

Summary of Submissions and Authority Responses

2019/20 Levy-funded appropriations
and indicative work programme

19 February 2019



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Executive summary

The Electricity Authority (Authority) is required by the Electricity Industry Act 2010 (Act) to consult annually on its proposed appropriations (ie, the level of its funding) and to include a report on the outcomes of our consultation with our request for appropriations to the Minister of Energy and Resources (Minister). The Authority has completed this consultation for 2019/20 and this document supports the report to the Minister.

The Authority has also consulted on the indicative work programme for 2019/20. There is no legislative requirement for the Authority to report to the Minister on the outcome of that consultation, however for completeness we have provided a summary of issues raised by submitters.

The feedback we have received will be taken into account as we continue to develop the detail of our 2019/20 work programme over the coming months, including further engagement with participants and consumers. Consultation feedback will also inform development of the 2019/20 Statement of Performance Expectations (SPE), a draft of which will be provided to the Minister for comment in April 2019.

There are approximately 90 levy paying entities. In total, we received 11 submissions including:

- one joint submission from two entities controlled by Cumulus Asset Management (Cumulus):
 - Electric Kiwi Limited (Electric Kiwi)
 - Haast Energy Trading (Haast Energy)
- one joint submission from four independent retailers:
 - Electric Kiwi
 - Flick Electric Co. (Flick)
 - Pulse Energy Alliance LP (Pulse)
 - Switch Utilities Limited (Switch) - controlled by Vocus Communications Limited
- Entrust
- Genesis Energy Limited (Genesis)
- the Major Electricity Users Group (MEUG)
- Mercury NZ Limited (Mercury)
- Meridian Energy Limited (Meridian)
- Nova Energy Limited (Nova)
- Transpower New Zealand Limited (Transpower)
- Trustpower Limited (Trustpower)
- Vector Limited (Vector).

Feedback on the proposed appropriations

The key points from those submissions that relate to the Authority's separate appropriations have been summarised in sections 3, 4 and 5 of this document.

The summary of submissions includes Authority responses to participant feedback on our proposed appropriations. Matters raised in the submissions that do not directly relate to the appropriations request will be considered further in the planning process for the 2019/20 SPE and work programme.

Section 3 includes feedback from six submissions on the *Electricity industry governance and market operations* appropriation amount for 2019/20. The submissions are mixed in terms of their level of support for the proposed appropriation level:

- three submissions support the proposed appropriation
- three submissions have various concerns about the proposed appropriation.

A summary of the key points from these submissions, including the Authority's responses, is provided on pages 6 to 8 of this document.

Section 4 includes feedback from four submissions on the proposed *Managing the security of New Zealand's electricity supply* appropriation for 2019/20. All four submissions support the proposed appropriation, as summarised on pages 9 to 10 of this document.

Section 5 includes feedback from six submissions on the proposed *Electricity litigation fund* appropriation for 2019/20. The submissions are mixed in terms of their level of support for the proposed appropriation level:

- three submissions support the proposed appropriation
- three submissions have various concerns about the proposed appropriation.

A summary of the key points from these submissions, including the Authority's responses, is provided on pages 11 to 13 of this document.

On consideration of the consultation feedback, the Authority has concluded that the appropriation levels as consulted on are appropriate to ensure the Authority can continue to perform its statutory functions effectively and operate in a financially sustainable manner for the long-term benefit of consumers.

Feedback on the indicative work programme

The Authority also sought stakeholder views on an indicative 2019/20 work programme. Unlike our appropriations request, there is no legislative requirement for the Authority to consult about our proposed work programme—however, we do so because respondent views are valuable and inform the further development of the work programme.

Section 6 includes feedback from all 11 submissions on the indicative work programme for 2019/20. The submissions are mixed in terms of the varying levels of support expressed for particular projects and for the overall work programme, as summarised on pages 14 to 16 of this document.

The Authority is considering the feedback that has been provided on the indicative 2019/20 work programme. We plan to engage further with participants and consumers as we continue to develop the detail of our 2019/20 work programme over the coming months. The work programme will be finalised in June 2019.

Next steps

The submissions received to this consultation inform the development and finalisation of:

- our appropriations request to the Minister
- our 2019/20 SPE, to be published in June 2019
- our 2019/20 work programme, to be published in July 2019.

1 Introduction and purpose of this report

- 1.1 Section 129 of the Act requires the Authority to consult on proposed appropriations for the coming year before seeking appropriations from the Minister. We have prepared this report to support the process of reporting to the Minister with our recommended appropriations, as required by section 129(2) of the Act.
- 1.2 Consultation on the proposed appropriations for 2019/20 took place from 13 November 2018 to 10 December 2018.¹ The submissions are to be published on the Authority's website on 5 March 2019.
- 1.3 We requested that submissions include responses to four consultation questions related to our proposed appropriations and our indicative 2019/20 work programme. Respondent feedback to these questions has been summarised in section 3 through section 6 of the consultation paper.

2 List of respondents

- 2.1 In total, we received 11 submissions including:
 - Joint submission 1 - a joint submission from two entities controlled by Cumulus Asset Management (Cumulus):
 - Electric Kiwi Limited (Electric Kiwi)²
 - Haast Energy Trading (Haast Energy)
 - Joint submission 2 - a joint submission from four independent retailers:
 - Electric Kiwi²
 - Flick Electric Co. (Flick)
 - Pulse Energy Alliance LP (Pulse)
 - Switch Utilities Limited (Switch) - controlled by Vocus Communications Limited
 - Entrust
 - Genesis Energy Limited (Genesis)
 - the Major Electricity Users Group (MEUG)
 - Mercury NZ Limited (Mercury)
 - Meridian Energy Limited (Meridian)
 - Nova Energy Limited (Nova)
 - Transpower New Zealand Limited (Transpower)
 - Trustpower Limited (Trustpower)
 - Vector Limited (Vector).

¹ The consultation paper will be available at <https://www.ea.govt.nz/dmsdocument/24346-201920-consultation-paper-levy-funded-appropriations-and-indicative-work-programme>

² Note that Electric Kiwi is associated with both joint submissions.

3 Submissions relating to the *Electricity industry governance and market operations* appropriation

The proposed 2019/20 appropriation amount

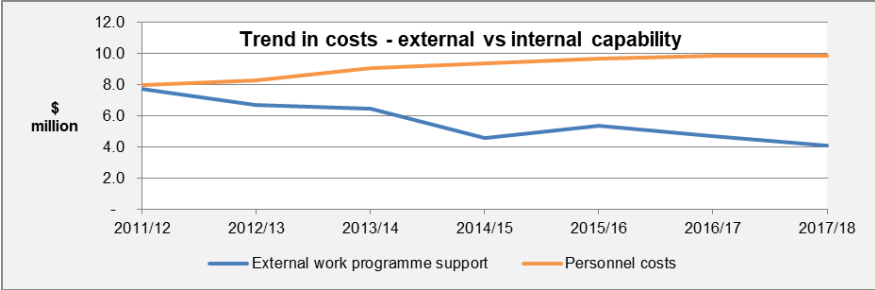
- 3.1 The main items of expenditure within the *Electricity industry governance and market operations* appropriation were set out in Table 3 of the consultation paper:

Operational appropriation - Electricity Authority	\$ million	
	Appropriation 2018/19	Proposed appropriation 2019/20
System operator - operating expenses	26.396	26.550
System operator - capital-related expenses	17.064	17.411
System operator expenses	43.460	43.961
Service provider - clearing manager	2.382	2.410
Service provider - wholesale information and trading system (WITS)	1.702	1.722
Service provider - pricing manager	0.764	0.770
Service provider - reconciliation manager	0.936	0.947
Service provider - registry manager	0.654	0.673
Service provider - FTR manager	0.963	0.944
Service provider - depreciation and amortisation*	1.785	1.885
Service provider - IT costs	0.095	0.095
Service provider - Extended reserve manager*	0.350	0.350
Other service provider expenses	9.631	9.796
Authority operations - external work programme support (Incl FCP**)	6.606	6.050
Authority operations - personnel	10.578	10.948
Authority operations - other operating costs	3.995	4.181
Authority operating expenses	21.179	21.179
Total appropriation	74.270	74.936

* The contractual arrangements for the extended reserve manager role have not yet been finalised; this means there is some uncertainty for both the extended reserve manager fees and the amortisation expenses associated with the systems that underpin the role.

** To provide a single breakdown by programme/activity for external support costs, Facilitating Consumer Participation (FCP) costs of \$2.450 million in both 2018/19 and 2019/20 have been included in this line; previously FCP costs have been presented as a separate line item. The additional appropriation funding for FCP activities, which the Authority received across a three year period, ceased on 30 June 2017. However, there has been sufficient capacity within the overall appropriation to continue these activities beyond this date.

- 3.2 In Question 1, the Authority asked: “What is your view on the Authority’s proposed 2019/20 *Electricity industry governance and market operations* appropriation of \$74.936 million?”
- 3.3 Five of the submissions we received included a response to Question 1; Entrust, Mercury, Meridian, MEUG and Trustpower. The key points from these submissions are summarised in the table below.

Q1. What is your view on the Authority’s proposed 2019/20 <i>Electricity industry governance and market operations</i> appropriation of \$74.936 million?		
Key points from submissions	Submissions	Authority comment
1. Supports the proposed appropriation	Mercury, Meridian and MEUG	The Authority notes the mixed level of support expressed for the proposed appropriation level.
2. Does not think the proposed appropriation has been justified	Entrust	
3. Concerned about the use of consultants	Entrust	<p>The Authority reiterates the importance of a strategy we have been implementing successfully since 2012—to increase our internal capability and reduce our reliance on external consultants.</p> <p>Our expenditure data from 2011/12 to 2017/18 demonstrates the success of this strategy and refutes any concerns about our reliance on external consultants:</p> <ul style="list-style-type: none"> • personnel numbers increased moderately • personnel costs also increased moderately • external advice costs decreased substantially. <p>This is clearly illustrated in the graph below:</p> 

Q1. What is your view on the Authority's proposed 2019/20 <i>Electricity industry governance and market operations</i> appropriation of \$74.936 million?		
Key points from submissions	Submissions	Authority comment
4. Suggests that the Authority consider legislative and code changes that would enable the System Operator contract to be subject to competitive tender	Vector	The Authority must act in a way that is fully consistent with legislation—and the Authority's contract with the System Operator is required by legislation ³ .
5. Would like the Authority to apply a more flexible regulatory approach in circumstances where non-compliance has not harmed any industry participants or consumers	Vector	The Authority's role is to ensure compliance with all aspects of the code. Some provisions, which may seem less directly beneficial to consumers, are often playing an important role in ensuring the smooth running of the regulatory system, which ultimately benefits consumers. The Authority regularly reviews parts of the Code and amends the Code where necessary, including changes where regulation is not necessary or is unduly restrictive. The Authority also has a process for participants to suggest Code amendments. The Authority's enforcement function takes into account the impact of any Code breach as part of its investigation and resultant enforcement action.
6. Provides suggestions around how the Authority's operations could continue to promote stakeholder satisfaction, alignment in thinking across energy regulation, climate change and resource management, and draw on broader experience from overseas jurisdictions	Trustpower	<p>The Authority is committed to working with stakeholders and consumers to develop improvements for New Zealand's electricity market. We have established sound processes for consultation and engagement but acknowledge there is room for improvement. We have developed a communications strategy and will review our approach to stakeholder engagement in 2019.</p> <p>The Authority works closely with other energy market regulators to share our ideas and expertise and promote alignment across the sector. Examples include submissions on the EPR, our work with the Productivity Commission on the Low emissions economy inquiry and the Electricity markets interface working group.</p> <p>We will continue to draw on the experiences of overseas jurisdictions and in turn, share our experience and expertise at international conferences and forums.</p>

³ Section 8(1) of the Electricity Industry Act 2010 requires that Transpower is the System Operator.

Q1. What is your view on the Authority's proposed 2019/20 <i>Electricity industry governance and market operations</i> appropriation of \$74.936 million?		
Key points from submissions	Submissions	Authority comment
7. Some concerns regarding the proposed appropriation based on the prioritisation of two particular projects on the 2019/20 work programme		Submissions regarding our indicative 2019/20 work programme will be taken into account in the forthcoming development of the work programme, which will be finalised in June 2019
8. No comments on the proposed appropriation	Joint submission 1, Joint submission 2, Genesis, Nova, Transpower and Vector.	N/A
Outcome of consultation: The Authority has considered the overall feedback that has been provided on the proposed Electricity industry governance and market operations appropriation for 2019/20, and will proceed with recommending the appropriation level of \$74.936 million as consulted on.		

4 Submissions relating to the *Managing the security of New Zealand's electricity supply* appropriation

The proposed 2019/20 appropriation amount

- 4.1 The intended outcomes, scope and functions of the Authority under this appropriation were set out in Section 4 of the consultation paper.
- 4.2 Section 4 also explained that a new security management appropriation for the period 1 July 2017 to 30 June 2022 had been established in Budget 2017. No changes to this appropriation were sought for 2019/20, as set out in the table below:

Contingent appropriation - Electricity Authority	\$ million	
	Appropriation 2018/19	Proposed appropriation 2019/20
Managing the security of New Zealand's electricity supply (1 July 2017 to 30 June 2022)	6.000 over five years	

- 4.3 In Question 3, the Authority asked “What is your view on the Authority’s proposal to keep the *Managing the security of New Zealand's electricity supply* appropriation unchanged for 2019/20?”
- 4.4 Four of the submissions we received included a response to Question 3; Meridian, MEUG, Transpower and Trustpower. The key points from these submissions are summarised in the table below.

Q3. What is your view on the Authority’s proposal to keep the <i>Managing the security of New Zealand's electricity supply</i> appropriation unchanged for 2019/20?		
Key points from submissions	Submissions	Authority comment
1. Supports the proposed appropriation	Meridian, MEUG, Transpower, Trustpower	The Authority notes the support expressed for the proposed appropriation level.

Q3. What is your view on the Authority's proposal to keep the *Managing the security of New Zealand's electricity supply* appropriation unchanged for 2019/20?

Key points from submissions	Submissions	Authority comment
2. No comments on the proposed appropriation	Joint submission 1, Joint submission 2, Entrust, Genesis, Mercury, Nova, Transpower, Vector	N/A
Outcome of consultation: The Authority has considered the overall feedback that has been provided on the proposed <i>Managing the security of New Zealand's electricity supply</i> appropriation, and is proceeding with recommending no change to the current appropriation level of \$6.000 million as consulted on.		

5 Submissions relating to the *Electricity litigation fund* appropriation

The proposed 2019/20 appropriation amount

- 5.1 The intended outcomes, scope and functions of the Authority under this appropriation were set out in Section 5 of the consultation paper.
- 5.2 The government-approved baseline level for the *Electricity litigation fund* appropriation each year is \$0.444 million. Section 5 of the consultation paper proposed increasing this by up to \$0.556 million for 2019/20, taking the total up to a maximum of \$1.000 million; as was the case in the 2018/19 year.

Contingent appropriation - Electricity Authority	\$ million	
	Appropriation 2018/19	Proposed appropriation 2019/20
Electricity litigation fund	1.000	up to 1.000

- 5.3 Section 5 suggested that an appropriation level of up to \$1.000 million in 2019/20 could again be facilitated by the transfer of any unused appropriation, up to \$0.556 million, from 2018/19 to 2019/20.
- 5.4 In Question 4, the Authority asked “What is your view on the Authority’s proposal to seek up to \$1.000 million for the *Electricity litigation fund* appropriation in 2019/20?”
- 5.5 Six of the submissions we received included a response to Question 4; Genesis, Mercury, Meridian, MEUG, Transpower and Trustpower. The key points from these submissions are summarised in the table below.

Q4. What is your view on the Authority’s proposal to seek up to \$1.000 million for the <i>Electricity litigation fund</i> appropriation in 2019/20?		
Key points from submissions	Submissions	Authority comment
1. Supports the proposed appropriation	Mercury, Meridian and MEUG	The Authority notes the mixed level of support expressed for the proposed appropriation level.

Q4. What is your view on the Authority's proposal to seek up to \$1.000 million for the <i>Electricity litigation fund</i> appropriation in 2019/20?		
Key points from submissions	Submissions	Authority comment
2. Some concerns regarding the proposed appropriation, suggesting that the Authority would have a greater incentive to reduce the risk of litigation if the costs were funded out of the Authority's operating budget.	Trustpower	<p>The approach of funding litigation costs from the Authority's operating budget would not be in the interests of consumers, as it would result in a situation where market development initiatives are slowed or deferred to fund litigation when it arises. As some parties have incentives for this to occur, this approach has the potential to increase, rather than decrease, overall litigation costs.</p> <p>During 2019/20 the Authority intends to advance market development initiatives that have the potential to bring about net benefits worth hundreds of millions of dollars for consumers over the next decade—but that may also have adverse financial impacts for some parties.</p>
3. Suggests the risk/expense of litigation could be lowered by running policy processes well	Transpower	The Authority is confident in the quality of its policy development processes. However, we expect there to be increasing incentives for some parties to obstruct the progress of our market development initiatives, and that this will be the case regardless of the quality of the policy development processes we adhere to.
4. No comments on the proposed appropriation, although a clearer view of litigation liability in the coming year/s should be provided.	Genesis	Whilst the Authority can observe past trends in litigation activity, and consider future litigation risks around potentially contentious initiatives, the costs associated with litigation are inherently difficult to predict.

Q4. What is your view on the Authority's proposal to seek up to \$1.000 million for the *Electricity litigation fund* appropriation in 2019/20?

Key points from submissions	Submissions	Authority comment
5. No comments on the proposed appropriation	Joint submission 1, Joint submission 2, Entrust, Nova and Vector	N/A
Outcome of consultation: The Authority has considered the overall feedback that has been provided on the proposed <i>Electricity litigation fund</i> appropriation, and is proceeding with recommending an appropriation level of up to \$1.000 million as consulted on. This level of appropriation can be facilitated, in part, through the transfer of any unused appropriation, up to \$0.556 million, from 2018/19 to 2019/20.		

6 Submissions relating to the indicative 2019/20 work programme

- 6.1 In Question 2, the Authority asked: “What is your view on the Authority’s indicative 2019/20 work programme?”
- 6.2 Unlike our appropriations request, there is no legislative requirement for the Authority to consult about our proposed work programme—however, we do so because respondent views are valuable and inform the further development of the work programme.
- 6.3 All 11 submissions included a response to Question 2. These responses have been categorised as either general feedback, or project-specific feedback.
- 6.4 We plan to engage further with participants and consumers as we continue to develop the detail of our 2019/20 work programme over the coming months. The work programme will be finalised in June 2019 and published in July 2019.

General feedback

- 6.5 The general feedback we received on the work programme is summarised below.
- a) Feedback on the focus of the work programme;
- Five submissions want the 2019/20 work programme to prioritise particular outcomes
 - One submission would like the 2019/20 work programme to focus on a small number of the highest priority projects
 - Three submissions appreciate the tighter, more focussed work programme
 - Five submissions would like the 2019/20 work programme to be even tighter and more focussed
 - One submission suggests that a tighter, more focussed work programme should also be less expensive.
- b) Feedback relating to the Electricity Pricing Review (EPR);
- One submission supports the Authority's assessment of the market and sees this reflected in the indicative 2019/20 work programme
 - Four submissions expect a reprioritisation of the 2019/20 work programme to address emergent issues, eg from the EPR, the recent UTS claim and the Spring 2018 enquiry
 - One submission suggests that the Authority resolve EPR issues before the Expert Advisory Panel makes its recommendations.
- c) Feedback on the level of detail provided in the work programme;
- Four submissions appreciate the additional information provided in the work programme, eg the net benefits and proposed targets per project

- Two submissions would have liked additional information about the calculation of net benefits per project to have been made available.
 - One submission would have liked additional information about the prioritisation of projects to have been made available
 - Two submissions would have liked additional operational and project level information to have been itemised in the proposed appropriations, e.g. staffing, project budgets, milestones, project-related overseas travel.
- d) Feedback on the proposed targets;
- Two submissions want stronger targets established across the work programme
 - One submission wants the work programme to be progressed more rapidly.
- e) Feedback on participant participation processes;
- One submission wants the minutes and papers of advisory group meetings to be made available
 - Two submissions want MDAG to be more representative of independent retailers
 - One submission feels that the concerns they raised in submissions to the 2018/19 appropriations consultation were unreasonably dismissed
 - One submission would like greater overall transparency from the Authority.

Project-specific feedback

6.4 The project-specific feedback we received on the work programme is summarised below.

- a) Feedback on project prioritisation;
- Ten submissions want particular projects to be prioritised on the 2019/20 work programme – for example, Further development of the hedge market, Spot market settlement on real-time pricing and Review of spot market trading conduct provisions
 - One submission wants particular projects on the current 2018/19 work programme to be prioritised in 2019/20 if they are incomplete, such as Review of distribution sector, Default distribution agreement (DDA) and Review regulatory settings for official conservation campaigns (OCCs)
 - Three submissions want particular projects on the indicative 2019/20 work programme to be de-prioritised, such as Transmission pricing review, Barriers due to legacy systems and processes and Equal access
 - Three submissions want to add specific initiatives to the 2019/20 work programme to address emergent issues, including those arising from the EPR, the recent UTS claim and the Spring 2018 enquiry.

b) Feedback on project scope and implementation;

- Three submissions seek changes to the scope and/or implementation of particular projects, such as Saves and win-backs, Distribution pricing: review of pricing principles and What's my number and repurposed information campaign
- Two submissions would like stronger targets to be established for Further development of the hedge market and Review of spot market trading conduct provisions
- Two submissions seek more rapid progress of particular projects, such as Saves and win-backs, Review of spot market trading conduct provisions and Distribution pricing: review of pricing principles
- Three submissions want a firm end date to be established for Distribution pricing: review of pricing principles.

c) Feedback on project information;

- One submission wanting additional information to be made available about the Review of distribution sector project.

Glossary of abbreviations and terms

Act	Electricity Industry Act 2010
Authority	Electricity Authority
Code	Electricity Industry Participation Code 2010
CPI	Consumer price index
EECA	Energy Efficiency and Conservation Authority
FCP	Facilitating consumer participation
Minister	Minister of Energy and Resources
SOI	Statement of intent
SPE	Statement of performance expectations