

Submission

Electricity Authority 2018/19 appropriations and work priorities

19 December 2017



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1 Introduction

Aurora Energy welcomes this opportunity to comment on the Electricity Authority's consultation paper "2018/19 Levy-funded appropriations and work programme focus areas", dated 21 November 2017.

No part of our submission is confidential and we are happy for it to be publicly released.

If the Authority has any queries regarding our submission, please do not hesitate to contact:

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2 Scope for improved regulatory interaction

The way the Commerce Act 1986 and Electricity Industry Act 2010 have been set up means there is not always a clear split of responsibilities between the Commerce Commission and the Electricity Authority, and there can be differing views about where the boundaries lie.

Both the Commerce Commission and Electricity Authority have responsibilities for elements of network regulation. Broadly speaking, the Commerce Commission is responsible for information disclosure, revenue setting and service quality, with the Electricity Authority responsible for pricing methodologies and access/market arrangements.

There appears to be overlap, and/or potential for overlap and duplication, in the respective workstreams of each regulator. This may mean there is scope for the Electricity Authority to improve efficiency by tightening its work programme and reducing its budget requirements.

One example is the Electricity Authority's "Review of distribution sector" project (previously labelled "Efficiency of distribution company arrangements")¹. The Electricity Authority has stated "We want a better understanding of the factors that influence the ability of EDBs to respond to technological change"²; however, it has not progressed this project yet, with the project sitting in the work programme since 2013/14³.

We consider the issues surrounding efficiency of electricity distributors, and how they respond to emerging technology, sit firmly within the Commerce Commission's Part 4 responsibilities and objectives (including promoting incentives to innovate and improve efficiency).

We would like a clear understanding of how the Electricity Authority's project will, or might, fit in with the work the Commerce Commission is going to do between now and the 2020 DPP reset.

The Electricity Authority's Mass Participation Consultation is another example.

A large number of submissions to the Electricity Authority on Mass Participation re-litigated matters raised with the Commerce Commission as part of its IMs review. Consequently, we have also needed to repeat some of the same points to both regulators.

While the Commerce Commission has responsibility for ensuring electricity distributors and Transpower have incentives to innovate and improve efficiency, the Electricity Authority's Mass Participation Consultation canvassed concerns about whether opportunities to improve efficiency and reduce costs are being properly, or fully, embraced.

The Electricity Authority raised concerns about potential reluctance to contract with third-party service providers "to more efficiently supply the network service. For example, obtaining network support from third parties is currently not common practice for distributors ..."⁴. Further, the Electricity

¹ Electricity Authority. (2017). Electricity Authority Work Programme 1 July 2017 - 30 June 2018. 30 June 2017, p10.

² Electricity Authority. (2017). Electricity Authority Work Programme 1 July 2017 - 30 June 2018. 30 June 2017, p10.

³ <https://www.ea.govt.nz/dmsdocument/15241>

⁴ Electricity Authority. (2017). Enabling mass participation in the electricity market. 30 May 2017, paragraph 4.17, p20.

Authority speculated that electricity distributors and Transpower "may be reluctant to adopt an unfamiliar or unproven approach"⁵ or don't understand that "improved communication and control technology, and innovation in contracting practices, reduces the need for a distributor to own and directly control the assets required to provide a service"⁶.

If these views are correct, then there are potential opportunities for further incentives to improve efficiency under Part 4 of the Commerce Act. (The Electricity Authority notes "a five per cent reduction in costs it could result in a \$375 million cost saving over a 10 year time period"⁷.)

To promote regulatory efficiency, it is essential that the Commerce Commission and the Electricity Authority come to a shared understanding as to whether the best tools for resolving these purported issues lie with the Commerce Commission (enhancing incentives to improve efficiency under Part 4 of the Commerce Act), or through the direct forms of regulation the Electricity Authority canvasses in its Mass Participation decision paper.

Our view, which we have expressed to both the Commerce Commission and Electricity Authority⁸, is that "If this is valid ... The solution could be to rebalance the sharing of efficiency gains; e.g., allowing regulated suppliers to hold onto efficiency gains for longer before sharing them with consumers"⁹.

3 Concluding Remarks

Aurora is concerned that there may be unnecessary overlap between the workstreams of the Commerce Commission and the Electricity Authority. We would like to see the two regulators avoid pursuing similar matters, and exhibit more co-ordinated thinking about each regulator's respective roles.

⁵ Electricity Authority. (2017). Enabling mass participation in the electricity market. 30 May 2017, paragraph 4.18, p20.

⁶ Electricity Authority. (2017). Enabling mass participation in the electricity market. 30 May 2017, paragraph 4.19, p21.

⁷ Electricity Authority. (2017). Enabling mass participation in the electricity market. 30 May 2017, paragraph 4.16, p20.

⁸ Aurora Energy Limited. (2017). Submission: Enabling mass participation in the electricity market. 11 July 2017, section 6, p3.

⁹ Aurora Energy Limited. (2017). Submission: Input Methodologies Review: Related party transactions – Invitation to contribute to problem definition. 17 May 2017, section 4, p3.