

12 December 2014

Submissions

c/- Electricity Authority

PO Box 10041

Wellington 6143

by email: submissions@ea.govt.nz

SUBMISSION ON 2015/16 APPROPRIATIONS AND WORK PROGRAMME

- 1 Orion New Zealand Limited (**Orion**) welcomes the opportunity to comment on the “2015/16 Levy-funded appropriations, Electricity Authority work programme, and EECA work programme” consultation paper (the **paper**) released by the Electricity Authority (Authority) in October 2014. Our submission, which is brief, is limited to the Authority work programme and associated appropriations.
- 2 The Electricity Networks Association (ENA) has also submitted on the paper. Orion endorses the ENA submission.

Our comments

- 3 We endorse the ‘education’ aspects of the programme, in particular the projects ‘Demonstrating spot price risk to consumers’ (not yet numbered), and ‘Consumer education programme’ (2.23). We imagine that some form of education might be useful in the context of ‘Hedge market development’ (1.4) as well.
- 4 We note that a key component of the work programme is network pricing signals (para C.10 and project 1.11). We certainly agree network pricing signals are important, but we urge the Authority as it progresses this work stream to be mindful of the wider regulatory context, and in particular Transpower and (non-exempt) distributor price regulation under Part 4 of the Commerce Act. The Authority will also need to:
 - carefully identify the nature and materiality of any existing problems,
 - be able to demonstrate clear cases of operational and investment inefficiency, and
 - be able to show how any proposed changes improve the situation.
- 5 We believe it is the failure to complete these three steps that explains the sustained lack of traction of the project ‘Transmission pricing investigation’ (1.6). It would be unfortunate if the same process was followed in the context of distribution pricing.
- 6 With respect to para C.11 of the paper, there are two key areas of existing regulation that are currently supporting inefficient investment by some consumers, generally at the expense of other consumers. These are the low fixed charge regulations, and the distributed generation regulation under Part 6 of the Code. Both of these limit the

ability of distributors (and retailers in the case of the low fixed charge regulations) to appropriately signal cost to consumers, particularly those with their own generation. We are pleased that project 1.8 - Research project on the effects of low fixed charges - is still a priority, but we note that in the meantime the number of PV installations is taking off. It might be appropriate, in the meantime, for the Authority to work with MBIE to put in place an additional exemption or exclusion under the regulations so that distributors and retailers are no longer required to offer low fixed charge compliant pricing to connections with PV. Regarding Part 6, this does not appear to be in the work programme at all, and this concerns us. We trust that it will be picked up within project 1.11.

- 7 We look forward to an early update on the Authority board's November 2014 decisions on scope and timetable for project 1.11, and then to a subsequent robust and constructive consultation process.
- 8 Also with respect to project 1.11, we note that the project 'Review of the efficiency of distribution company arrangements' which was in last year's equivalent paper no longer appears in the list of projects. We think this change is a fair reflection of the relative value of that project, but we are not sure whether aspects of that project, which had no clear scope, are being picked up within project 1.11. We would appreciate clarification.
- 9 Regarding project 1.9 – Review of more standardisation of use of system agreements - we note that the rationale for this project includes the word "may" twice. We submit that the Authority's decision on its approach this year (2014/15) needs to persuasively turn this "may" into a "materially does" for it to proceed to Code changes in the 2015/16 year. In the meantime we continue to regularly sign-up new retailers to our existing agreement with little fuss or cost.
- 10 We note project 2.17 – Demand side response review. We welcome the recognition of the importance of demand side response and in particular the risk associated with ad hoc response, and the importance of coordination. We are keen to share with the Authority our own views and experience on this subject as it progresses this project.

Concluding remarks

- 11 Thank you for the opportunity to make this submission. Orion does not consider that any part of this submission is confidential. If you have any questions please contact Bruce Rogers (Pricing Manager), DDI 03 363 9870, email bruce.rogers@oriongroup.co.nz.

Yours sincerely



Bruce Rogers
Pricing Manager