 6 DG pricing principle. We therefore reiterate our previous submission[10] that the pricing arrangements under Part 6 should be addressed alongside any review of distribution pricing review, given the cross over in these topics. In particular, this review should address whether a separate DG pricing principle is necessary or whether DG pricing could be captured under the existing distribution pricing principles.

PwC

Authority response: Pricing principles

5.69 We note the comments on the current pending project to review the pricing principles in schedule 6.4 of Part 6 of the Code. This pending project was not included in the consultation process, but will be included in the published work programme. Possible milestones and timeframes for this project will be considered during development of the 2015/16 work programme.

More standardisation of use-of-system agreements

5.70 The following comments were made in submissions.

The appropriations consultation document indicates that the Authority is in the process of considering whether to allow continued voluntary negotiation of use of system agreements (UoSAs) or move to make the modal use of system agreement (MUoSA) mandatory. Consistent with our earlier submissions on this subject, Powerco would prefer to see the voluntary arrangements continue. A survey undertaken by the ENA in October 2014 revealed that, of the 20 responses received, ten distributors were currently negotiating UoSAs with retailers, and these negotiations were largely based on the MUoSA. This appears to indicate that the voluntary framework is achieving the Authority's objectives. It also suggests a high level of goodwill on the part of those distributors and retailers that are continuing to negotiate despite the risk that regulatory intervention may ultimately render their efforts nugatory.

[10] PwC submission on Transmission Pricing Methodology: Avoided Cost of Transmission (ACOT) payments for distributed generation, made on behalf of group of 22 EDBs, 31 January 2014, Paragraph 44-45.

However, if the Authority does decide to introduce mandatory requirements, we would appreciate the opportunity to work with the Authority to ensure that some provisions in the current MUoSA are commercially and operationally practicable, particularly the clauses relating to even-handedness, load management and liability.

Powerco

The ENA submits that the Authority's proposed project relating to use of system agreements (UoSA) should be deferred.

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.

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.

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.

ENA

Regarding project 1.9 – Review of more standardisation of use of system agreements - we note that the rationale for this project includes the word "may" twice. We submit that the Authority's decision on its approach this year (2014/15) needs to persuasively turn this "may" into a "materially does" for it to proceed to Code changes in the 2015/16 year. In the meantime we continue to regularly sign-up new retailers to our existing agreement with little fuss or cost.

Orion

Vector has concerns with proposed work with standardisation of Use of System Agreements. As we have expressed in a previous submission[11]

[11] Vector, *Submission on more standardisation of use-of-system agreements*, 20 May 2014.

we are not convinced this project adds value and do not believe it needs to be included in the 2015/16 work programme.

Vector

Recommend deferral of this project.

…

This proposed work stream is to investigate the merits of moving from the current model UoSA (MUoSA) arrangements towards regulated UoSA terms, based on either a default or mandatory approach. This appears to be driven from concerns over the progress of UoSA negotiations and the terms being agreed.

While we acknowledge that uptake of the MUoSA was slow at first, this trend was understandable given retailers initially focused their resources on negotiating with large distributors. Many smaller distributors decided to wait, given limited resources, to see if these negotiations revealed commercial, legal and operational issues. This was a reasonable response from distributors; and one which we believe has now limited variations in UoSA, consistent with the standardisation objective.

Once the initial UoSA negotiations were settled, we have observed increased negotiating activity across the remaining distributors, with many more UoSA being signed. We understand that over the next six months a large proportion of distributors are expecting to finalise new UoSA with retailers, which are consistent with the current MUoSA terms. This illustrates that distributors need sufficient time to close out these negotiations, without further uncertainty which we believe will be created by the proposed UoSA review. Indeed, we understand that several distributors have put UoSA negotiations on hold as a direct response to the proposed review. These decisions are driven by uncertainty over the final form of a regulated UoSA, and the significant resource that could be wasted in having to renegotiate UoSA.

In our view, consideration of default or mandatory UoSA at this stage is premature. Alignment of UoSAs to the model is likely to advance more quickly by allowing negotiations to proceed. We therefore do not support the proposed timing of the review, and submit it should be deferred to allow a more reasonable timeframe for negotiations to be settled. We suggest that it is appropriate to defer the decision on whether to commence with the review by at least one year, which is consistent with the original 2017 deadline (ie based on a 2-5 year implementation[12]) which was proposed in the 2012 MUoSA consultations.

PwC.

12 Electricity Authority: More standardisation of use-of-system agreements, 8 April 2014, Paragraph 1.1.16.

Authority response: More standardisation of use-of-system agreements

5.71 We note the comments on the more standardisation of use-of-system agreements (UoSAs) project. We are currently considering how to proceed with the UoSA project and will make announcements on this in early 2015.

Review of loss factor methodologies

5.72 The following comment was made.

> Unison is interested to learn what happened to a previous project that the EA consulted on in 2013 – Review of Loss Factor Methodologies. We would be grateful for an update as to whether this consultation has been completed or shelved.
>
> Unison

Authority response: Review of loss factor methodologies

5.73 The reconciliation loss factor methodology is a pending project in the 2014/15 work programme (project 3.22). The project was put on hold after some consultation had been completed, as it became necessary to focus on higher priority projects. Consideration will be given to bringing the project into the 2015/16 work programme.

Demonstrating efficient spot price risks to consumers

5.74 The following comments were made in submissions.

> If, as articulated, this is aimed at making sure the risks are clear and that large industries are able to meet obligations they enter into, then in Contact's view this seems sensible.
>
> Contact

> We support the intention the demonstrating efficient spot price risks to consumers. As the consultation paper notes some retailers are offering spot market price to residential consumers, which heightens the importance of these consumers being clear about the risks of such products. We agree that it is timely to review whether the current stress test obligations are needed on parties that purchase directly from the spot market.
>
> MRP

Authority response: Demonstrating efficient spot price risks to consumers

5.75 We note the support from Contact and MRP for this potential new project for the 2015/16 work programme. If this project is included in the work programme, the first step would be to develop the scope and approach to the project in order to clarify the problem definition, objectives, and work to be carried out.

Authority response: Overall programme for efficient pricing

5.76 We note the extensive submissions in relation to this programme, in particular from distribution companies and their representatives.

Programme: Implementation projects

Offer and dispatch

5.77 The following comment was made.

> We support “Offer and dispatch: review of gate closure”. Meridian considers reducing gate closure will improve the efficient operation of the wholesale market by allowing participants to respond to changing market conditions closer to real time.
>
> With respect to the project “FTR Allocation Plan 2015”, we note that there have been a number of significant recent developments in the FTR market, most notably the addition of three additional trading notes. We support a period of stability in the FTR market so that these recent changes can “bed in” and then be evaluated, before further revisions to the FTR market are considered.
>
> Meridian

Authority response: Offer and dispatch

5.78 Developments in the FTR market are generally pursued by the FTR Manager through proposed variations to the FTR allocation plan. Interested parties should engage with the FTR manager regarding potential developments. We will then consider any proposed changes and the views of FTR market participants before any variations to the allocation plan are approved.

Extended reserves manager

5.79 The following comment was made.

> The Authority noted the new Extended Reserves Manager is likely to be operational in 2015 and may result in additional costs. The consultation paper appears to imply that any additional funding, if required, would be recovered from industry without warning. If this is correct, industry will have limited opportunity to capture the additional costs in their annual tariffs given EDB tariffs are set according to information in the consultation paper, as discussed above. The Authority should ensure that it does not introduce levy costs that cannot readily be recovered by industry participants.
>
> Vector also notes that an estimate for the expected costs for the Extended Reserves Manager was available as it was provided in the Limiting the liability of the Extended Reserves Manager consultation paper.

Vector

Authority response: Extended reserves

5.80 Our intention is to manage the costs of the extended reserve manager within our existing 2015/16 appropriations, if possible. The costs provided in the liability limit consultation paper were the Authority's estimates (in the absence of any firm costs). We are currently conducting a tender process for this role and will consider the implications for the appropriations as part of this process.

Authority response: Overall programme for implementation projects

5.81 It is noted that changes will be required to the system operator's market system tools as a result of the work programme. Similarly, some initiatives will require changes to systems operated by the market operations service providers (MOSPs) and the systems used by participants.

5.82 We work closely with the system operator, MOSPs and participants to address these matters as part of its market design process. Implementation requirements are a key consideration of all Code and market facilitation initiatives.

5.83 In conjunction with the system operator, we prepare a Joint Development Plan that is published on our website. The purpose of the plan is to ensure the coordination of Code, market facilitation and market system development activities. We will continue to work closely with the system operator to ensure that software development is undertaken in an efficient manner.

Programme: Provision of education, models and data

Consumer education

5.84 The following comments were made in submissions.

> We support the project "Consumer education programme". We consider there will be significant benefits from improving consumers' understanding of the electricity market, and ensuring they are able to appropriately engage in regulatory processes. Reviewing international best practice in this area may be one way of identifying areas for improvement in our own approach.

Meridian

> We endorse the 'education' aspects of the programme, in particular the projects 'Demonstrating spot price risk to consumers' (not yet numbered), and 'Consumer education programme' (2.23).

Orion

> We support the proposed Consumer Education Programme. We suggest that the EA could have a role in demystifying the perceived complexity about the electricity industry and in highlighting the regulatory oversight provided by the EA, Commerce Commission, and MBIE. We also support further work in understanding consumer views

> on matters such as pricing, service quality, and future consumption trends.
>
> PwC

> Genesis Energy is pleased to see the Authority embracing its consumer education function and we suggest that the "Consumer Education Programme" needs to be elevated to a higher priority. The recent challenges to the electricity sector structure revealed a lack of understanding of how the market actually delivers value to end-customers. However, the Authority will need to consider whether its current resources are suited to delivering this type of project.
>
> Genesis

Authority response: Consumer education

5.85 We note the support for the consumer education programme. It is also noted that the need for education has been reiterated by the Advisory Groups, especially the WAG.

5.86 The Board has approved an enhanced communications and engagement programme for 2015, which primarily focuses on using online and media channels to help educate and inform consumers about the electricity industry.

5.87 This programme has been developed following a review of international and New Zealand-based regulatory agencies work in this area.

Programme: Fit-for-purpose market services

System operator service provider agreement (SOSPA) review

5.88 The following comments were made in submissions.

> Nova Energy notes that just over 55% of the Authority's total appropriation is accounted for by the System Operator expenses, of which $17.3m are capital-related expenses. While there may be elements of this expense which are beyond the Authority's control, we wonder if the Authority could not do more to control this expense, including perhaps a tighter definition of what constitutes systems enhancements and maintenance expenditure. Some years ago a large sum was spent on the Market Systems project, and yet we are still waiting for some of the expected benefits of the project to be implemented. It would seem to be appropriate to undertake a full post implementation review of that project, and implement regular audits of other capital projects undertaken by the System Operator. Perhaps this could be included as part of the renegotiation of the System Operator Service Provider Agreement in 2015.

Nova

> The proposed increase in System Operator costs of 6.7% following increases of 8.3% and 4% in each of the prior years is partly a result of CPI adjustments allowed under the existing System Operator Service Provider Agreement (SOSPA). Nowadays service provider contracts would unlikely to include automatically indexed price increases. We encourage the EA and System Operator when re-negotiating a new SOSPA to come into effect 1st July 2015 to put the arrangement on a more commercial footing.

MEUG

> A significant part of the increase in the 2015/16 market costs is attributable to increased market operation costs. We support the Authority's ongoing efforts to better manage these increases, including a review of the current SOSPA arrangements and wider market services review.

Genesis

Authority response: fit-for-purpose market services programme

5.89 On-going cost-control for both the Authority and its service providers is a key priority for 2015/16 and out-years.

5.90 We have work underway to review the system operator contract and this is expected to include changes to the capital funding arrangements. Re-tendering of most of the other service provider roles (to be completed in 2014/15) is expected to ensure the delivery of these services remains cost-effective.

Programme: More efficient market operations

Review of participant audit arrangements

5.91 The following comment was made.

> Unison queries whether there will be a consultation on this review as this is not noted in the project deliverables.

Unison

Authority response: Review of participant audit arrangements

5.92 This project is still under development but, in the event that potential changes and improvements are identified, these will be subject to the usual Code amendment process, including formal consultation.

Operational review of Part 10, Metering information, Billing volumes

5.93 The following comments were made in submissions.

> We support the operational review of Part 10 of the Code. We suggest that a review of export metering arrangements could be a feature of this review, in order to prepare for the potential for large deployments of solar PV.

PwC

> We understand that the Authority is still in the process of scoping its metering review project. We would suggest that this project be extended to cover issues related to Part 11 of the Code (Registry information management) as well as Part 10 (Metering). An example of a Part 11 problem that Powerco is encountering at present relates to ICP decommissioning. The problem derives from the fact that Powerco often receives a notice to decommission an ICP directly from its approved contractors, but cannot decommission the ICP in the registry unless the retailer changes the registry ICP status to "inactive awaiting decommission", and the retailer typically will not do this until the meter has been removed and they have received the paperwork that confirms this has occurred. This creates a "Catch 22" situation that ensures that Powerco cannot update the registry in the time required by the Code. We suspect there are a number of other process problems of this sort which should be reviewed.
>
> …
>
> Another issue that has come to light is the potential for kWh volumes that are submitted to distributors by retailers, using the incremental normalised methodology, to be inconsistent with the volumes submitted to the Reconciliation Manager. A forum or other review process overseen by the Authority could help to resolve this problem.…...

Powerco

Authority response: Part 10 review, metering and billing comments

5.94 We are in the very early stages of scoping our proposed operational review of metering arrangements (which will, amongst other things, consider the results of pending audits of meter certification and records accuracy audits and whether recent changes to Parts 10, 11 and 15 have been effective.) If Powerco is experiencing issues with the existing Code requirements it could consider submitting a Code amendment proposal that sets out the issue and any comments about how the issue could be addressed.[13]

6 Other matters raised in submissions

6.1 Other matters were raised in submissions that were not directly related to the setting of 2015/16 appropriations, development of the SPE, or development of the work programme. These matters have been addressed below.

6.2 Where these comments impact consideration of the appropriations proposal, these have been considered as part of developing the recommendations to the Minister. Most of the comments that follow will be addressed in the development of our work programme for 2015/16. Others will be addressed in the normal course of business.

Electric vehicles

6.3 The following comment was made.

> There is no reference in the document as to what role the Electricity Authority and EECA might play in giving the wider adoption of electric vehicles a “nudge” by assisting with the rollout of a needed rapid charging infrastructure.
>
> APEV

Authority response: Electric vehicles

6.4 We do not intend to support the wider adoption of electric vehicles by supporting the rollout of charging infrastructure. To do so would involve the Authority favouring a particular type of technology over others and would not be in the long–term interest of consumers. However, we are intending to review industry pricing structures, which could have some bearing on the adoption of electric vehicles.

Levy regulations

6.5 The following comments were made in submissions.

> Unison notes that the Electricity industry governance and market operations appropriation increases by $3.801 million from the 2014/15 appropriation, which includes an increase of $1.000 million for facilitating consumer participation. Related to this, the levy rates for industry participants have increased; most notably the participant class activity Registry and Consumer Operations which increases by

[13] The Code amendment proposal form is available at www.ea.govt.nz/code-and-compliance/the-code/amendments/amending-the-code/

$0.2685/ICP in 2015/16 for Distributors other than Transpower. For Unison, this will mean an increase of approximately $29,535 (based on 110,000 ICPs). While we are not opposed to the increase in appropriations and levies as these were previously approved in Budget 2014, we are concerned that the levies are not allocated to the industry participants for whom the programme is designed.

Currently, the levies for Registry and Consumer Operations are split 50:50 between distributors and retailers (under Part 2, section 7(2) of the Electricity Industry (Levy of Industry Participants) Regulations 2010). Unison submits that the EA consider approaching the Ministry of Business, Innovation and Employment (MBIE) to amend the Levy Regulations to allow a more flexible and fair approach to how these costs are allocated between retail and distribution in this class of activity. Given the increased focus on facilitating consumer participation (which is largely in the retailer area), this would allow the EA to attribute these costs more appropriately.

Unison

We note that the power created by section 128 the Electricity Industry Act 2010 ("the Act") that enables regulations to be created to recover particular costs via the industry levy specifies, in section 128(3)(d), that costs incurred by the Crown in relation to promoting to customers the benefits of comparing and switching retailers may only be recovered if those costs were incurred before 1 May 2014. It is possible that costs in this class that have been incurred since 30 April 2014 may be able to be recovered pursuant to the general power in section 128(3)(a) of the Act, but we submit that this is a question that is legally unclear and which should be investigated by the Authority.

Powerco

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.

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.

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.

There may be other Authority expenditure that is not currently allocated to the best participant and we consider a review could highlight these anomalies.

ENA

This consultation paper is the most authoritative document available for the industry to forecast the levies they will have to pay in the coming financial year. It is used by the industry to ensure their tariffs adequately account for levies. Accordingly, the Authority's disclaimer in paragraph 3.1.4 of the consultation paper is unhelpful. Vector recommends the Authority remove such qualifiers from its levy estimate in the future. Industry needs confidence that the Authority's estimates are as accurate and complete as possible (for that point in time), given their importance to annual tariff setting by EDBs as well as retailers.

The Authority's 2014/15 consultation document did not reflect the actual changes to the registry and consumer levy. This meant distributors were unaware of a 170% increase to this levy. Accordingly, the increased levy costs could not be recovered by EDBs subject to price control. The Authority's subsequent changes were neither consulted on nor notified to industry at any stage before they were invoiced to EDBs.

Fortunately, the Commerce Commission has addressed this unforeseen liability in its final default price path decision for EDBs, who will now be able to recover the shortfall amount. However, requiring a mistake by one regulatory body to be corrected by another is a circumstance that Vector hopes is not repeated.

Vector recommends any future material change in the Authority's levy estimates occurring after its appropriations consultation should be consulted on with industry and subject to rigorous cost benefit analysis before they are charged to industry.

…

Vector does not support the requirement for distribution businesses to contribute to the consumer switching/participation programme. Imposing the levy on distributors is unreasonable as this work is specific to the operation of the retail electricity market. In other contexts the Authority is keen to allocate costs to causers or beneficiaries – it is not clear why the Authority would take a different approach with regard to its levies.

Vector recommends the Authority asks MBIE to amend the Electricity Industry (Levy of Industry Participants) Regulations 2010 to allocate all levies for consumer switching and participation to retailers.

Vector

Give proper notice

> In the event of network price changes, networks provide retailers with 60 days' notice. It would be appreciated if the Authority could provide the same amount of notice for levy rate changes. Currently we find out the levy rate two months after the date the change becomes effective.
>
> Contact

Authority response: Levy regulations

6.6 The Ministry of Business, Innovation and Employment (MBIE) is preparing amendments to the levy regulations.[14] This includes technical amendments to:

(a) enable the costs of the new Part 14A to be recovered

(b) review the apportionment of costs for the facilitating consumer participation programme approved by Cabinet in the 2014 Budget process.

6.7 Our 2014/15 appropriations consultation paper provided an incorrect indication of how the cost of the facilitating consumer participation programme would be levied. It incorrectly showed the costs were allocated to retailers, when the current regulations apportion these costs 50:50 to retailers and distributors. This has been corrected for the actual levies being collected for 2014/15.

6.8 The 2015/16 appropriations consultation is also correct, based on the current levy regulations.

6.9 However, feedback on the apportionment (principally the proportion met by distributors, who argue that the costs should be met be retailers) has led to MBIE including this issue in its proposed work to amend the Regulations.[15]

6.10 MBIE's intention is for any changes to apply from 1 July 2015.

Consultation process

6.11 The following comments were made in submissions.

> Also, it would have been helpful if the consultation paper had included information about the funding allocation for each project, and how the Authority will prioritise between them. Submitters could then have provided more meaningful comment on the resourcing and prioritisation of particular projects.
>
> Vector

[14] More details are available in the briefing slides provided for the 27 November meeting with the Chair and Chief Executive.

[15] Feedback includes recent submissions on our consultation on 2015/16 appropriations and work programme.

> We also note that the proposed funding requirements are also not broken down for each workstream. This makes it difficult for interested parties to assess the cost of each programme against the potential benefits or strategic value of the workstream. We suggest that future work programme consultations provide an estimate of the effort required on each workstream.

PwC

> Genesis Energy suggests that the Authority must be more transparent about its own programme and project costs. We accept that estimating the overall potential benefits and costs of a policy programme or project is difficult, however, there should be no such difficulty in providing more transparency of its own expected project costs. It is impossible for the public to get an appreciation of the financial implications of the FYE2016 work programme without this level of information.
>
> By way of an active example, the Energy Efficiency and Conservation Authority ("EECA") work programme contains an estimate of the cost to date, and expected future costs, of each of their individual projects and programmes. This information is essential to understand, and evaluate EECA's performance in delivering these projects – particularly over multiple financial years. The Authority has not provided a similar break-down for its own FYE2016 work programme. Rather, the Authority has simply provided the top level market development budget, and high level "size" indicators.

Genesis

> Pioneer appreciates the detail provided in this consultation paper on the Authority's strategic themes and proposed work programme. The Authority's Briefing to the Incoming Minister provided further insights.

Pioneer

> Previous appropriation consultations used 'pending projects' mechanism to signal projects that would be undertaken if resources permitted but we observe this mechanism has not been used this time. We are not sure whether that is the still the case and what has changed for it to be no longer indicated (we had found this useful for understanding the broader scope and wider thinking of the Authority's intentions).

Transpower

Authority response: Consultation process

6.12 We have been steadily improving our planning, programme management and project management practices. Development of the work programme includes consideration of feedback from this consultation process and more detailed assessment of projects, for example, their purpose, problem definitions, intervention logic (how the project will address the problem), intended impacts, scope, timetable, resources, affected parties, dependencies, costs and benefits.

6.13 The 2015/16 consultation focused on programmes and their key projects. The intention was to have a more strategic focus. The concept of a more strategic, programme-based approach was developed for the 2014/15 consultation and was well supported at that time.

6.14 Minor and pending projects were not included in the consultation process, but will be included in the published work programme.

6.15 We appreciate that by presenting the proposed work programme at a programme level, there is less detail on the specific projects. However, we also caution that detailed specification of project milestone and budgets at this early stage of planning would be very approximate and may not provide the certainty and specificity that some submissions seek. These details will be developed, reviewed and assessed as part of developing our work programme.

6.16 It should be noted that, even after finalisation of our work programme, the nature of the work involved means that the work programme is reviewed and updated during the year to ensure it is as up-to-date and accurate as possible.

6.17 We consider that the level of budget detail provided in the consultation paper is appropriate. The same level of detail is provided in the published SPE and annual reports.

Joint development programme

6.18 The following comment was made.

> We note the Authority's comments that it works closely with the System Operator to develop an agreed timetable and process for managing joint initiatives. We encourage the Authority to consider consulting with industry on priorities agreed under the Joint Development Programme. Market participants could provide useful information on which initiatives are of greatest urgency and on associated costs for participants.
>
> Meridian

Authority response: Joint development programme

6.19 Generally speaking, the Joint Development Programme (JDP) reflects the priorities established by the Authority through consultation with the industry (including consultation on the proposed appropriations and work programme).

6.20 The only items on the JDP that do not reflect our work programme are the initiatives identified by Transpower that are required for it to fulfil its obligations as system operator.

6.21 It is anticipated that the new SOSPA arrangements (see 'fit for purpose market services', above) will provide for increased engagement with participants on the complete development programme.