

Submissions
Electricity Authority
via email: submissions@ea.govt.nz

10 December 2018

Consultation Paper – 2019/20 Appropriations

Mercury welcomes the opportunity to comment on the Consultation Paper – 2019/20 Appropriations. We support the Electricity Authority in its ongoing commitment to exercising restraint over core operating expenses while continuing to focus the work programme on projects that will deliver greater efficiency gains for consumers. We also support the proposal to seek up to \$1 million for the Electricity litigation fund appropriation.

In our earlier feedback in May to the proposed 2018/19 Work Programme we stated we would like to see the Authority make progress on some of the projects that have been the subject to review for some time, most notably the Transmission Pricing Methodology and distribution pricing. We are pleased to see that these projects have been given prominence in the indicative work programme.

The Electricity Price Review (EPR) has provided an opportunity for a wider review of electricity market performance and a chance to reflect on what is and isn't working well. Mercury notes there is a strong degree of alignment between our assessment of the market and that of the Authority and this is reflected in the indicative work programme.

We support the Authority giving priority to hedge market enhancements including evaluation of options to transition to a compensated market making arrangement, reviewing and improving the hedge disclosure website and evaluating the benefits of introducing a standardised schedule to the International Swaps and Derivatives Association (ISDA) master agreement for over-the-counter-trades. While current arrangements have generally worked well it is important to ensure they are as 'fit for purpose' as possible in times of market stress and as the market changes in response to more retail entrants. We see this project as having strong alignment with the ongoing work clarifying provisions relating to spot market trading conduct.

Mercury supports timely and continuous disclosure of information that could have a material impact on the wholesale market under Section 13.2A of the Code. The market is generally adequately informed of lake levels, snow pack, gas storage, transmission and plant planned outages – but not upstream gas assets performance or outlook. One improvement worth considering is the System Operator providing updates on all fuel supplies as part of its regular reporting, and the development of an 'all fuels' market risk curve. This initiative would require the Authority to work with the Gas Industry Council.

We strongly support the Authority continuing with its Code design work and its seeking of appropriation increases from 2021/22 to enable implementation of spot market settlement on real-time pricing (RTP). RTP is expected to facilitate greater demand-side participation in the wholesale market increasing the responsiveness of demand to changes in prices and reducing scope for any short-term exercise of market power. As the Authority noted in its submission to the EPR 'There are considerable potential economic gains to be had from reducing the daily variation in wholesale prices and better utilisation of transmission and distribution networks. Better transmission and distribution pricing, "real time" wholesale prices, open access to networks, and opportunities for consumers to buy and sell multiple services at their connection points are required to tap this large potential gain.'¹

¹ Electricity Authority submission to RTP (Oct 2018) p 8.

We support the ongoing initiatives designed to help consumers select the best pricing plan to meet their needs such as the project to review the current switching process and the saves and win-backs project.

Finally, we also support the Authority allocating resource to a Code review of the allocation of Loss and Constraint Excess payments given the inefficiencies and lack of transparency with the current regime.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sharron Came', with a stylized, sweeping flourish at the end.

Sharron Came
Regulatory Strategist

