MAJOR ELECTRICITY USERS' GROUP

9 September 2014

Dr John Rampton
General Manager Market Design
Electricity Authority

By email to submissions@ea.govt.nz

Dear John

Settlement and Prudential's – Code Amendments and Changes to Levy Regulations

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority consultation paper[1] "Settlement and Prudential – Code Amendments and Changes to Levy Regulations" dated 23rd July 2014. Members of MEUG have been consulted in the preparation of this submission. This submission is not confidential.
2. All of the proposed amendments, except one, are acceptable corrections and clarifications.
3. The exception is the claimed "improvement" in changing the publication 2 months ahead of each calendar year of quarterly exit period "adders" to publication of a single annual adder. The claimed rationale for the change and MEUG's rebuttal follow:
   a) "*the quarterly "adder" used to determine a participant's exit period prudential requirement needs to be less volatile and more in line with the process envisaged during the development of the Code Amendment*" (1st bullet point paragraph 3).

      The cost benefit analysis supporting the Authority's consultation process, final decision and gazette notice on 12th December 2013 of the Electricity Industry Participation (Settlement and Prudential Security) Code Amendment has already weighed the various factors such as less volatility that might benefit small new entrant retailers versus greater volatility to better reflect underlying costs and risks.

      This has not been and is not a trivial issue. MEUG has been a critic of giving too much bias to average prudential requirements across all consumers to advantage small new entrant retailers serving households whilst forgoing better reflection of prudential risks using a more granular methodology. At its extreme MEUG continues to believe the new Part 14A regime results in high load factor and or large seasonal TOU consumers subsidising the prudential risk associated with small new entrant retailers entering the household retail market. The proposal amplifies this bias.

[1] Document URL http://www.ea.govt.nz/dmsdocument/18307 found at http://www.ea.govt.nz/development/work-programme/wholesale/settlement-prudential-security-review/consultations/#c13819

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Paragraph 3.9.8 of the consultation paper recognises that the Authority has already considered various options for the adder and that in weighing the quarterly and annual options it had opted for the former. If the Authority wishes to re-litigate those various tradeoffs resulting in the Part 14A code amendment gazetted in December 2013 then it should undertake a full cost-benefit-analysis rather than include this change to the adder with a number of non-controversial tidy-ups.

b) "*The amendment relating to clause 10 in schedule 14A.1, which changes the prudential "adder" from a quarterly figure to an annual figure, will improve retail competition by smoothing a purchaser's minimum prudential security requirements over time. Smoother prudential requirements are more predictable and make it easier for* <u>*small retailers*</u> *to meet their prudential obligations*" (paragraph 4.3.2, p39)

The above paragraph is the suggested[2] rationale to meet Code Amendment Principle 2: "Provides clearly indentified efficiency gains or addresses market or regulatory failure." This paragraph more than just gives more weight to small retailers; it completely ignores the downside of greater averaging resulting in less cost (ie relative risk) reflective adders. The analysis in the consultation paper justifying the proposed change to an annual adder fails to meet the requirements of s. 32 of the Electricity Industry Act 2010.

4. In conclusion MEUG:

a) Do not support the change to using a calendar year rather than quarterly adders;

b) Support all other proposed Code amendment corrections and clarifications; and

c) Have no view on the intended amendment to the Electricity Industry (Levy of Industry Participants) Regulations 2010.

Yours sincerely

Ralph Matthes
Executive Director

[2] Per cross-reference from Table 2, paragraph 4.6.1, p41