

# Chair's half-yearly report to the Electricity Authority Board

July - December 2015

6 April 2016

**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 Introduction

- 1.1.1 This report outlines the activities of the Retail Advisory Group (RAG) during the period July to December 2015. The RAG's terms of reference require the Chair to report on the RAG's progress against its work programme every six months to the Electricity Authority (Authority).
- 1.1.2 The focus for the RAG in this reporting period has been the review of secondary networks and the research project: effects of low fixed charges. Within the reporting period the RAG completed its report for the research project: effects of low fixed charges and conducted further investigations into secondary networks.
- 1.1.3 The RAG maintained a watching brief on progress of the retailer working group focussing on improving outcomes for vulnerable electricity consumers (RWG). The RWG is progressing work on the review of domestic contracting arrangements relating to availability in emergency situations of information about medically dependent consumers.

## 1.2 Role of the RAG

- 1.2.1 The RAG was established to provide independent advice to the Authority on the development of the Electricity Industry Participation Code 2010 (Code) and market facilitation measures, focusing on the relationships between the retailer, distributor and consumer.
- 1.2.2 The RAG undertakes projects that are assigned by the Authority, focusing on:
  - a) development of the retail electricity market, including matters relating to the retailer/consumer interface, the retailer/distributor interface and the consumer/distributor interface, the distributor/embedded generation interface and advanced metering infrastructure
  - b) priorities for developing:
    - i) the Code, especially in regard to Parts 6 (Connection of distributed generation), 10 (Metering arrangements), 11 (Registry information management) and 15 (Reconciliation)
    - ii) market facilitation measures in regard to retail market services.

# 2 Membership and meetings held

## 2.1 There have been several changes to membership over this reporting period

- 2.1.1 The Authority undertook an Advisory Group appointment process just prior to the reporting period. The results of that appointment process took effect on 1 June 2015. The Authority appointed Murray Dyer for a two year term. He replaced outgoing member Alan McCauley.

### 2.1.2 Two members have resigned from the RAG:

- a) James Munro resigned from the RAG shortly after this reporting period, effective from January 2016.
- b) Nicholas Robinson resigned from the RAG effective from December 2015.

## 2.2 Three RAG meetings were held during this period

2.2.1 The RAG can have up to nine members, including the independent Chair. Table 1 gives details of the RAG's membership and members' meeting attendance for July to December 2015.

2.2.2 The RAG held three meetings in the reporting period; 8 July 2015, 21 October 2015 (via teleconference) and 9 December 2015.

**Table 1: RAG membership details for 1 July to 31 December 2015**

Member	Affiliation	Term of appointment	Meeting attendance
Peter Allport, Chair	Independent	1 April 2015 to 31 March 2017 (third term)	3 of 3
Suzanne Chetwin	Chief Executive Officer, Consumer NZ	1 June 2015 to 31 May 2017 (third term)	3 of 3
Allen Davies	Director, Greypower	1 August 2014 to 31 July 2016 (first term)	3 of 3
Ewan Gebbie	Energy Management Association of New Zealand (EMANZ)	1 June 2015 to 31 May 2017 (second term)	2 of 3
James Munro	General Manager Retail, Mighty River Power	1 August 2014 to 31 July 2016 (third term) Resigned in January 2016	1 of 3
Nick Robinson	General Manager, Corporate Affairs, Contact	1 August 2014 to 31 July 2016 (first term) Resigned December 2015	2 of 3
Nathan Strong	General Manager Business Assurance, Unison Networks	1 June 2015 to 31 May 2017 (third term)	2 of 3
James Tipping	Regulatory Strategy Manager, Trustpower	1 August 2014 to 31 July 2016 (first term)	3 of 3

Member	Affiliation	Term of appointment	Meeting attendance
Murray Dyer	Commercial Director, Simply Energy	1 June 2015 to 31 May 2017 (first term)	3 of 3

### 2.3 The RAG has maintained the Interests Register as required by law

- 2.3.1 As required by the Crown Entities Act 2004, the RAG maintains an Interests Register. Members are required to disclose any interests to the Chair, and these are recorded in the register.

## 3 Activities of the Group

- 3.1.1 The RAG has been focussed on the review of secondary networks and the research project: effects of low fixed charges. The RWG has been considering issues regarding the review of domestic contracting arrangements and the RAG has kept a watching brief on its progress.

### 3.2 Research project: effects of LFC Regulations

- 3.2.1 The Authority requested the RAG to investigate the competition and efficiency effects of the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 (LFC Regulations) and the effects of the LFC Regulations on Competition, Reliability and Efficiency.
- 3.2.2 The RAG approved its report to the Authority on the market effects of low fixed charges in December 2015. Since the end of this report period the RAG has completed the investigation and presented its report to the Board at its 1 March 2016 meeting.
- 3.2.3 The RAG sought feedback from the Authority Board on an initial paper at its 26 June 2015 meeting. At that meeting the Board gave the RAG feedback on the paper and asked that an independent expert review of the paper's analysis be commissioned. The independent review was undertaken by Houston Kemp over August and September 2015. The Houston Kemp review raised a number of issues relating to aspects of the analysis and reasoning employed in the RAG paper, including its analytical approach, terminology, discussion, and conclusions. The RAG considered the findings of the Houston Kemp review and the feedback from the Board and made changes to its report to reflect the feedback. The RAG approved this paper at its 9 December 2015 meeting.
- 3.2.4 The RAG's report finds that the Regulations' requirements have negative effects on the efficiency of electricity pricing, but no material effects on competition. It finds that alternative charging approaches, such as charges based on peak demand, could reduce these inefficiencies. However, the report argues such charges may appear more risky from a compliance perspective than consumption charges because the Regulations do not provide guidance on how alternative charges might be implemented whilst complying with the Regulations.

### 3.3 Review of secondary networks

- 3.3.1 The RAG was requested to consider the competition effects of embedded networks, customer networks and network extensions (referred to as a review of secondary networks).
- 3.3.2 The RAG released an issues and options paper on 21 April 2015, consultation on which closed on 2 June 2015. The consultation process led the RAG to investigate whether secondary networks fall within the legal definition under the Electricity Industry Act 2010 (the Act) of “participants” and to investigate the number of consumers on secondary networks.
- 3.3.3 The RAG’s work on the legal definition uncovered the potential for some owners of secondary networks to not be considered participants as defined in the Act. The Ministry of Business, Innovation and Employment (MBIE) who administers the Act was informed of this issue.
- 3.3.4 The RAG’s investigation into the number of consumers on secondary networks suggests the number of consumers is material. Work in this area is ongoing and the RAG is investigating how to gain a more precise estimate of numbers in a cost effective manner.

### 3.4 Review of domestic contracting arrangements

- 3.4.1 The RAG was requested to review domestic contracting arrangements. It made its recommendations to the Authority Board in April 2014.
- 3.4.2 The Authority Board considered the RAG’s recommendations in June 2014 and requested clarification of the recommendation for facilitating access to information about medically dependent consumers in emergency situations. Specifically, the Authority Board requested advice from the RAG about the potential liability and privacy issues that the Authority may face from housing medically dependent consumer (MDC) data centrally (e.g. in the registry).
- 3.4.3 The RAG asked the existing RWG to develop a good practice benchmark for aligning retailers’ respective processes for managing MDC information.
- 3.4.4 The RWG provided the RAG with a draft *Voluntary Practice Benchmark for Electricity Retailer Management of Medically Dependent Customers* in October 2015. Whilst a final draft, the practice benchmark will not be formally agreed by the retailers involved until the completion of a subgroup’s stakeholder work.
- 3.4.5 In August 2015, the RWG empowered a subgroup to garner feedback on the draft benchmark and advance the implementation of measures to address MDC risk. The subgroup has been engaging with a number of parties, including the Ministry of Health, DHBs, the Ministry of Social Development, Work and Income, the Ministry of Civil Defence and Emergency Management, Electricity Networks Association, ACC and the Electricity and Gas Complaints Commission.
- 3.4.6 The subgroup has the following four primary objectives:
  - a) collect feedback from other key stakeholders on the current draft MDC benchmark

- b) explore fully and report back to the working group the options for improving verification processes with health professionals
  - c) determine the state of data held by various DHBs and network companies for dealing with MDCs during outages and processes for mitigating risk to MDCs during outages
  - d) develop low-cost interim measures for mitigating existing risks to MDCs during outages.
- 3.4.7 The RWG notes that the rates of compliance with the practice benchmark amongst retailers are generally already high and are improving. The RWG advises that most items will have full compliance by the middle of 2016 except for those items where system development is required to achieve compliance.
- 3.4.8 The RWG is providing regular reports to the RAG, following each RWG meeting. Further the RWG has invited Craig Evans, Manager Retail and Network Markets, to attend the group's sessions to enable him to report on progress to the RAG directly.
- 3.4.9 The RWG anticipates that this workstream will take until mid-2016 to complete. The RAG considers that this work is progressing well.

Peter Allport

**Chair, Retail Advisory Group**