



# MAJOR ELECTRICITY USERS' GROUP

24 December 2010

Lisa Du Fall  
Electricity Authority  
By email to [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

Dear Lisa

## Consultation paper – 2011/12 appropriations

1. This is a submission by the Major Electricity Users' Group on the Electricity Authority consultation paper "Proposed Appropriations and Work Priorities for the 2011/12 Financial Year", published 22<sup>nd</sup> November 2010<sup>1</sup> (the "paper").
2. MEUG has separately lodged with EECA a joint submission with the New Zealand Business Roundtable on the proposed appropriation for electricity efficiency work of \$17.5m. We oppose that appropriation. MEUG has no comment on the \$15m for promoting and facilitating customer switching to be funded by the EA and MCA, \$0.4m for the litigation fund or the \$6.2m and \$4.9m for Whirinaki fixed and fuel costs respectively.
3. Paragraph 20 of the paper notes a full budget has yet to be prepared. This is understandable as the paper was published three weeks after commencement of the Authority. Future proposals for appropriation need to include an analysis of the likely benefit for each programme or group of similar programmes. For example last year we congratulated the Electricity Commission on publishing in their proposed appropriation consultation paper estimates of the range of NPV benefits for Common Quality and System Operation tier one activities<sup>2</sup>. That is the standard the Authority should aim for.

### Electricity industry governance and market operations: Proposal for \$62.5m

4. At a high level we are frustrated that consumers are being asked to pay a 13% increase in System Operator (SOSPA) costs, ie +\$4m. Having spent several tens of millions of dollars upgrading the market software, we would have expected some efficiency gains and lower costs. Alternatively the new market software should have enabled quicker implementation

---

<sup>1</sup> Refer <http://www.ea.govt.nz/our-work/consultations/corporate/proposed-appropriations-2011-12/>

<sup>2</sup> MEUG to EC, Proposed appropriations and work priorities for the 2010/11 financial year, 3<sup>rd</sup> February 2010, paragraph 5, <http://www.meug.co.nz/includes/download.aspx?ID=108127>

of incremental improvements to the market. It isn't obvious that the latter or former have been realised. Paragraphs 46 and 47 of the paper note the Authority and System Operator are developing an agreed timetable and process to manage various programmes. It is essential that agreement be concluded quickly. As a footnote we remain unconvinced that the decision to grant Transpower a statutory monopoly as the System Operator was the best option. Problems finalising agreed work programmes and costs may be an ongoing systemic problem that only revisiting the legislated monopoly can address.

5. At a detailed level the statement in paragraph 21(a) that \$1.9m of the \$4m increase in SOSPA costs are due to expected inflation needs further explanation. A \$1.9m increase over the \$30.4m equivalent 2010/11 full year budget equals 6.3%. We don't think that is a reasonable estimate of expected CPI changes. In addition there is \$½m unaccounted for in the explanation in paragraph 21 of the \$4m increase.

#### **Security management: Proposal for \$6m over 5 years**

6. We agree this is a needed contingency item in the event of an emergency event arising. Some rationale as to why this is \$6m and not half that amount or double should be provided. This should be addressed when consulting on appropriations for 2012/13.

#### **Electricity industry governance and market operations priorities in Appendix A**

7. All of the s.42 (2) new matters listed in the table in paragraph 48 should have the text "Code amendments completed, if required" in the first line of the middle column titled "Expected status at 1 November 2011 when report to the Minister is required." The additional underlined text better reflects the Act and that at this point in time none of those new matters have had a final cost-benefit-analysis approved by the Authority supporting a Code amendment.
8. There are only very high level timelines in the public domain for implementing the s. 42 (2) new matters should Code changes be desirable. Without considering more detailed timelines we cannot comment on whether the individual target dates in the table in paragraph 48 are achievable. There could be an issue with so many complex issues being managed in parallel that input and buy-in from interested parties may be poor. A plan B that has a staggered sequencing and or implementation of "easy wins" (eg Dispatchable Demand) might be needed.
9. On 19<sup>th</sup> November 2010 MEUG requested the Authority consider increasing the number of loss tranches for estimating AC branch losses<sup>3</sup>. Understandably the consultation paper published two working days later did not include this proposal as the Authority Board would not have been able to consider the proposal. There is time though in this consultation and we recommend this proposal be given a high priority because the potential benefits to consumers are high, implementation costs appear to be modest and to date no downside risks have emerged.

Yours sincerely



Ralph Matthes  
Executive Director

---

<sup>3</sup> <http://www.meug.co.nz/includes/download.aspx?ID=113275>