



# MAJOR ELECTRICITY USERS' GROUP

6 December 2016

Carl Hansen  
Chief Executive  
Electricity Authority  
By email to [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

Dear Carl

## Consultation Paper – 2017/18 Appropriations

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority (EA) consultation paper, 2017/18 Levy-funded appropriations and strategic priorities, 25 October 2016.<sup>1</sup>
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. MEUG agrees with the proposed total operational expenditure of \$73.937m for 2017/18, the security management contingent appropriation of \$6m over the five years starting 1 July 2017 and the contingent appropriation for the electricity litigation fund of \$1m for 2017/18. The \$2.1m (2.8%) decrease in operational funding is welcome. The paragraphs that follow provide comments on some of the programmes proposed for 2017/18. The last two paragraphs comment on the System Operator proposed service enhancement project for the Electronic Dispatch Facility (EDF).

## Programme A: Evolving technologies and business models

4. MEUG agrees with the view in the paper that:

"Most simplistically, the electricity industry is moving away from the 'bulk supply' model that has characterised its operation over the last one hundred years or so. It is moving to a more dispersed and atomistic model where technology and new business models enable consumers to become more active participants in the market."<sup>2</sup>
5. The consultation paper mentions work to be undertaken on reducing inefficient barriers to mass market uptake of demand response (DR) and distributed energy resources (DER). We assume mass market refers to households and small medium enterprises (SMEs) with category 1 or 2 meters.

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<sup>1</sup> <http://www.ea.govt.nz/about-us/corporate-projects/201718-planning-and-reporting/consultations/#c16218>

<sup>2</sup> Consultation paper, p6

6. MEUG suggests that work should also include inefficient barriers to larger commercial and industrial (C&I) consumers because of the uncertainty that cost structures and tariffs paid by and used by C&I consumers to make investment decisions in DR and DER are efficient. We suggest C&I will be important in these markets because of economies of scale. For example larger scale batteries at C&I sites coupled with more sophisticated energy management systems available 24/7 are likely to lead on average over time to lower unit costs than a number of households with equivalent cumulative battery storage capacity.
7. Part of the value the EA could add in reviewing the DR and DER markets is to debunk misleading analysis purported by equipment vendors and the Electricity Efficiency and Conservation Authority (EECA). On the latter MEUG can provide the EA with a number of prior submissions to EECA critiquing the claimed benefits of work funded from the electricity efficiency levy.

### **Programme B: Consumer choice and competition**

8. The EA propose a \$2.5m budget in 2017/18 for facilitating consumer participation.<sup>3</sup> That work includes the "What's my number campaign". The work planned for 2017/18 is new and follows the \$2.5m per year over three years Government approved funding programme that will conclude 30 June 2017. MEUG support this new proposal because the overall EA operational budget, including this one year extension of \$2.5m for facilitating consumer participation, will still be less next year than this year. MEUG's view would be different if the overall EA budget had increased.
9. We also suggest some of the \$2.5m funding in 2017/18 for facilitating consumer participation be invested in the C&I sector.

### **Programme C: Pricing and cost allocation**

10. In paragraph 2.34 is the statement, with underline text emphasised by MEUG:
 

"This programme aligns with our improve price signals strategy. We want to ensure prices for energy, transmission and distribution services are cost-reflective and service based. Achieving this will assist consumers to base their decisions on correct information/signals."
11. MEUG suggest the word "consumers" be replaced by the words "consumers and suppliers where market mechanisms are feasible (and exacerbators then beneficiaries when not)". This change will then make it clear that first it's the investment and decision making of both end consumers and parties in the supply chain that are important. Second market as well as non-market cost allocations should be within the scope of Programme C work. The preferred reference to exacerbators then beneficiaries is consistent with the EA decisions and reasons paper "Decision-making and economic framework for transmission pricing methodology" dated 7 May 2012.<sup>4</sup>
12. Paragraph 2.34(c) refers to the ancillary services of instantaneous reserves and frequency keeping as work streams for improving cost allocation 2017/18. Cost allocation of extended reserves should be added to as MEUG, and we believe other parties, have material concerns with the transaction costs and efficiency of the planned implementation to meet the cost allocation set out in the code.<sup>5</sup>

<sup>3</sup> Ibid, paragraphs 3.11-3.13, p13-13.

<sup>4</sup> Document URL <http://www.ea.govt.nz/dmsdocument/12978> at <http://www.ea.govt.nz/development/work-programme/pricing-cost-allocation/transmission-pricing-review/development/economic-framework-decision-making/>

<sup>5</sup> Refer MEUG to the Extended Reserves Manager (NZX), Draft Extended Reserve Selection Methodology – Consultation feedback, 29 November 2016, answer to Q. 26, pp 9-11, at <http://www.meug.co.nz/node/818>.

**Programme D: Risk and risk management**

13. One of the potential lessons of the blackouts in South Australia on 28 September 2016 is to ensure the system operator has the necessary visibility and tools aided by appropriate market settings to manage more atomistic DER. The system operator has, we understand, been following the changing supply patterns in South Australia and will be publishing initial insights of the blackout event relevant for New Zealand. The EA could consider longer term trends and whether any institutional or structural changes may be needed to the role of local distributors and the system operator in terms of managing extreme and sudden security of supply risks where there is dispersed and atomistic DR and DER.

**Electronic Dispatch Facility**

14. The cost-benefit-analysis (CBA) by the system operator could be improved by considering the costs to existing participants using GENCO in shifting to EDF. That may not change the recommendation but at least an idea of the scale of participant costs may assist in assessing if the December 2020 switch date is feasible. The CBA is summarised on p16 as:

“The indicative net cost over a 15-year period, based on costs and identified efficiencies is estimated at \$1.4M. This NPV accounts for a real pre-tax discount rate of 7.00% and depreciation of the benefits over 15 years. The NPV includes current dispatch system avoidable cost savings and savings that can be made implementing new functionality in future as a flow on effect of this investment.”

15. From this information MEUG has been unable to replicate the CBA.<sup>6</sup> It is essential that requests for funding have sufficient information for interested parties to be able to replicate and test for themselves the sensitivity of the CBA.

Yours sincerely



Ralph Matthes  
Executive Director

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<sup>6</sup> The interpretation of the text quoted in the preceding paragraph is difficult to interpret because concepts such as specifying a pre or post tax discount rate and depreciation are relevant for commercial investment CBA and regulatory price/revenue setting but not for national economic CBA.