MAJOR ELECTRICITY USERS' GROUP

29 November 2016

Dr John Rampton
General Manager Market Design
Electricity Authority
By email to submissions@ea.govt.nz

Dear John

Consultation paper – Review of the customer compensation scheme

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority (EA) consultation paper "Review of the customer compensation scheme" dated 18 October 2016.[1] A useful companion paper titled "The security of supply framework" was also published. MEUG is also today submitting on the review of the stress test that is part of the security of supply framework.

2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.

3. The Customer Compensation Scheme (CCS) is an important design feature for security and reliability of New Zealand's electricity market. All consumers including all members of MEUG benefit from a well-designed CCS. MEUG members mainly take supply from category 3 or higher metering installations and therefore would not receive the CCS prescribed Minimum Weekly Amount (MWA) of $10.50 per installation control point (ICP) when the CCS is triggered.[2]

4. All MEUG members have and will benefit from the CCS mitigating the incentive on retailers to lobby for conservation campaigns as a "free option" and mitigating the risk of "campaign fatigue" when conservation campaigns are called for.[3] The value of mitigating the "free option" is to change retailer behaviour resulting in beneficial changes to the operation of hydro-storage and the hedge market, and the latter in turn helps underwrite new generation investments.[4] This review, 5 ½ years after the CCS was included in the Code, is welcome.[5]

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[1] URL http://www.ea.govt.nz/dmsdocument/21363 at http://www.ea.govt.nz/development/work-programme/risk-management/review-of-the-customer-compensation-scheme-ccs/consultation/#c16203.
[2] The MWA is paid irrespective of savings at an ICP, refer consultation footnote 26, p13. There are other requirements for receiving the MWA other than having a category 1 or 2 meter as explained in paragraph 2.7 of the consultation paper, ie have used at least 3,000 kWh over the last year and final price not referenced to spot prices.
[3] Ibid pii summarises these two related problems.
[4] Ibid, paragraphs 2.1 and 2.2, p3.
[5] Ibid, paragraph 2.5, p3.

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5. It is inevitable given the high percentage of hydro-generation in New Zealand, lake reservoirs are small, weather patterns are unpredictable and changeable, and unexpected unplanned loss of non-hydro power stations or critical transmission assets that in a future year the CCS will be triggered. No matter how well prepared we are in advance, including periodic reviews such as this, the CCS may not work as intended and a post-event review will be needed. That should not be seen as a failure of the CCS but rather part of continuously improving the regime just as the EA propose to consult next year on whether the CCS obligations should be extended to type 2 retailers.[6]

6. The main policy challenge is to decide whether and how to either tune-up or tune-down or even exit from the existing design of the CCS if the risk of the "free option" and "campaign fatigue" has changed from the state of the sector when CCS was introduced in 2010-11.

7. Responses to questions in the consultation paper follow:

Question	MEUG response
1. Do you agree that the objectives of the CCS remain valid and contribute to an efficient security of supply?	Conceptually the "free option" and "campaign fatigue" risks will always be a potential if not a real risk in the New Zealand electricity market given the high percentage of hydro-generation and overall market design. But that does not mean the risks remain static over time. The risks for the next few years may differ from the risks when the CCS was introduced in 2011 and if so the design of the CCS should be tailored accordingly.
2. Do you agree with the Authority's conclusion that we should not modify the CCS at this time? If you disagree, please explain your reasoning in terms consistent with the Authority's statutory objective in section 15 of the Electricity Industry Act 2010.	MEUG suggests the prospective "free option" and "campaign fatigue" risks today are less than they were when the CCS was first introduced and accordingly the focus of the review should be on how to slowly exit or wind back from the 2011 CCS settings. Alongside that focus any tidy-up aspects such as ensuring equitable coverage such as considering application to secondary networks as proposed in the consultation paper are valid aspects for review. The various options considered in the consultation paper tend to assume as stringent or even more stringent CCS is required rather than considering how to de-tune the regime. As noted above MEUG suggest the review would have been better focussed on considering how to un-wind from the current level of intervention.
3. Are there ways in which the CCS hinders new forms of retail pricing or demand response schemes that could otherwise promote the Authority's statutory objective?	-

[6] Ibid, piii.

Question	MEUG response
4. Have we considered all plausible options to increase the retailer incentive to hedge?	MEUG agrees current hedge markets are not as competitive as we would like them to be. Deepening participation in hedge markets and having products to better meet participant needs is an ongoing work-in-progress. The direction of change has been and is expected to be steady improvement with incremental changes across a number of dimensions.[7] We infer the assumption behind this question is that the existing CCS has failed to sufficiently incentivise parties to hedge. As noted above there are a range of initiatives underway to improve hedge markets. MEUG does not see the CCS having any role in increasing incentives for retailers to hedge other than in the special case of mitigating retailers seeking the "free option". There is no evidence the risk of lobbying for a conservation campaign for a "free option" has increased since 2011; rather the opposite given the experience in 2012. Accordingly MEUG suggests this question is not relevant.
5. Are there any other material factors that might affect our assessment of the options above?	-
6. Do you agree with our assessment of the options above? If not, why not?	-

8. We look forward to the consultation paper early next year on whether CCS obligations should be extended to type 2 retailers and the investigation into the potential anomaly whereby CCS are triggered also by capacity shortage not just energy shortage situations.[8]

Yours sincerely

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Executive Director

[7] For example new products such as caps and new FTR nodes through to more information and training and education programmes on the use of new risk management products.
[8] The latter is discussed in paragraphs 4.26 and 4.27, p14.