

# Electricity Authority 2017/18 levy-funded appropriations and strategic priorities

## Submission information

1. Please enter the name of the organisation or group that you represent. NB If you are making a submission as a private individual, please enter "individual".

Nova Energy Limited

2. Authority to act: I confirm that I am properly authorized to provide this submission on behalf of my organisation. Please indicate below the type of organisation you represent.

A levy-paying entity	<input checked="" type="checkbox"/>
A representative group	<input type="checkbox"/>
I am responding as a private individual	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>

3. Please enter your name.

Paul Baker

4. Please enter your position title if you are answering for a levy-paying entity or representative group. You do not have to complete this question if you are responding as a private individual.

Commercial & Regulatory Advisor

5. I am/we are also making a submission via the survey (the Authority will bring the responses together for publication).

Yes	<input type="checkbox"/>
No	<input checked="" type="checkbox"/>

6. Please provide your email address.

pbaker@novaenergy.co.nz

## Your overall level of support

7. Please indicate your overall level of support for the following:

	Support	Partially support	Neutral	Oppose	N/A – do not have a view
Our strategic priorities (part 2 of the consultation paper)		<input checked="" type="checkbox"/>			
Our programmes (part 2 of the consultation paper)		<input checked="" type="checkbox"/>			
Our proposed appropriations (part 3 of the consultation paper)	<input checked="" type="checkbox"/>				
The system operator proposed service enhancement projects (part 4 and appendix C of the consultation paper)		<input checked="" type="checkbox"/>			

You can provide comments below

It appears the Authority is putting excessive emphasis on trying to shape the electricity market in New Zealand into a data intensive commodity market. There is no doubt potential for the market to develop that way, but then in the absence of retail differentiation and value added product offerings, the market may also then become reliant on a centrally planned and funded data warehouse (or the regulated equivalent within the retailer's own systems), artificial market artefacts such as Powerswitch, and the need for the central authority to provide consumer education around demand based network charges, exposure to spot prices, differences in supply agreements etc.

There is a lack of evidence that this is in fact the best option for electricity consumers in the long run.

## The impact of the Authority's work

8. What is your view of the impact of the Authority's work on the following groups over the last six years:

	Strongly positive	Positive	Neither positive or negative	Negative	Strongly negative	N/A – do not have a view
Electricity consumers			<input checked="" type="checkbox"/>			
Generators			<input checked="" type="checkbox"/>			
Retailers			<input checked="" type="checkbox"/>			
Transmission and distribution companies						<input checked="" type="checkbox"/>

	Strongly positive	Positive	Neither positive or negative	Negative	Strongly negative	N/A – do not have a view
Other (please specify below)						
Your company / the group you represent			<input checked="" type="checkbox"/>			

You can provide comments below

The work on reducing reserves requirement and frequency keeping costs has been a clear benefit to consumers. Much of this has resulted from the upgrade of the HVDC link. Initiatives, such as promoting trading in electricity derivatives, have helped participants to manage risks and understand future price expectations.

### Authority appropriations (part 3 of the consultation paper)

9. Please indicate your level of support for our proposals for the following appropriations:

	Strongly positive	Positive	Neither positive or negative	Negative	Strongly negative	N/A – do not have a view
Electricity governance and market operations	<input checked="" type="checkbox"/>					
Security management		<input checked="" type="checkbox"/>				
Electricity litigation fund			<input checked="" type="checkbox"/>			

Please explain why

Nova is pleased to see the new system operator service provider agreement in place and the disciplines associated with that. We note that the SO operating expenses are projected to increase by 2.5%, and additional expenses are projected for future additional projects. At a time of minimal electricity demand growth and low inflation, it would be good to see the costs of those new projects being offset by efficiencies and savings being made in other areas.

### Strategic priorities and programmes (part 2 of the consultation paper)

10. Please indicate your level of support and provide comments on our proposed programmes.

Programme	Strongly positive	Positive	Neither positive or negative	Negative	Strongly negative	N/A – do not have a view

Programme	Strongly positive	Positive	Neither positive or negative	Negative	Strongly negative	N/A – do not have a view
A: Evolving technologies and business models		<input checked="" type="checkbox"/>				
B: Consumer choice and competition				<input checked="" type="checkbox"/>		
C: Pricing and cost allocation		<input checked="" type="checkbox"/>				
D: Risk and risk management		<input checked="" type="checkbox"/>				
E: Operational efficiencies	<input checked="" type="checkbox"/>					
F: Compliance		<input checked="" type="checkbox"/>				
BAU: Monitor, inform and educate		<input checked="" type="checkbox"/>				
Other						

#### Comments

While a significant investment has been undertaken to shape the electricity retail market, it is likely that many of the gains would have been delivered by the competitive market in any case. The telecoms market has evolved rapidly and delivered innovations to the market without a regulator attempting to shape those developments, e.g. consumers generally recognise the availability of number portability without a website promoting that, supported by millions in advertising expenditure.

There is a risk that, by continually pushing to consumers 'that electricity is a commodity product that they should always be paying the lowest possible price for', the EA reduces the capability of retailers to deliver to consumers a service package that matches consumer's preferences and expectations. It also seems to ignore retailers expanding into composite offerings including dual fuel, communications services, and different services models, any of which may be of greater value to many consumers than simply adopting the lowest cost electricity tariff.

**Facilitating consumer participation** - Nova supports the Authority continuing to fund consumer engagement, but questions how the money is spent. We suggest that the money currently spent on the What's My Number campaign may be better spent on other consumer engagement projects. Competition is unlikely to suffer as consequences of reducing spend on the What's My Number campaign, as alternatives are likely to fill that space.

**Review of prudential arrangements** – Some aspects of the prudential arrangements operated by the Clearing Manager should be reviewed. The new methodology has resulted in a significant cost increase for a number of participants. Principally the application of the ASX price projections and the lack of provision for reserve generation capability when determining forward liability exposure has increased the prudential calculations well above the true market exposure at times.

## System operator proposed service enhancement project

Questions 11 to 16 relate to the System operator proposed service enhancement project for EDF Phase III (part 4 and appendix C of the consultation paper).

11. Do you agree that a transition away from GENCO to a new dispatch facility is merited?

Yes, given the paper infers general industry backing that:

- a) this is what industry participants have generally been requesting
- b) the current GENCO system / protocols are inflexible and un-scalable

12. Is a transition away from GENCO by December 2020 feasible? If you do not agree, what would be a feasible timeframe to transition away from GENCO?

It should be feasible if the appropriate project and technical team is established and robust project disciplines applied from the outset.

We are cognisant that the related Inter-Control Centre Communications Protocol (ICCP) initiative appeared to incur significant changes in scope and deliverables over an excessively long gestation and implementation period, and that project / initiative was fraught with significant delays.

13. If you operate a GENCO, would you commit to transition away from GENCO if that were a requirement for this investment to proceed?

Yes, on the basis that:

- a) on the merits promulgated by the paper, it should improve reliability, while through increased flexibility it should reduce integration costs to existing participant systems, and
- b) existing participants won't face a significant or material increase in dispatch-related costs.

14. Provided a new dispatch facility is being implemented, do you agree that the 'Redundancy Option' is an appropriate approach? If not, which alternate approach do you consider is appropriate, and why?

The paper does not clarify whether 'Redundancy' can be achieved without first doing 'Enablement'.

On the assumption there should be no technical reason why it shouldn't, at an (apparent) incremental costs of \$0.2m for Redundancy, versus an incremental \$1m to achieve Enablement, there would seem a value proposition through progressing Redundancy as part of the initial project; and deferring Enablement to the point where it is categorically identified that this enablement is required to deliver 'the flexibility and scalability to enhance the dispatch service offering in line with future industry developments and enable these changes to be implemented more effectively'. That way, the 'future industry developments' that require this 'enablement' can pay the appropriate user-pays contribution at the appropriate time, rather than have them cross-subsidised in advance by existing customers who may not have a need for the additional functionality.

This has the potential to reduce project costs by 20%.

15. Do you agree that the long term end benefits outweigh the investment cost and merit the proposed investment?

We would expect that replacement of early 2000's technology with something more recent would bring cost reductions and improvements in service.

Our concerns are:

- a) The NPV analysis appears overly subjective and unqualified / unquantified.
- b) No detailed comparison on historic Genco costs vs future costs.
- c) Transpower should be assessed whether they have given enough attention to keeping legacy Genco systems current under its obligations as an RPO, and the service delivery expected under SOSPA arrangements. We struggle to see how the project could be categorised as a 'service enhancement project' in the context of technical / communications solutions readily provided by other similar service providers in today's environment. On this basis, the project should be delivered without any additional SOSPA funding, i.e. Transpower should be able to fund the development through cost savings and efficiency gains.
- d) What is the anticipated Genco delivery cost increases for existing participants? The paper is silent on this aspect
- e) The fine print (footnote 4) is of concern – this should be treated as a lump-sum project from the outset and remove any ability for Transpower to recover on an open-ended and uncapped time and costs basis (taking the lessons learnt from recent market system upgrade projects and ICCP implementation)

16. Are there any other quantifiable or qualitative benefits that we have not discussed?

**One final question**

17. Please provide any other comments you wish to make about this consultation.