



24 November 2015

Submissions  
Electricity Authority  
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Dear Sir / Madam

**RE: Consultation paper-2016/17 appropriations**

Pioneer appreciates the opportunity to make submissions on the proposed levy funding of the Electricity Authority and EECA energy efficiency activities for 2016/17. We note that these costs are ultimately paid for by all electricity consumers.

**Increase focus on simplification of market requirements**

Pioneer acknowledges the Authority plans to keep its operating expenses at the same level as forecast for 2015/16. However, the Authority has now been in place for five years and we suggest the work required to refine regulation of the industry should decline over time, particularly if the Authority was focused on simplifying the market requirements.

As we discussed in our submission on the 2015/16 appropriation, we support the Authority's strategy of 'reducing barriers' by creating a more level playing field for new and expanding retailers and reducing set-up costs for new retailers.

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.

**Comments on proposed appropriation**

We would appreciate the same level of transparency as provided in the same consultation paper for the 2015/16 appropriation, which provided a breakdown of the total operating expenses for the Authority.

In paragraph 2.1.12 of the Consultation Paper describes how the Authority is going to seek a change to the current year's appropriation to spread what was assumed to be an annual cost of \$4million over 8-9 years. We presume this change will result in a refund of the levy collected to fund that \$4million in 2015/16.

## Proposed work programme priorities

We are concerned about the priorities attached to some projects relative to others in order to meet the Authority's statutory objective.

There are 28 projects carried over from 2015/16 (plus one new project listed for 2016/17). Of these 10 projects are Priority 1. These projects have been assessed against how they contribute to the Authority's CRE objective. We note that the TPM review is one of only two Priority 1 projects that contribute to only one arm of the CRE objective (that of efficiency). Pioneer is concerned that significant resource is being applied by the Authority and industry to this project when it appears from the appropriation paper that other projects make a larger contribution to achieving the Authority's statutory objectives and create a long term benefit for consumers.

Pioneer supports the focus of the Market Development group that retail competition and efficient pricing continue to be the top priority. Hedge market development has been a priority 1 project for a number of years, however implementation of improvements appears to have slowed down.

The Market Development group appears to have a new focus of "enabling new technologies and innovation" (page 19-20). Pioneer is concerned to ensure that the Authority:

- avoids initiating rules that are unnecessarily complex and so stifle innovation
- ensures a level playing field for existing and new technologies, and innovations that achieve the same outcome (eg reduce peak demand).

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

1. rationalise the several thousand network company tariffs and pricing structures: The Authority's work in this area so far has focused on the implications for efficient distribution pricing of disruptive technologies. The potential remains to simplify network company tariffs and pricing structures as part of improving the efficiency of pricing for the long term benefit of consumers.
2. investigate the impact of vertical integration on hedge market liquidity: Further changes are needed to improve the liquidity in the ASX market and the ability for retailers, particularly smaller and new entrant retailers, to offset spot market risk with efficiently priced risk products. Volumes traded on the ASX need to increase by multiples of the current level to achieve a competitive and efficiently priced hedge market. This necessary increase in trading volumes will not happen while the five large gentailers are able to cover their risk by being vertically integrated.

Pioneer submits the Authority must investigate the benefits of requiring gentailers to sell a certain portion of their generation volumes through the ASX market. Activity by speculators and financial institutions is not going to achieve the step change required to achieve efficiently priced risk products.

If smaller retailers cannot buy hedge cover at a price that enables them to compete with their retail pricing for retail load they are then forced to take spot price risk in order to make a margin on their retail business. This makes them disproportionately exposed to volatile spot prices and disproportionately vulnerable to failure. Increased liquidity in the hedge market will be significant in creating a more level playing field for new and expanding retailers, reducing set-up costs for new retailers and improving spot market risk and risk management.

Increased focus is required on the two relevant Priority 1 projects – hedge market development (1.3) and spot market refinement (1.4) – which both contribute to the three arms of the Authority's statutory objective, in particular competition.

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.

Implementing AMI half-hour reconciliation will enable provision of efficient price signals particularly for residential and SME customers – a desired impact from the Authority's 'Efficient pricing' programme.

Pioneer is engaged in the regulatory process because we are concerned to ensure market arrangements promote competition, reduce barriers to entry and achieve the efficient end to end delivery of electricity for the long term benefit of consumers.

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.

I would welcome the opportunity to discuss this submission with you.

Yours Faithfully,



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