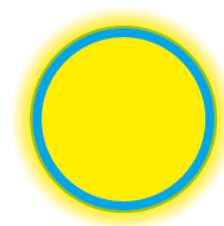


6 December 2016

Submissions
Electricity Authority
PO Box 10041
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Via email: submissions@ea.govt.nz

POWERCO



Dear Sir / Madam

EA appropriations and priorities for 2017/18

Powerco welcomes the opportunity to comment on the Electricity Authority's (the Authority) consultation paper 2017/18 Levy-funded appropriations and strategic priorities, dated 25 October 2016. We also support the submission of the Electricity Networks Association (ENA) on this matter.

Authority appropriations

Powerco supports the Authority's intention to reduce the total appropriations slightly from 2016/17 by \$2.1 million. We also support the Authority's intention to maintain the appropriations for its own operations unchanged from the previous year.¹

Programmes and projects

The consultation paper provides a high-level discussion of six programmes of work that the Authority intends to focus on to deliver its strategic priorities in 2017/18:

- Evolving technologies and business models
- Consumer choice and competition
- Pricing and cost allocation
- Risk and risk management
- Operational efficiencies
- Compliance.

¹ We could not find any statement in the consultation paper about whether the appropriations are presented in real or nominal terms. We assume they are presented in nominal terms and thus the proposal is for a decrease, in real terms, in the Authority's appropriations from 2016/17 to 2017/18. Clarity on this would be useful in future appropriations papers.

These programmes, at a high-level, all appear reasonable areas for the Authority to consider although only limited information has been provided on the detail of projects within each programme. This differs from previous years where the appropriations consultation papers have included a list of projects the Authority intends to work on and the relative priority that it intends to give to those projects.

Powerco recommends the Authority returns to its previous approach of including this full discussion of intended projects in the appropriations consultation paper. It is difficult to meaningfully engage with the programmes given the lack of detail of what the projects are and what will be prioritised. For example, we are unclear as to the scope of the proposed project entitled “cost-allocation of ancillary services” as no further information is provided. Thus we cannot reach a view on whether this should be a high or low priority project for the Authority or indeed whether it should be included in the workplan for 2017/18.

Several proposed projects/programmes are broad on scope and the outcome of each could have far reaching implications. As the Authority will appreciate, it takes considerable time and effort to develop workable, stable and effective solutions to complex issues. Powerco has found previous Authority appropriations papers helpful as they inform our own resource planning for the following year. With only programme-level information being provided we are less sure when we will need to engage in consultation processes and how much effort will be required.

The six programmes of work the Authority intends to focus on are not a meaningful guide to the Authority’s priorities as it is difficult to think of many, if any, Authority activities that would not fall within one of these programmes. While we accept that on face value each programme has value, it is difficult for stakeholders to understand the primary objectives of the Authority based on the information provided.

While we accept it is too late to change the current consultation, we recommend that the Authority publish a paper on its projects for 2017/18 and the relative priorities between them by early 2017 so we can understand the work programme and plan our resources accordingly. However, below we comment on the programmes based on the information that has been provided.

Programme A: Evolving technologies and business models

This programme has a strong focus on reducing barriers to new technologies and business models. In principle Powerco supports this. However, we suggest the Authority is careful to ensure that regulatory intervention only occurs where there is a clear and demonstrable positive benefit-cost ratio from doing so.

Programme C: Pricing and cost allocation

Powerco supports the Authority progressing and resolving the long-running projects on the transmission pricing methodology and distributed generation pricing principles (DGPPs). This is not to say that we necessarily support the Authority’s proposals in these areas but there is value to the industry and consumers in the improved certainty that will come from finalising these projects.

We note the recent release of the DGPP decision² and encourage early review of and consultation on amendments to the Code to give effect to this decision. This will assist distributors in navigating

² Electricity Authority, Decision paper- Review of distributed generation pricing principles DGPP decisions and reasons paper complete, 6 December 2016.

through the transition period and also help to inform the distributed generators who receive ACOT about the changes to their revenues. We also remind the Authority that our prices are released in January each year for consultation prior to taking effect in April. Therefore it is essential we understand the effect of distributed generation pricing changes as early as possible.

In relation to the distribution pricing review, we consider that it is important for the industry to have clarity regarding broader regulatory requirements (particularly the Low Fixed Charge regulations) and issues of equity, price shocks and the strength of pricing signals need to be considered.

This programme also includes improving demand response market mechanisms. At present dispatchable demand is a transmission only mechanism and its limited uptake to date suggests it has not been very effective. We support further development of Transpower's demand response programme, but it also can only send price signals related to transmission constraints and does not yet provide sufficient demand response to meaningfully manage most grid constraints. We support the development of a consistent and practical framework and clear rules for demand side response that can apply across both transmission and distribution.

Programmes B, D, E and F (Consumer choice and competition, Risk and risk management, Operational efficiencies and Compliance)

Based on the limited information provided in the consultation paper, Powerco is broadly supportive of these programmes but would have appreciated more information so we could reach a more informed view.

However, we support continued consumer education programmes, particularly in relation to the risks of trading on the spot market and how end-user price structures relate to real industry participant costs.

The consultation paper did not mention the workstream regarding the Default Distribution Agreement. This may be because the Authority intends to complete this project in the 2016/17 year or this may be an oversight. Powerco would welcome clarity on the Authority's timeframe for this project. Overall, we support it being resolved as quickly as possible.

Suggested additional projects

There are some additional projects Powerco recommends including in the Authority's work programme for the coming year. These projects may already be included in one of the Authority's existing work programmes, but this is not apparent from the consultation paper. These projects are:

- Review and refine the EIEP1 business requirements for Traders to provide billing/volume information to the Distributor. Although the EIEP1 format has been regulated since November 2014 (version 10), the business requirements (ICP billing/volume information, normalisation, prior period, submission, errors) are not clearly defined. This has resulted in different interpretation/understanding amongst different participants for different billing methodology types.
- Review the Grid Reliability Standards (GRS) and their application to planning and investment for transmission spur assets. Currently the GRS are cumbersome and inefficient in relation to spur assets and are also not well understood or applicable to the distribution context (which most connection assets of Transpower operate in).

- This is evidenced in the Grid Investment Test (GIT). The GIT primarily focuses on measuring economic benefits through the different merit order generation dispatch schedules that would apply to the various transmission upgrade options. This requires a sufficiently broad range of generation types and capacities to be available on the load side of the grid constraint. Furthermore, it usually anticipates operational flexibility inherent in a widely interconnected grid architecture. This is rarely the case for transmission spur investment, which is usually radial in nature and has few if any generation options.
- The Code does facilitate a transmission spur investment, even if the nominal GIT test is not positive, via a confirmation of support from affected end use customers. This is essentially the process Powerco would normally undertake for a major project regardless of economic test outcomes. These provisions of the Code requiring evidence of customer support are therefore somewhat redundant.
- We consider that Code changes in this area would improve efficiencies and provide better certainty for transmission spur asset planning. Powerco would be happy to provide more details of our concerns in this area to the Authority.
- Provide for better access to meter data. In addition to the Authority's efforts to improve consumers' access to their usage data, it is important for the entire industry to have more open access to ICP meter data. This information is essential for networks to continue to deliver improved services. We would encourage the Authority to consider Code amendments that would allow distributors access to and usage of ANZSIC data and meter data for purposes related to the delivery of regulated distribution services.
- As an example, the industry needs access to better quality ANZSIC code data. It has been noted in current submissions to the Authorities proposed amendments to Part 8 of the Code for the implementation of the extended reserves regime. Regardless of whether the proposed regime proceeds in its current format or not, the industry needs good information of the type of customers on the network. This is supplied to the electricity registry in the form of ANZSIC code data.

Contact details

Thank you for the opportunity to provide comments on this consultation. If you wish to discuss any of the points made, or clarify any matters, in the first instance please contact Nathan Hill tel. 06 759 8582, email nathan.hill@powerco.co.nz.

Yours sincerely



Richard Fletcher
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