



3 December 2019

Submissions
Electricity Authority
Level 7, ASB Bank Tower
2 Hunter Street
WELLINGTON

By email: appropriations@ea.govt.nz

Trustpower Limited
Head Office
108 Durham Street
Tauranga
Postal Address:
Private Bag 12023
Tauranga Mail Centre
Tauranga 3143
F 0800 32 93 02
Offices in
Auckland
Wellington
Christchurch
Oamaru
Freephone
0800 87 87 87
trustpower.co.nz

TRUSTPOWER SUBMISSION: 2020/2021 LEVY FUNDED APPROPRIATIONS CONSULTATION PAPER

1 Introduction and overview

- 1.1.1 Trustpower Limited (**Trustpower**) appreciates the opportunity to submit on the Electricity Authority's (**the Authority's**) *2020/21 Levy-funded appropriations* consultation paper (**Consultation Paper**).
- 1.1.2 The Authority is required to consult on their proposed appropriations each year under section 129 of the Electricity Industry Act 2010 (**The Act**).
- 1.1.3 The Authority is seeking feedback on:
- a) an operational appropriation of \$76.9 million to fund its annual operations, including:
 - i. \$43.2 million for system operator expenses;
 - ii. \$9.9 million for other service provider expenses;
 - iii. \$21.8 million for the Authority's remaining operational expenses; and
 - iv. \$2 million for undertakings related to implementing the various recommendations and initiatives of the Electricity Price Review (**EPR**).
 - b) a contingent appropriation of \$6 million over five years for Transpower (as System Operator) to manage actual or emerging emergency events relating to New Zealand's security of electricity supply; and
 - c) a contingent appropriation of up to \$1 million to be used for costs and expenses the Authority incurs through participation in any litigation activities that may arise. We note that unused appropriation from 2019/20 may be transferred to this year's litigation appropriation total.
- 1.1.4 We also note that the total sums of the governance and market operations, security of supply, and litigation appropriations are unchanged from the prior 2019/20 year. The operational appropriation relating to EPR-related work is a new, additional request for funding.
- 1.1.5 We understand that the Authority is explicitly not consulting, or seeking feedback on, its indicative work programme for 2020/21 (as it has done in prior years). As advised in the

Consultation Paper, the Authority is undergoing a new strategy development process and expect to publish next year's work programme in July 2020.

2 Trustpower's views

2.1.1 Trustpower supports:

- a) the proposed appropriation of \$6 million (over a five-year period) for the System Operator, to manage actual or emerging emergency events relating to New Zealand's security of electricity supply;
- b) the expenditure of \$9.9 million under existing contracts with service providers for the provision of market functions; and
- c) the Authority not increasing the total electricity industry governance and market operations appropriation being requested for the 2020/21 financial year. This amount of this appropriation has steadily grown since 2017/18 and it is pleasing not to see an increase this year.

2.1.2 Trustpower does, however, have some additional comments on other elements of the appropriation request which are detailed in the remainder of this submission, along with some broader high-level suggestions to improve the efficacy and efficiency of the Authority's processes and reduce operating costs. These include:

- a) the EPR initiatives the Authority is tasked with undertaking and their priority in the Authority's work programme (section 3);
- b) the lack of clarity around the Authority's upcoming work programme for the 2020/21 financial year (section 4); and
- c) the amount of funding requested for the contingent appropriation, which can be used for litigation (section 5).

3 Prioritisation of the Electricity Price Review initiatives

3.1.1 Trustpower notes that the Authority is specifically requesting funding of \$2 million for future work required to achieve the recommendations of the EPR that have been supported by the New Zealand Government.

3.1.2 Whilst we encourage the Authority to ensure the EPR work is, and remains, their highest priority, we do not support the request for an additional \$2 million to achieve this.

3.1.3 The 2019 EPR Final Report (**the Final Report**) identified energy hardship as one of the most pressing problems in New Zealand's electricity industry.¹ In light of this, we strongly encourage the Authority to remain conscious of its future operational expenditure and keep this to a minimum, wherever possible, as these costs are ultimately incurred by consumers.

3.1.4 Funding to undertake work on the EPR initiatives must be sourced through a rigorous re-prioritisation of the Authority's existing work programme and not through increasing the appropriations. We realise progressing the EPR initiatives is essential for ensuring that the desired outcomes of the EPR can be realised within a timely manner, but it should not come at additional cost to the consumer.

3.1.5 The Consultation Paper suggests that the Authority is progressing two workstreams; one for 'business as usual' projects, and one for EPR initiatives. We suggest that the Authority only

¹ Electricity Price Review: Final Report, [2019] Electricity Price Review Panel, p. 1

operates a single work programme to ensure the appropriate pieces of work are being prioritised and further progressed.

- 3.1.6 We acknowledge that it is inevitable that the EPR initiatives will take time to develop and implement and resource will need to be transferred to support these initiatives, thus slowing down the progress of other work.
- 3.1.7 As a result, we do not believe the Authority has the capacity to continue working on all the items in the existing work programme² as well as all the EPR recommendations that the Government has supported³. Delivering on the EPR initiatives should be the Authority's highest priority at this time.
- 3.1.8 In last year's *2019/20 Levy-funded appropriations and indicative work programme* consultation paper (**the 2019/20 Consultation Paper**), the Authority advised their focus was on priority work and faster completion of projects so benefits for consumers are realised sooner.⁴ The Authority has indicated that this approach will continue for the 2020/21 year.⁵
- 3.1.9 Trustpower agrees and suggests that the Authority focus on eight to ten high quality projects each year.
- 3.1.10 The Authority started moving in the right direction by reducing the number of active projects on the work programme for the 2018/19 financial year.⁶ The Authority advised:
- "...by doing fewer projects each year we will achieve more overall".⁷*
- 3.1.11 Currently, the Authority has 14 projects on its workstream excluding the EPR initiatives. We believe this is too many and the Authority is stretching their resources 'too thin'.
- 3.1.12 The Authority has previously stated that, when operating under a heavy project workload, this:
- "also translates into a significant workload for our stakeholders, providing input that is vital to the long term effectiveness of initiatives. The Authority considers that there will be an eventual reduction in the market development work programme..."⁸*
- 3.1.13 Notwithstanding the above, one question that arises as a result of this Consultation Paper is whether the EPR appropriation will be a recurring item in future levy-funded appropriations? We ask the Authority to clarify this matter for the benefit of all interested participants.

4 Intended 2020/21 work programme

- 4.1.1 We note that the Authority has not published any indicative work programme for the 2020/21 financial year, citing their decision to embark on a new strategy development process intended to update, and reset, their existing strategy.⁹
- 4.1.2 Trustpower acknowledges, and understands, the Authority's reasoning behind this but believes its exclusion from the Consultation Paper makes it very difficult to respond appropriately.
- 4.1.3 It is crucial that the details of the Authority's work programme are published and shared with the industry so that the various participants and stakeholders have the opportunity to make informed decisions, comments, and submissions on the material during consultation.

² Consultation Paper, [2019] Electricity Authority, p. 9

³ Electricity Price Review: Government Response to Final Report, [2019] Ministry of Business, Innovation & Employment, pp. 22-27

⁴ 2019/20 Consultation Paper, [2018] Electricity Authority, p. 4

⁵ Consultation Paper, [2019] Electricity Authority, p. 3

⁶ Electricity Authority Work Programme 1 July 2018 – 30 June 2019, [2018] Electricity Authority, p. 8

⁷ *ibid*

⁸ 2013/14 Appropriations and work priorities, and EECA work programme consultation paper, [2012] Electricity Authority, p. 21

⁹ Consultation Paper, [2019] Electricity Authority, p. i

- 4.1.4 We are unable to provide meaningful feedback if the information about what the appropriation funds will be spent on is severely limited, as is the case with this Consultation Paper.
- 4.1.5 The Authority has advised that the 2020/21 work programme will be published in July 2020¹⁰. Trustpower hopes to receive this much earlier.
- 4.1.6 Accordingly, we ask the Authority to publish a full and detailed breakdown of upcoming projects and expected funding for the 2020/21 year as soon as possible.
- 4.1.7 We also ask that all required information is published in future consultations on the levy-funded appropriations (and other relevant consultations as appropriate).

5 Contingent appropriation for litigation

- 5.1.1 Trustpower recognises that there is the potential need for an appropriation to finance the Authority's participation in any future litigation.
- 5.1.2 Trustpower believes, however, that the amount requested (\$1 million) is excessive. The appropriation request should be reduced to \$0.5 million as we believe this better reflects the actual costs likely to be incurred during litigation proceedings.
- 5.1.3 If litigation did arise, it is highly likely that there would be a significant increase in the number of staff and resources involved in this process. It follows that other projects would be either halted or deferred as these staff and resources are reassigned.
- 5.1.4 Therefore, expenditure that would otherwise have been disbursed on these postponed projects would be re-directed to the litigation proceedings. This reduces the need for the Authority to request such a large amount of funding in advance.

6 Suggestions for the Authority

6.1 Utilisation of industry and advisory groups and joined-up thinking

- 6.1.1 Trustpower suggests that the Authority makes more extensive use of its powers under section 21 of the Act to establish advisory groups to provide independent advice on the development of the Code.
- 6.1.2 This would encourage more joined-up thinking and avoid a wasteful use of resources.
- 6.1.3 We also encourage the Authority to continue to leverage off other industry and advisory groups to achieve all the benefits of joined-up thinking across the industry at minimum cost.
- 6.1.4 The Electricity Retailers Association of New Zealand (**ERANZ**) does well to illustrate this behaviour in the New Zealand electricity industry and is a good standard to follow.
- 6.1.5 Last year, in response to the 2019/20 Consultation paper, our submission reiterated this same point:
"Achieving good regulatory outcomes is almost always a cooperative effort: by the regulator and other regulators, the regulated, and often the broader community".¹¹
- 6.1.6 In the same vein, we continue to support the Authority's participation in the multi-regulator meetings held in New Zealand. Likewise, we support the Authority's continued engagement with international regulations as there is much we can learn from their experiences in considering similar issues.

¹⁰ *ibid*

¹¹ Trustpower Submission on 2019/20 Consultation Paper, [2017] Trustpower Limited, p. 5

6.2 Evidence-based decision making

- 6.2.1 The Authority has made reference to their desire to continue to undertake its own independent evidence-based decision-making processes in all areas of their operation. Trustpower fully supports this practice and encourages the Authority to continue this well into the future.

Our answers to the specific questions posed in the Consultation Paper are attached in Appendix A. If you have any queries regarding this submission, please contact me on 027 810 3326.

Regards,

A handwritten signature in blue ink, appearing to read "Tom Kennerley". The signature is fluid and cursive, with a long horizontal stroke at the end.

TOM KENNERLEY
ADVISOR STRATEGY AND REGULATION

Appendix A: Responses to consultation questions

Question	Response
<p>1. What kinds of engagement have you or your authorisation had with the Authority?</p>	<p>1.1 Trustpower undertakes regular and meaningful engagement with the Authority in almost all areas of its operation. Examples of such engagement are:</p> <ul style="list-style-type: none"> a) written submissions on various consultation papers issued by the Authority; b) face-to-face meetings with Authority staff on consultation papers; c) provision of oral submissions; and d) presentations to working groups.
<p>2. The Authority is proposing that the operational appropriation for Electricity Industry Governance and Market Operations in 2020/21 is \$76.936 million.</p> <ul style="list-style-type: none"> a. Do you support the Authority's proposal for funding of \$76.936 million? b. Are there any specific activities that you think the Authority should invest more or less funding in for 2020/21 or in the future? 	<p>2.1 As always, Trustpower asserts that the Authority must keep its operating costs to an absolute minimum.</p> <p>2.2 Further to the above, we appreciate the Authority not increasing its operational appropriation for electricity industry governance and market operations for the 2020/21 financial year.</p> <p>2.3 Regarding the \$2 million EPR component of this appropriation, we do not support the Authority requesting additional funds for this workstream. We suggest the Authority re-prioritises its existing workload to accommodate the EPR initiatives (refer to section 3 above).</p> <p>2.4 Trustpower has no views at this particular time on whether there any specific activities that we think the Authority should invest more or less funding in.</p>
<p>3. The Authority is proposing that the contingent appropriation for Managing the Security of New Zealand's Electricity Supply is unchanged for 2020/21. Do you support the Authority's proposal for maintaining this contingent funding at its current level?</p>	<p>3.1 Yes, Trustpower supports this contingent appropriation being unchanged for the 2020/21 year.</p>

<p>4. The Authority is proposing that the contingent appropriation for the Electricity Litigation Fund may be up to \$1.000 million in 2020/21. Do you support the Authority's proposal for this contingent funding?</p>	<p>4.1 Trustpower agrees that there is a potential need for a specific litigation appropriation however disagrees with the amount of funding the Authority is requesting. We believe the level of funding being requested should be \$0.5 million (refer to section 6 above).</p>
<p>5. Would you like to provide any other comment on the Authority's proposed 2020/21 funding?</p>	<p>5.1 We do not wish to make any further comments (other than those included in the above submission) at this time.</p>