

24 November 2015

Submissions

c/- Electricity Authority

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by email: submissions@ea.govt.nz

SUBMISSION ON 2016/17 APPROPRIATIONS AND WORK PROGRAMME

- 1 Orion New Zealand Limited (**Orion**) welcomes the opportunity to comment on the “2016/17 Levy-funded appropriations, Electricity Authority work programme, and EECA work programme” consultation paper (the **paper**) released by the Electricity Authority (Authority) in October 2015. 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 One thing that would be helpful for our review in the future is being able to identify key changes from previous years. We note that the project numbering can change from year to year, and projects that are on the list one year may not be on it the next. It would be good to know what happened to them, and why. An example is last year’s project 1.8: a review of the low fixed charge regulations via the RAG. This may have been subsumed into 2015/16 project 1.7 – Distribution pricing review - but we cannot tell this from the description of 1.7.
- 4 We are pleased to see that the Authority recently released a consultation paper which discusses the low fixed charge regulations in the context of evolving technologies and distribution pricing more widely, and we look forward to reviewing and submitting on that.
- 5 In the discussion of enabling new technologies and innovation in paras C.13 to C.17, the paper identifies that new technologies provide some challenges. This is then linked to a clear implication that current distribution pricing structures are not efficient with “inefficient and misleading prices that are not to the long term benefit of consumers”. This looks to us like it might be a possible conclusion of a review carried out within the work programme, rather than be a conclusion in a document about the work programme.
- 6 Direct access to the wholesale market is discussed in C.15 and this is a possible direction for innovation. However, we note that perhaps only 1/3rd of the cost of energy supplied to a residential consumer is the wholesale energy cost. Direct commercial access to the wholesale market does not physically remove dependence

on the delivery infrastructure, or all of the retail functions. We look forward to further clarification of the scope of this project.

- 7 Regarding project 1.5 - Default distribution agreement - when this was project 1.9 last year the rationale was slightly different. In our equivalent submission last year we wrote:

... 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.¹

- 8 We observe that the Authority in the paper has now removed the word "may", but we are not aware of any new work or new information that supports the removal. We note that:

- a number of distributors have now agreed more model-based agreements with retailers, and others are working towards this goal,
- the number of entrant retailers continues to increase, and
- we still sign up new retailers to our existing agreement with little fuss or cost.

- 9 We would be keen to see any new information that the Authority has.

- 10 Project 1.9 - a review of the Part 6 (DG) pricing principles - is welcome, but we note:

- the rationale for the project (page 30) rather prejudges the conclusion when it says it will "...ensure that [the principles] are not preventing distributors from pricing and charging on a cost reflective basis." [emphasis added],
- the principles exist, at least in part, to *prevent* distributors from pricing in the manner that the Authority now indicates it will ensure that we can, which somewhat calls into question Part 6 of the Code in a wider sense, and
- this project will hopefully mesh well with the wider distribution pricing workstream.

- 11 Project 2.15 - Transpower demand response protocol management - highlights to us that the paper appears to include no planned follow up work on the Authority's recently published "Demand response guiding regulatory principles". In our submission on the principles we:

- made the general point that the principles had very ambiguous application to distributor load management and, given the central role that distributors play, we thought that this should be clearer, and

¹ Orion New Zealand Limited, "Submission on EA work programme - Dec 2014", para 9, p2.

- noted, more specifically, that the very material and routine demand response that we coordinate inevitably affects the spot market, and that similar consideration should be given to the incorporation of its effects.
- 12 We further note that last year's project 2.17, Demand side response, is no longer in the work programme. We think it should be as we believe there is still a lack of clarity about how demand response is to be coordinated and prioritised.

Concluding remarks

- 13 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
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