

1 November 2022

Electricity Authority
Level 7, AON Centre
1 Willis Street
Wellington 6011

Via email appropriations@ea.govt.nz

Tēnā koutou,

Electricity Authority consultation on 2022/23 and 2023/24 levy-funded appropriations

The Authority is proposing uplifts to the levy-funded appropriations. A permanent increase to core operating expenditure of \$11.3 million¹ by 2024/25 is a 46% increase of the current core operating expenditure, and a 12% increase of the total governance and market operations appropriation. As the sector embraces the challenges and opportunities from electrification, it is no surprise that this has impacts on the work programme and resourcing needs of the regulator.

Confidence in the funding need would be increased with more detail about the levy/work programme link. A breakdown of the components of the increase is provided in the consultation paper at a high level². We acknowledge there are additional activities for the Authority as a result of the Emissions Reduction Plan, the Electricity Industry Amendment Act 2022 and other reviews underway. It's difficult to comment more meaningfully about the trade-offs and value of activity without more detail. For example, information on how the additional costs have been calculated, the nature of specific costs within broad workstreams, the process to assess priorities within the work programme, or new activities vs existing work programme.

The consultation paper concludes that the benefits to consumers will outweigh the cost of the levy increase³. This is a great outcome that we're keen to support, though it's difficult to see this with the information provided. The description about the benefits to consumers of broad government and sector energy initiatives (for example benefits of Distributed Energy Resources and real-time pricing) do not provide an easy and attributable cost-benefit link to the proposed levy increase, and the benefits of the Authority's activities funded by that increase. We encourage the Authority to record and review costs (both for the Authority and other parties) as part of post-implementation reviews of the costs and benefits of its initiatives.

¹ Consultation paper, Table 1, page 19

² Consultation paper, Table 3, page 20

³ Consultation paper, Page 15

Changes in the Authority's activities require electricity distributor involvement for successful delivery. As an electricity distributor, Powerco plays a key role in enabling many of the Authority's initiatives. We encourage the Authority to indicate whether these activities require resource from distributors or any third parties. This is partly for planning, and partly because electricity distributors cannot apply to recover additional costs to deliver new or changed initiatives, for example as a result of the Emissions Reduction Plan. If these impacts are anticipated to be material, we encourage the Authority to engage with the Commerce Commission about how they are considered in the Commission's approach to cost recovery and efficiency analysis.

Our response on the consultation paper questions is provided in the attached table. If you have any questions regarding this submission or would like to talk further on the points we have raised above, please contact Irene Clarke (Irene.Clarke@powerco.co.nz).

Nāku noa, nā,



Andrew Kerr

Head of Policy, Regulation, and Markets

POWERCO

Consultation paper questions

Question	Powerco comment
1	What kinds of engagement have you or your organisation had with the Authority over the past 12 months? Powerco regularly engages with the Authority in formal processes and informal liaison.
2	The Authority is proposing a permanent baseline increase of \$0.500 million to the Electricity Industry Governance and Market Operations appropriation in 2022/23 bringing the total appropriation for 2022/23 to \$95.952 million. Do you support the Authority's proposal for funding of \$95.952 million? Powerco supports the Authority's proposal.
3	<p>The Authority is proposing a permanent baseline increase of \$7.308 million to the Electricity Industry Governance and Market Operations appropriation in 2023/24 bringing the total appropriation for 2023/24 to \$104.021 million. Do you support the Authority's proposal for funding of \$104.021 million?</p> <p>Note: The Authority is not seeking feedback on the funding received for real-time pricing or market-making in this process</p> <p>Powerco would support an increase that reasonably reflects changes required to the Authority's key activities within an overall work programme. However, information has not been provided to illustrate that this significant scale of cost increase is reasonable. A clearer link between calculated cost increases, activities to be undertaken with existing baseline and the increase, and benefit, is required.</p> <p>It is also not clear to what level the costs have been accounted for as part of specific workstreams (eg as part of the original cost-benefit).</p> <p>All of industry needs to work together to deliver on the right projects, with all parties accounting for costs and benefits. The level of detail and evaluation in forecast costs for the Authority, EDBs, and Transpower should be similar. For example, the level of information required to be provided to the Commerce Commission in Transpower's reopening process seems more onerous than what EA provide in the consultation paper⁴.</p> <p>We note a particularly significant increase in the operating expenditure for 'support function', and would expect a proposed increase to be nuanced according to the new or changed projects being supported, rather than a straight proportional increase for this support function budget.</p> <p>EDBs need to understand the flow on implication on their activities if the Authority proceeds with these changes. For</p>

⁴ Refer for example to the Commerce Commission draft decision on the Transpower IPP reconsideration for 2021-2022 TPM development and implementation costs, where forecasts for 2022/23 are not agreed in the draft decision due to a level of uncertainty in the forecasts. [Commerce Commission - 2020-2025 Transpower individual price-quality path \(comcom.govt.nz\)](https://www.comcom.govt.nz/price-quality-path)

Question	Powerco comment
	<p>example, what is the expected flow-through cost for Powerco with these changes and what is the arrangement for a flow-through to EDB allowances? We also note that the allocation methods used for EA levies (ICP numbers and kWhs) does not seem to reflect the nature of the additional costs or where the benefit falls. For example, reviewing a pricing methodology is independent of the attributes (ICPs, kWh) of the distributor, yet costs are allocated on this basis.</p>
<p>4 Would you support a further increase as signalled to funding for the Electricity Industry Governance and Market Operations appropriation for 2024/25 and outyears?</p> <p>Note: The Authority is not seeking feedback on the amount for the Electricity Industry Governance and Market Operations appropriation for 2024/25 and outyears in this consultation as this is pending the baseline review.</p>	<p>Future increases would need to be considered based on additional information provided at a future date. As for question 3, we would like to see information on the changes proposed to specific activities, a link to cost-benefit, and flow on implications for EDBs.</p> <p>Prior to future increases, we encourage the Authority to review and report on the costs and benefits of workstreams, or as a minimum, an interim or post-implementation review of the original cost-benefit analysis of initiatives to test the context for proposed changes.</p>
<p>5 Do you have any feedback on the current funding model for Powerswitch? Would you like to see an alternative funding model for Powerswitch?</p>	<p>The consultation paper does not include information on the actual cost to the Authority annually, or the effective cost passed on to consumers, or the Consumer NZ benefit. It would be timely to review the funding model to ensure Powerswitch costs and benefits are falling to the appropriate parties, while continuing to provide an independent comparison site which involves as many retailers as possible.</p>
<p>6 The Authority is proposing to maintain the contingent appropriation for Managing the Security of New Zealand's Electricity Supply from July 2022 to June 2027. Do you support the Authority's proposal for maintaining this contingent funding at its current level of \$6.000 million over five years?</p>	<p>Powerco supports maintaining the contingent appropriation at its current level.</p>
<p>7 The Authority is proposing the contingent appropriation for the Electricity Litigation Fund for 2023/24 and outyears is \$1.500 million. Do you support the Authority's proposal for maintaining this contingent funding?</p>	<p>Powerco supports maintaining the contingent appropriation at its current level.</p>
<p>8 Would you like to provide any other comment on the Authority's proposed 2022/23 or 2023/24 funding?</p>	<p>We encourage the Authority to consider and accommodate cost implications on EDBs in changing its work programme, and to engage with the Commerce Commission about effective cost arrangements for all parties involved in the Authority's work programme.</p>