



24 November 2015

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Dear Androula

Submission on Appropriations for Financial Year 2016/2017

Genesis Energy Limited welcomes the opportunity to provide a submission to the Electricity Authority ("the Authority") on the consultation paper "2016/17 Levy-funded appropriations, Electricity Authority work programme, and EECA work programme" dated 13 October 2015.

As market participants continuously seek to reduce costs to the benefit of end consumers, we believe the same focused behaviour from the Authority would send a clear signal to consumers and the Industry that the Authority is being both prudent and effectively prioritising activity. While we appreciate the Authority's effort to maintain a similar operational budget to last year, the climate in which we operate would suggest that the Authority must fully review its operational activity and make substantial savings. Significant saving levels should easily be achieved by refining the Authority's work programme and improving project development processes.

Refining the work programme: what needs to happen?

The electricity sector is rapidly changing - and in many instances is well ahead of regulated thinking. A significant risk with a large and poorly focussed work programme is that a number of the projects will become unfit for purpose and irrelevant if they are not completed in a timely manner, re-scoped appropriately, or shelved completely.

The Authority has indicated its commitment to proceed into the fourth phase of its strategic journey, which focuses on improving retail competition and efficient operation of the industry to provide long term benefits to the consumer. But it is

unclear how a number of the projects identified in the 2016/17 programme will fit together under each strategy to deliver the Authority's goals. To be effective in this changing context, the Authority must recognise its resource constraints and undertake a meaningful prioritisation exercise to shed projects which do not clearly align with its goals or represent value for money.

We suggest the Authority focus on delivering fewer, key projects which have clear goals and measures aligned to efficient market operation.

Prioritising resources

We appreciate the addition of the prioritisation ranking to the work programme table, though it was somewhat unclear as to how the Authority arrived at its prioritisation decision and whether these were ranked according to the Authority's existing skill sets, technical ease or actual consumer outcomes.

The majority of market participants would have a few top priorities, but ten projects have been identified as top priority by the Authority, of which, eight require significant resources. We would suggest that a more realistic and cost effective work programme would be limited to five key projects to deliver the best outcomes. In addition, it is currently unclear how resources will be allocated to each of these projects, and who will be accountable for their delivery. We ask that the Authority group and prioritise these projects by the team responsible for their delivery to give some transparency.

Appendix A to this letter includes a summary of the key projects we believe should be prioritised in FYE2017.

Transparency in cost and accountability

It is unclear how the Authority has attributed costs to each project, and whether the projects represent value for money. We again ask the Authority to provide an estimate of costs to date, and expected future costs, for each of the individual projects and programmes. This information is essential to understand and evaluate the Authority's performance in delivering these projects – particularly over multiple financial years.

Getting it right from the outset

As previously raised, we believe the Authority can operate more efficiently through improved project initiation practises. As part of the project planning process, we would suggest that the Authority:

- clearly identify the problem they are trying to address through early engagement with the sector and consumers, or at the very least, through working group channels;

- complete high quality cost benefit analysis at the initial consulting stage; and
- engage with key stakeholders early on in the planning process to identify alternatives for consideration.

This will minimise the cost of initiating projects which are later deemed to not be feasible to complete due to resource constraints or lack of cohesion.

We encourage the Authority to adopt these practices as soon as possible, and note three key projects in the 2016/17 work programme where there is significant opportunity and benefit to be gained by engaging with stakeholders at the onset.

Review risk management incentives

We are pleased to see the Market Performance Team will lead the review of risk management incentives in 2016/17. Genesis Energy strongly supports this project, and encourages the Authority to engage with the Wholesale Advisory Group as early as possible.

Scoping exercise for emerging technologies

The rise of the 'prosumer' brings exciting opportunities for consumers and participants, and the market is likely to change very rapidly to reflect this. We agree that the Authority must be aware of the possible implications of these changes. But it is important that the Authority does not try to anticipate negative outcomes and inadvertently limit innovation and restrict consumer choice.

The Authority must be cognisant of its role as a market regulator – not a market facilitator. There is an important distinction between these roles. A market regulator seeks to ensure the market is able to adapt to change, but does not prematurely force change nor seek to favour particular existing business models or products.

We believe the Authority should allow the market to grow and avoid regulation unless it can clearly demonstrate an actual problem as opposed to a hypothetical problem. Regulation in anticipation of innovation has had extremely mixed success internationally. Where the outcome has been successful, it has come from regulation created in partnership with industry and in such a way where innovation can lead to compliance. Over-regulation becomes a compliance burden to companies, stifling innovation, and complicating markets.

Post-Implementation Reviews

We strongly support this project and encourage the Authority to shift resources away from market development, and focus more on market performance and market operation. The last five years has seen the Authority make significant

change to the market. Anecdotally, it seems many of the changes are delivering tangible benefits for consumers and market participants. But, to date, there have been few systematic and independent evaluations of the success of these projects. This analysis is difficult and complex, but it is necessary.

The Authority must demonstrate a stronger commitment to continuous improvement through effective review to ensure it understands the impact of its decisions, and must be more cognisant of whether it is simply creating change for the sake of change in an already complex market.

If you would like to discuss any of these matters further, please contact me on 04 830 0015.

Yours sincerely



Victoria Parker
Regulatory Advisor

Appendix A: Project Specific Comments

PROJECT	DRAFT WORK PROGRAMME PRIORITY	SUGGESTED PRIORITY FOR 2016/17	COMMENTS
What's my number	1	BAU	We are pleased to see the Authority will continue to support this programme in 2016/17 and assess the costs and benefits for continuation.
Post Implementation reviews	1	1	We strongly support the Authority's commitment to undertake post-implementation reviews of completed major projects. However, we ask for more clarity on what historical projects will be reviewed and over what timeframe.
Hedge market development	1	2	We support this high priority project. As noted in our submissions on this issue, we consider Hedge Market Development must remain a key focus for the Authority. We encourage the Authority to continue to engage with the sector.
Review risk management incentives	N/A	3	We encourage the Authority to prioritise this work to compliment the Hedge Market Development project and minimise the risk of rework later down the track.

PROJECT	DRAFT WORK PROGRAMME PRIORITY	SUGGESTED PRIORITY FOR 2016/17	COMMENTS
Spot market refinements	1	4	High priority project, strongly supportive. We encourage the Authority to continue to engage with the sector.
Distribution pricing review	1	5	High priority. We believe the Authority should consider how distribution pricing could facilitate retail competition, by ensuring distribution pricing is fair, simple and consistent, and does not limit the focus of this project to the implications of emerging technology for pricing of distribution services. The Authority should look to leverage industry technical expertise and collaborate with retailers, or at the very least, the Retail Advisory Group, to deliver this project in a cost efficient and timely way.
Part 6 (distributed generation pricing principles)	2	5	This piece of work should be complimentary to the distribution pricing review project. We suggest the Authority accurately define the problem they are seeking to resolve prior to committing to review any further parts of the code.

PROJECT	DRAFT WORK PROGRAMME PRIORITY	SUGGESTED PRIORITY FOR 2016/17	COMMENTS
Retail data project	1	6	<p>We encourage the Authority to work closely with the sector on delivering the least-cost implementation of this project, but we expect the Authority to have made the key decisions relating to this project before 2016/17. Therefore, we no longer see it as a top priority project.</p> <p>We suggest the Authority prioritise the review of this project in 2017/18 as we expect significant unintended consequences may result from intervening in the competitive retail market.</p>
Extended reserve arrangements implementation	1	7	<p>Defining the selection methodology and technical requirements schedule are key activities and will directly affect the success of this project; we are pleased to see the Authority will work with the sector, and encourage the Authority to make use of the working groups.</p>

PROJECT	DRAFT WORK PROGRAMME PRIORITY	SUGGESTED PRIORITY FOR 2016/17	COMMENTS
Transmission Pricing Investigation	1	8	<p>The recent changes proposed by Transpower must be given time to take effect and stabilise before further regulatory action is taken. Further, the current options proposed under the TPM pose risk to market participants.</p> <p>We believe that the impact these changes will have on residential consumers has been underestimated, and there is a risk of creating inequity. We suggest the Authority, as market regulator, should be more focussed on the structures that enable a competitive electricity market.</p>
Offer and dispatch: wind generation offers	2	9	<p>We encourage the Authority to demonstrate robust initiation processes for this project.</p>

