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12 December 2014

Ms Androula Dometakis
General Manager Corporate Services
Electricity Authority
Wellington 6143

By email: submissions@ea.govt.nz

Dear Ms Dometakis,

Proposed Electricity Authority and EECA industry levy funded appropriations

Introduction

1. Vector welcomes the opportunity to respond to the Electricity Authority's (the Authority) and the Energy Efficiency Conservation Authority's (EECA) "2015/16 Levy-funded appropriations, Electricity Authority work programme and EECA work programme consultation paper" (the consultation paper), dated 29 October 2014. No part of this submission is confidential. Vector's contact person for this submission is:

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2. This submission focuses on the Authority's proposed levy rates and work programme.

Indicative levy rates

3. This consultation paper is the most authoritative document available for the industry to forecast the levies they will have to pay in the coming financial year. It is used by the industry to ensure their tariffs adequately account for levies. Accordingly, the Authority's disclaimer in paragraph 3.1.4 of the consultation paper is unhelpful. Vector **recommends** the Authority remove such qualifiers from its levy estimate in the future. Industry needs confidence that the Authority's estimates are as accurate and complete as

possible (for that point in time), given their importance to annual tariff setting by EDBs as well as retailers.

4. The Authority's 2014/15 consultation document did not reflect the actual changes to the registry and consumer levy. This meant distributors were unaware of a 170% increase to this levy. Accordingly, the increased levy costs could not be recovered by EDBs subject to price control. The Authority's subsequent changes were neither consulted on nor notified to industry at any stage before they were invoiced to EDBs.
5. Fortunately, the Commerce Commission has addressed this unforeseen liability in its final default price path decision for EDBs, who will now be able to recover the shortfall amount. However, requiring a mistake by one regulatory body to be corrected by another is a circumstance that Vector hopes is not repeated.
6. Vector **recommends** any future material change in the Authority's levy estimates occurring after its appropriations consultation should be consulted on with industry and subject to rigorous cost benefit analysis before they are charged to industry.

Extended Reserves Manager

7. The Authority noted the new Extended Reserves Manager is likely to be operational in 2015 and may result in additional costs. The consultation paper appears to imply that any additional funding, if required, would be recovered from industry without warning. If this is correct, industry will have limited opportunity to capture the additional costs in their annual tariffs given EDB tariffs are set according to information in the consultation paper, as discussed above. The Authority should ensure that it does not introduce levy costs that cannot readily be recovered by industry participants.
8. Vector also notes that an estimate for the expected costs for the Extended Reserves Manager was available as it was provided in the *Limiting the liability of the Extended Reserves Manager* consultation paper.

Registry and customer operations – consumer switching and participation programme

9. Vector does not support the requirement for distribution businesses to contribute to the consumer switching/participation programme. Imposing the levy on distributors is unreasonable as this work is specific to the operation of the retail electricity market. In other contexts the Authority is keen to allocate costs to causers or beneficiaries – it is not clear why the Authority would take a different approach with regard to its levies.

10. Vector **recommends** the Authority asks MBIE to amend the *Electricity Industry (Levy of Industry Participants) Regulations 2010* to allocate all levies for consumer switching and participation to retailers.

Authority's work-programme

11. Vector broadly supports the proposed Authority work-programme. However, Vector has concerns with the items 'TPM review' and 'the more work with standardisation of Use of System Agreements'. As we have expressed in previous submissions¹ we are not convinced these projects add value and do not believe they need to be included in the 2015/16 work programme.
12. Also, it would have been helpful if the consultation paper had included information about the funding allocation for each project, and how the Authority will prioritise between them. Submitters could then have provided more meaningful comment on the resourcing and prioritisation of particular projects.

Distribution pricing review

13. Vector notes the Authority intends to review distribution pricing in the next financial year. Vector **recommends** that before the Authority develops options for regulation it should take the following steps:
- a) Consult on the problem definition and the principles it will apply to any review.
 - b) Then, if the Authority can demonstrate a clear mandate for reform, it should provide industry with an opportunity to resolve any issues requiring attention in a reasonable and clearly specified timeframe.

Review of distributed generation pricing principles

14. The Authority should also review the suitability of the current distributed generation pricing principles in the *Electricity Industry Participation Code*. Vector has previously highlighted the problems with these pricing principles² and in our view those problems could be addressed reasonably quickly and discretely from any distribution and transmission pricing reviews.

¹ Vector, *Submission to the Electricity Authority Transmission Pricing Methodology: Beneficiaries-pay options*, 25 March 2014, Vector, *Submission on more Standardisation of model use of system agreements*, 20 May 2014

² Vector, *Submission on Distributed Generation pre-consultation*, 11 November 2011.

Low user fixed charges project

15. Vector recommends the Authority gives a higher priority, in the next year's work programme, to the research project on the effects of the 'low fixed user charges'. Resolving the problems caused by the low fixed charge regulations will help promote efficient price signals.
16. Vector also recommends that the research project explicitly consider whether the low user fixed charge is inefficiently distorting the relevant markets, and whether such distortion, if found, could be justified on the basis of it being the most effective tool available for addressing fuel poverty.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'I. Ferguson', written in a cursive style.

Ian Ferguson
Regulatory policy manager