

Retail Advisory Group Work Plan

13 May 2015

Note: This paper has been prepared for the purpose of the Retail Advisory Group. Content should not be interpreted as representing the views or policy of the Electricity Authority.

1 Recommendation

1.1.1 It is recommended that the Retail Advisory Group (RAG):

- a) **note** progress with current projects
- b) **note** the indicative topics for discussion at upcoming meetings
- c) **note** the update on other Authority projects.

2 Retail Advisory Group work plan for 2014/15

2.1.1 A pictorial representation of the RAG's work plan for 2014/15 is attached to this paper at Appendix A.

3 Update on progress with current projects

3.1 Review of domestic contracting arrangements

3.1.1 Progress with the review of domestic contracting arrangements is outlined in Table 1.

Table 1: Review of domestic contracting arrangements

Activity	Dates	Updated timeline	Progress
Project briefing paper – scope and approach	30/08/12		Complete
Consideration of draft issues paper	24/10/12		Complete
Request approval to release issues paper	20/02/13		Complete
Release of discussion paper for 8 weeks' consultation following feedback from Authority Board	16/04/13		Complete
Submissions received	11/06/13		Complete
Consideration of options/next steps	17/07/13		Complete
Consideration of second discussion paper	21/08/13		Complete
Request approval to release second discussion paper	18/09/13		Complete
Release second discussion paper for 6 weeks' consultation following feedback from Authority Board	October 2013	05/11/13	Complete
Submissions received	17/12/13		Complete
Consideration of submissions and draft recommendation	12/02/14		Complete
Request approval of recommendation to EA Board	12/03/14	April (offline)	Complete
Present recommendation to EA Board	April 2014	June 2014	Complete

Activity	Dates	Updated timeline	Progress
Consideration of further advice to Authority Board and next steps	5 August 2014		Complete
Consideration of further advice to Authority Board with information received from retailers and distributors on treatment of medically dependent consumers in emergency situations	10 September 2014		Complete
Consideration of re-scoped rationale for holding MDC information in the registry	9 December 2014		Complete
Write to the Authority advising that the RAG considers the retail working group focusing on improving outcomes to vulnerable electricity consumers (RWG) is ideally placed to develop a good practice benchmark for giving effect to the Authority's Guideline on arrangements to assist MDCs	December 2014		Complete
Receipt and consideration of good practice benchmark from the RWG.	2016		
Approval of recommendation to Authority Board on re-scoped rationale for holding MDC information in the registry	tbc		
Present further advice to Authority Board	tbc		

3.1.2 The Retailer Working Group focussing on improving outcomes to vulnerable electricity consumers discussed the MDC guidelines at its meeting on 24 February 2015. The Retailer Working Group agreed to develop a best practice benchmark and examine methods to reduce residual risk of MDCs (Medically Dependant Customers) "falling through the cracks". The Retailer Working Group also will examine whether it will be possible to provide the Civil Defence Emergency Management with a list of addresses at which MDCs are registered on a periodic basis, subject to privacy requirements.

3.1.3 The Retailer Working Group advised it would prioritise the implementation of interim measures. It aims to have these interim measures in place before the end of 2015 and will report back to the RAG in early 2016.

3.2 Review of secondary networks

3.2.1 Progress with the Competition on secondary networks project is outlined in Table 2.

Table 2: Review of secondary networks

Activity	Dates	Updated timeline	Progress
Discussion and approval of scope, approach and issues	9/4/14		Complete
Meeting with relevant stakeholders	June-July 2014		Complete

Activity	Dates	Updated timeline	Progress
Draft discussion paper	September-October 2014		Complete
Consider discussion paper and agree next steps	December 2014		Complete
Secretariat to draft revised issues and options paper	February 2015		Complete
RAG consider and approve revised issues and options paper	12 February 2015		complete
Authority Board provides feedback on issues and options paper	3 March 2015	April 2015	Complete
Release of discussion paper for 6 weeks consultation following feedback from Authority Board	March – May 2015	April – June 2015	Complete
Submissions received	May 2015	June 2015	
Consideration of submissions and draft a recommendation paper	May – July 2015	June – August 2015	
RAG approval to provide the recommendations paper to the Authority Board	July 2015	August 2015	
Provide recommendations paper to the Authority Board	August 2015	September 2015	

3.3 Research project: effects of low fixed charges

3.3.1 Progress with the research project: effects of the low fixed charge regulations, is outlined in Table 3.

Table 3: Research project: effects of low fixed charges

Activity	Dates	Updated timeline	Progress
Discussion and approval of scope, approach and issues	9/12/14		Complete
Discussion of a paper considering the efficiency impacts of the LFC Regulations	12 February 2015		Complete
RAG approval of the efficiency impacts paper	10 March 2015	12 March 2015	Complete
Discussion of a paper considering competition impacts of LFC regulations	10 March 2015	12 March 2015	Complete

Activity	Dates	Updated timeline	Progress
RAG approval of the competition impacts paper	8 April 2015		
RAG discusses and approves draft discussion paper	13 May 2015		
Authority Board to provide feedback on draft discussion paper	3 June 2015		
Release of discussion paper for 12 weeks consultation	June 2015		
RAG considers submissions and drafts recommendation paper	September 2015		
RAG approval to provide the recommendations paper to the Authority Board	November 2015		
RAG findings presented to Authority Board	December 2015		

4 Upcoming meetings - indicative topics for discussion

4.1.1 The indicative topics for discussion at upcoming meetings are set out below.

13 May 2015

- Research project: effects of the low fixed charge regulations – Discussion and approval of joint efficiency and competition discussion paper

10 June 2015

- No items scheduled.

8 July 2015

- Review of secondary networks – Consideration of submissions and draft recommendations paper

14 August 2015

- Proposed session with the Authority Board
- Review of secondary networks – Approval of a draft recommendations paper

2 September 2015

- Research project: effects of low fixed charges – Consideration of submissions and draft recommendations paper

5 Update on other Authority projects

- 5.1.1 The Authority's work programme for 2014/2015 was released on 14 August 2014 and is available on its website at <http://www.ea.govt.nz/about-us/strategic-planning-and-reporting/our-work-programme/>.
- 5.1.2 The Authority's progress with projects on the 2014/15 work programme is described in the Authority's consultation calendar. The consultation calendar is updated every two months and is available on the Authority's website at <http://www.ea.govt.nz/about-us/strategic-planning-and-reporting/our-work-programme/>.

5.2 Wholesale Advisory Group projects

- 5.2.1 The WAG has made the following progress on its projects:

a) National Frequency Keeping Market

At its 27 June 2014 meeting the Authority Board accepted the WAG recommendation to proceed with establishing a national frequency keeping market. Since that time, results from the system operator's trial operation of new HVDC controls have had a significant impact on the way that frequency keeping is managed. Trial results indicate that the fast acting new controls reduce the need for MFK (as a slower secondary form of frequency keeping) but increase the duty imposed on generator governors (that inherently provide faster primary frequency keeping).

As a result of the outcomes of the trial, the Authority and the system operator have started a strategic review of frequency keeping to determine the optimal mix of primary and secondary frequency keeping services. While MFK is a procured ancillary service, governor response is mandated. As such, there is no payment for governor response, and different classes of generating plant provide different levels of response.

At this point, a review of approaches to procured and mandated services is needed before proceeding further with the work to implement a national market for MFK. Output of the review is expected in August 2015.

b) Review of instantaneous reserves market

The WAG expects cost savings to be realised by reducing the overall quantity of instantaneous reserve¹ that is needed to be procured.

Consideration is being given to replacing the 6 second and 60 second IR markets with one single IR market that better recognises the contribution each provider is able to make to arrest and restore frequency to the normal band. The system operator is reviewing the options.

The WAG gave its high level recommendations to the Authority Board in March 2015. The Authority has picked up the work with a view to progressing towards consulting on any Code amendments by June 2016.

¹ Instantaneous reserve is the stand-by generation capacity that is procured to arrest the fall in frequency following an under frequency event (loss of electricity generation that causes frequency to fall from 50 Hz to or below 49.25 Hz). Currently there are two types of instantaneous reserve; Fast Instantaneous Reserve (FIR) and Sustained Instantaneous Reserve (SIR). FIR is procured to arrest the frequency fall, SIR is procured to restore frequency within the normal limits.

c) Hedge market development

This project seeks to develop a deep and competitive Hedge Market. This is considered an essential element of an efficient and competitive electricity market, because it allows generators, retailers and customers to better manage the risks arising from the spot market, and provides important information about likely forward electricity prices.

The WAG released its Hedge market development discussion paper on 11 November 2014. It held a public briefing on this on 10 December 2014. It has received submissions and looks to have the recommendations paper developed by May 2015.

The Authority has elevated this project to priority 1 (one of the top six projects) within the Authority's 2014/15 work programme. The 2014/15 work programme anticipates that by the end of June 2015 the WAG will complete the review of hedge markets and commence design of any Code amendments or market facilitation measures that result from the review.

d) Spot market review

This project was established by the Authority after the WAG completed a review of options to improve alignment of forecast and settlement prices.

This project is in a pre-consultation phase. An interim report will be provided to the Board with an expectation that this will be published to seek feedback, and then a final report will be provided to the Board after consideration of this feedback.

The Authority reviewed real time pricing, zonal pricing, and other options to determine which, if any, have the best potential to improve retail and hedge market competition. It has released a paper proposing the Authority investigate two options (real time pricing and an hours ahead market) in detail as part of its 2015/16 work programme. Submissions on this proposal are due on 5 May 2015. The Board will consider these submissions during its deliberation on the work programme at its meeting in June 2015.

5.3 An industry briefing workshop with the authors of the report was held on 15 April 2015. Howard Haas and Greg Thorpe, both on video conference, discussed their report findings and fielded questions. The briefing was well attended with over 40 people present. An audio recording is available on the Authority website at <http://www.ea.govt.nz/development/work-programme/wholesale/exploring-refinements-to-the-spot-market/events/spot-market-review-workshop/> Other projects

5.3.1 This section contains a brief update on other Authority retail and network related projects :

a) Retail data project

This project is broken into 3 phases

i) Phase 1: The Authority is amending the Code to require retailers to provide consumers', or a consumer's authorised agent, with their electricity consumption data. This is a consumer focused initiative intended to promote competition in the retail market by making it easier for consumers to use their consumption data to make decisions about their retailer and retail tariff options.

Following a technical working group the Authority is consulting on three formats and a procedures document. This consultation closes on 12 May. The next steps will be to revise

the documents based on submissions and send the final documents to retailers for implementation. This Code amendment will come into force on 1 Feb 2016.

Phase 2: The Authority is looking at options for improving the provision of retail tariff data and connection data to consumers (and their agents). The target is for the Authority Board to consider a consultation paper describing the options, including a preferred option, in June 2015. Phase 3: The Authority intends considering access to monitoring data in 2015/2016

b) Distribution pricing review

The Authority has decided to initially focus the scope of the distribution pricing review on improving the clarity of the pricing principles and information disclosure guidelines, and on addressing issues arising from technological changes. The recommendations in Castalia's report will be the starting point for the project. Other issues relating to distribution pricing will be considered subsequently.

The Authority intends to release an issues paper in the first half of 2015

c) Improving transparency of consumers' electricity charges

The Authority considered how to improve transparency of consumers' electricity charges at 'moments of truth', particularly when price changes are announced.

In June 2014, the Authority published a consultation paper titled 'Improving transparency of consumers' electricity charges.

The Authority's considered submissions and decided to proceed by issuing guidelines setting out the Authority's expectations of retailers and distributors when they communicate price changes to consumers, and when they make media statements about price changes.

The Authority published the draft guidelines on 3 February 2015 and sought feedback on these guidelines in a two-week consultation. A workshop was held in Wellington on 10 February 2014. The Authority has considered feedback on the draft guidelines and on 14 April published the final guidelines. These can be found

at: <http://www.ea.govt.nz/development/work-programme/retail/improving-transparency-charges/outcome/guidelines-published/> .

d) More standardisation of use-of-system agreements

The Authority finalised new model use-of-system agreements (MUoSAs) in September 2012 in response to section 42(2)(f) of the Electricity Industry Act 2010 (Act) which required the Authority to amend the Code to facilitate more standardised use-of-system agreements (UoSAs), or consider alternative methods by which more standardisation may be provided for. The rationale for more standardisation was driven by a desire to improve retail competition and efficiency. The Authority expected the outcomes to be a significant increase in the level of engagement between retailers and distributors in negotiating and agreeing UoSAs that were based on the MUoSAs.

However feedback received suggested the Authority's expectations are not being consistently met, with some distributors and retailers variously:

- not engaging in negotiations to update existing UoSAs

- extensively varying from the fundamental commercial provisions of the MUoSA, resulting in potentially adverse effects on efficiency or competition either through the nature of those terms or from the fact that standardisation was not occurring.

Consequently the Authority initiated this project to consider options for achieving the Authority's expected outcomes.

The Authority released a Consultation paper on 8 April 2014, which closed 20 May 2014 with 20 Submissions received. A number of submitters raised concerns about the Authority's approach to the more standardisation of UoSAs project. Submitters' concerns about the Authority's approach were largely in relation to legal and process issues. In November 2014 the Authority finalized and published a summary of submissions and response to legal/process issues raised in submissions. In February 2015 the Authority published a response to submissions. These both can be found on the Authority website at this address <http://www.ea.govt.nz/development/work-programme/retail/more-standardisation-of-use-of-system-agreements/consultation/>

The Authority Board considered the scope and timeline of the project and several options at its 4 February 2015 meeting. The Authority Board decided to proceed with developing a Code amendment proposal for its preferred option of establishing a default UoSA, but will make a final decision to amend the Code in 2016. In the meantime, the Authority expects distributors and retailers to continue to negotiate UoSAs comparable to the key components of the existing MUoSA.

Appendix A Retail Advisory Group work plan for 2014/15

Project	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sept-15
Domestic contracting arrangements		The RWG is meeting 28 February and will consider the DCA							
			*						
Review of secondary networks		RAG consider Revised disc paper	RAG consider revised disc paper	Present disc paper to Auth Board	Release of discussion paper for 6 weeks consultation	Consideration of submissions	RAG approves recs paper to go to Auth Board	Present recs paper to Auth Board	
		◇	◇	*		◇	◇	*	
Research project: effects of the low fixed charge regulations		Consider efficiency impacts of LFC regs	Consider competition impacts of LFC regs. Approval of efficiency paper		RAG approves joint competition and efficiency paper	Authority board to consider paper. 12 week consultation period commences		RAG consider submissions and draft recs paper	
		◇	◇		◇	*		◇	

Key

◇ = RAG action

* = Non-RAG action