

22 March 2019

Miriam Dean CNZM QC
Chair
Electricity Price Review Panel

Dear Miriam

Electricity Authority Electricity Price Review Options Paper submission

Thank you for the opportunity to submit our views on the Options Paper published by the Electricity Price Review panel in February.

In addition to the specific responses we have on the various options canvassed in the Options Paper (detailed in the attached submission), we have some general observations about the regulatory changes and initiatives proposed by the panel.

New Zealand operates a very dynamic regime under the current electricity industry regulatory framework. In many cases additional regulation may not be the right solution to the issues identified. Often, less interventionist measures may be suitable to achieve the desired outcomes. We have highlighted areas in our submission where we believe this is the case.

We also believe that there is still a need to clearly identify the problems that some of the actions suggested by the panel are intended to address. In particular, proposals to introduce Government Policy Statements on transmission and distribution pricing, mandatory market making, and consumer protection functions should be carefully considered in order to avoid implementing regulatory interventions that ultimately may work to the detriment of consumers.

The industry is continuing to evolve. The Authority agrees that there are areas where improvements can be made to the regulatory environment to help facilitate those changes while safeguarding consumers' interests. Proposed regulatory changes need to be carefully examined and worked through with relevant parties. There have been some notable examples in the past where policy initiatives have resulted in unintended or undesirable outcomes, such as the Low Fixed Charge Tariff Regulations and the development of Avoided Cost of Transmission payments.

We suggest that it would be useful for the panel to set a number of high priority goals for the Authority, with targeted timelines, to assist the Authority to prioritise the final suite of policy recommendations. This is similar to the approach used following the 2009 Ministerial Review of the Electricity Market, where a set of specific development programmes were listed in the Electricity Industry Act 2010 along with a target date for implementation. While the Authority already has a number of the panel's proposed initiatives in its current work-plan, consideration will need to be given to the provision of additional funding for the Authority if achieving the full suite of proposed changes within the desired timeframes is beyond the Authority's current capacity.

If you have any questions arising from our submission please contact Rory Blundell, General Manager of Market Performance. The Authority remains committed to assisting the panel where possible as the review proceeds.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J. Stevenson-Wallace', with a large, stylized flourish at the beginning.

James Stevenson-Wallace
Chief Executive

Electricity Authority submission on the Electricity Price Review Options Paper

A1: Establish a consumer advisory council

The Authority supports the proposed establishment of a consumer advisory council.

We think it is essential the council is independent, and is provided with sufficient resourcing to allow it to meaningfully contribute to policy development over the long-run.

The Authority could assist with the initial establishment of an interim council using the Authority's existing advisory-group governance framework. An inter-agency agreement could be used to determine the terms of reference and appointment criteria and process of appointing the initial council members. Once the council is set up we suggest it is transitioned to a Ministry of Business, Innovation and Employment (MBIE) administered and supported framework where appointments are made by the Minister.

There is a wide range of potential models that could be adopted. Overseas experience suggests that the panel should have extensive industry-expertise (acting as consumer advocates) rather than drawing on a pool of more general consumer representatives. An examination of approaches used internationally should provide useful guidance on an appropriate framework, and the Authority can provide advice based on our experience with our own advisory groups.

A2: Ensure regulators listen to consumers

The Authority believes it is not necessary to place an explicit statutory responsibility to consult electricity consumers. The Authority conducts formal, open, consultations as the part of the development process of any changes to the Electricity Industry Participation Code (Code). We would expect the proposed consumer advisory council to engage with the Authority through future consultation processes as well as through day-to-day interactions with the Authority and other regulatory agencies, and that it would improve consumer participation in our processes.

If there were concerns about the level of involvement of the council in rule making and policy development activities, this could be addressed though requiring the council (through its charter) to publish an annual report setting out its engagement with regulators, or alternatively, regular independent reviews could be undertaken.

B1: Establish a cross-sector energy hardship group

The Authority supports the proposed establishment of a cross-sector energy hardship group. Energy hardship needs to be considered in the wider context of community income levels and national welfare outcomes, and any measures aimed at addressing energy hardship concerns should be assessed across the full government social-policy framework.

B2: Define energy hardship

The Authority agrees that the identification of groups in need of assistance is a critical first step towards formulating effective initiatives to address energy hardship.

The Authority can provide assistance with understanding consumer characteristics that will help to focus assistance on those groups that require support. We are encouraging ongoing work by MBIE to integrate consumer-level consumption data into the Statistics New Zealand Integrated Data Infrastructure system to allow improved analysis of consumer profiles.

B3: Establish a network of community-level support services to help consumers in energy hardship

The Authority supports the establishment of a network of support services, using established social assistance and support organisations.

The Authority can provide advice on the process of setting up a network as we have previously undertaken similar work providing organisations such as budgeting advisory groups and social welfare agencies with training on tools to assist consumers to compare and switch retailer. We are working with FinCap to identify education/price comparison materials and support we can usefully provide.

B4: Set up a fund to help households in energy hardship become more energy efficiency

The Authority supports the establishment of an energy efficiency fund. We agree with the panel's suggestion that the Energy Efficiency and Conservation Authority (EECA) would be an appropriate body to administer the fund.

The Authority's view is that funding should be maintained via general taxation rather than increasing the electricity industry participant levy.

B5: Offer extra financial support for households in energy-hardship

No comment

B6: Set mandatory minimum standards to protect vulnerable and medically dependent consumers

It is important to understand the nature and scale of any problems with the treatment of vulnerable and medically dependent consumers before developing and introducing new code. We are not aware of any current systemic problems. We understand the ERANZ-led vulnerable/medically dependent consumer benchmarks are supporting improved outcomes.

That said, enhanced and more visible monitoring of retailer and distributor behaviours may prove sufficient to alter any concerning behaviours which may exist. A decision to impose mandatory

standards could ultimately be taken if other less-interventionist measures did not achieve satisfactory outcomes.

We recommend that ERANZ be asked to report on the outcomes of the current arrangements as an initial first step, with a view to providing recommendations to the Authority on any proposed changes to the current framework.

B7: Prohibit prompt-payment discounts but allow reasonable late payment fees

The Authority understands the panel's concerns about prompt payment discounts, but notes that that monitoring and enforcing the level of discounts or penalties may prove to be difficult and could well have unintended consequences. For example, a retailer could replace its prompt-payment discount by offering a discounted internet or gas service when bundled with electricity.

An alternative approach may be to ensure greater transparency of discounts or late-payment charges through a staged approach:

- 1) ensure that consumers considering switching have full access to discounts and penalty information on Powerswitch (Powerswitch currently includes discounts, and is looking to include other hidden costs such as break-fees)
- 2) the Authority could consider the development and publication of comprehensive regional-level information on all discounts/penalties to allow an easy nationwide comparison of retailer offerings, and
- 3) review at some later point whether the retailer responses (or lack thereof) to the resulting improvement in transparency necessitates a further regulatory response

B8: Explore bulk deals for social housing and/or Work and Income clients

The Authority supports agencies obtaining bulk retail deals for their clients. We recognise the importance of agents entering the market to provide new services and enhance competition. We know Housing NZ is exploring options to bulk-purchase electricity for its tenants, and the Authority has advised them that we are ready to assist if it experiences regulatory challenges. We are supporting parties like Housing NZ by facilitating access to data, eg, by standardising the process for agents to request consumer data.

C1: Make it easier for consumers to shop around

The Authority supports transferring the functionality of the WhatsMyNumber website to Consumer New Zealand's Powerswitch website in order to improve the ease of consumer switching.

We do not believe it is desirable to actively promote contestability into the provision of this service at this stage, as sites with undisclosed commercial agendas can undermine consumer and public confidence in all sites —Consumer New Zealand has demonstrated that it is able to successfully provide this service in the past, and possesses the necessary independence to credibly operate a publicly funded switching website.

The Authority will liaise with Consumer New Zealand to develop a service level agreement defining the scope of the services to be provided by Consumer New Zealand and associated funding. We note that the \$2.5 million spent annually on facilitating consumer participation by the Authority covers several projects. Only a small proportion of the total budget is required to cover the costs of operating the WhatsMyNumber and Powerswitch websites.

We do not favour the variation option of disclosing all 'generally available price offers. We agree with the panel's assessment of why this is not a preferred regulatory intervention.

C2: Include information on power bills to help consumers switch retailer or resolve billing disputes

The Authority supports consumers being able to readily obtain information to assist with decisions to switch retailer, and to assist with resolving disputes, through multiple channels.

The Authority considers that the consumer advisory council could provide valuable input into improving the information on power bills. We support more information being provided to consumers, but are conscious both of the strong consumer preference for simplicity, and the value in continuing to allow retailers to innovate in billing arrangements and payments.

C3: Make it easier to access electricity usage data

The Authority agrees it should be easier for parties to obtain electricity usage data, and is actively working to make this so. The efficient exchange of data is critical to the operation of the electricity market, maintaining a reliable electricity supply, and innovation and competition.

The Authority's position since 2011 is that usage data is owned by the consumer, and each consumer should be able to easily share that data with businesses they trust.

The first step to making it easier for parties to obtain electricity usage data requires developing standard terms used by parties which are exchanging data. We are currently developing standard terms for exchange of data between retailers and distributors (via the Default distributor agreement project) and between retailers and consumer agents (via the Additional consumer choice of electricity services project).

While we acknowledge the important of protecting consumers' privacy, we would also welcome any support from the panel regarding how to best move beyond the current environment where multiple interpretations of, and idiosyncratic approaches to, the Privacy Act significantly slow down the exchange of data.

C4: Make distributors offer retailers standard terms for network access

The Authority supports this option. Standard terms should ensure that participants wanting to provide services that use networks can do so in a workably competitive environment. The very recent Court of Appeal decision (March 13 2019) did not provide any clarity around the boundary issues between the Authority and the Commerce Commission with respect to the regulation of

network providers. We agree that it would be beneficial to amend the Electricity Industry Act 2010 to remove the current ambiguity in the Act.

C5: Prohibit win-backs

The Authority understands the concerns raised by the panel and some submitters about win-backs stifling retail competition and having adverse consumer impacts. However, we also recently received advice from our Market Development Advisory Group (MDAG) that there is no evidence of a market or regulatory failure associated with win-backs.

The Authority recognises the diverging perspectives regarding win-backs. We consider a regional-based trial/experiment would be a viable way to test the various hypotheses regarding win-backs, including obtaining robust information on how consumer groups are affected. The experiment would test whether a ban on win-backs would in fact result in better outcomes for consumers as a whole, and could be designed with input from both consumer representatives and new entrant retailers. A ban may actually encourage retailers to respond in ways that have a negative impact. For example, sales and marketing pitches may become less competitive because the retailer making the offer does not need to withstand a subsequent win-back challenge from the incumbent.

C6: Help non-switching consumers find better deals

The Authority does not consider this option is necessary.

We consider we can most effectively support non-switching consumers find better deals by facilitating the ability for retailers and energy services companies to attract and deliver services to these consumers.

Additionally, we are concerned the role would put the Authority in direct competition with retailers. Participation in the retail market by the Authority is a directly distortionary intervention that is likely to have unforeseen consequences. The Authority's view is that we should continue to act in an educational role rather than compelling or facilitating consumers to switch if they have not done so for an extended period of time.

As was noted under option C3 above, the Authority is continuing to progress work that will facilitate independent agents seeking and offering bulk deals to interested consumers.

C7: Introduce retail price caps

The Authority does not support this option. We agree with the panel's assessment that this option would cause more harm than good.

D1: Toughen rules on disclosing wholesale market information

The Authority supports this option and is working in close cooperation with the GIC on gas disclosure improvements.

D2: Introduce mandatory market-making obligations

The Authority agrees that the current voluntary arrangements for market making are resulting in wide spreads on the ASX screens during periods of high forward-price volatility. As noted in submissions, this has raised concerns from some market participants about the affordability of hedges, and more generally about the fragility of the current forward contract market arrangements.¹

The Authority has had provisions in place since 2011 to facilitate an urgent Code change to impose mandatory market making should the Authority come to the view that it is necessary to do so for the continued long-term viability of the futures market. If the Authority does introduce mandatory market-making by urgent Code change, it is required to go through a full review process within nine months or it will expire.

While the Authority can introduce mandatory market making under urgency, it is also aware there is a serious risk of unintended consequences arising from interventions in this area where the implications of changes in trading arrangements have not been fully worked through. At worst, blunt mandatory market making requirements could threaten the viability of a market maker.

Similarly we caution against any immediate assumption that incentivised market making is the best solution. About 18 months ago the Authority encouraged ASX to work with the current market-makers to consider an incentive scheme to support market-making. While progress has been made by ASX, the potential cost of that scheme to consumers could be substantial. Based on conversations with the Singapore EMA about its new incentive-based scheme (which we estimated as approximately NZ\$16m per year), and taking account of the much greater volatility in New Zealand and the significance of dry-year risk, the costs for a similar New Zealand based scheme could be significantly higher, which would ultimately be funded by consumers. If so, this is unlikely to pass a cost benefit appraisal, given that the counterfactual is an improved and/or mandatory version of the current arrangements.

With these points in mind, we are currently talking to market makers to better understand whether any immediate improvements can be made to voluntary market making arrangements to improve confidence in them in the interim.

At the same time we acknowledge the need to more comprehensively assess all possible market making arrangements (including mandatory, incentivised, and a combination of both) as a priority, to ensure that the most effective and durable solution is put in place. That assessment would also include:

¹ We note, by way of contrast however, that open interest, a measure of the number of active contracts on the ASX that are not offset by other counterbalancing contracts, rose to a new all-time high in the spring of 2018, indicating that new contracts were being established during that period. They have continued to rise subsequently. Open interest in March 2019 is nearly 50% higher than it was the middle of 2018 and nearly 3 times the level the 2009 Ministerial Review suggested was the absolute minimum necessary to have a “viable” hedge instrument.

- 1) Considering whether to define 'portfolio stress', and be public and transparent about the point where the obligation to provide minimum buy/sell spreads on the screen is relaxed
- 2) Considering whether to introduce a regular daily report be published about on screen market-maker performance and actual deals done
- 3) Reviewing the number of market-makers: the market has developed considerably since the original CBA that drove our recommendation to have four market-makers
- 4) Making information about supplies of gas be made as transparent as practicable, with the Authority working with the GIC to facilitate the full disclosure of gas information. The EPR's assistance with this would be appreciated.

The rationale for the first proposal is that it will clarify for all parties the obligations of market-makers and facilitate ensuring these are observed.

The current market-makers have expressed the view for some time that other vertically-integrated generator-retailers, such as Trustpower, Todd and Pulse/Pioneer, should also be market-makers, in order to reduce their advantage at times of market-stress.

D3: Make generator-retailers release information about the profitability of their retailing activities

The Authority does not support this option.

Segment reporting of vertically-integrated organisations is highly subjective, relying on such things as arbitrary accounting allocations, and estimating the costs of risk management—which will vary from firm to firm and change through time. As a result we consider that the proposed regulatory solution is unlikely to improve transparency or enhance market confidence.

The Commerce Commission has some experience with the difficulties involved with exploring the reporting separation of functions within the telecoms industry. We recommend the panel talk to the Commerce Commission about the issues that arose during that process.

D4: Monitor contract prices and generation costs more closely

The Authority supports this option, although we note that the exercise is not well-suited to identifying excessive profits by generators.

The monitoring of contract prices and the cost of generation has generally been limited to individual reports focused on specific regulatory issues (for example the review of fixed price variable volume contracts published in 2018), rather than a periodic review of generation costs.

While the actual cost of building large-scale generating plant can often differ significantly to published generic plant costs, tracking the costs of new-generation may provide a useful benchmark for planning and market design purposes.

D5: Prohibit vertically integrated companies

The Authority does not support this option. We agree with the panel's assessment that it is unnecessary given other initiatives aimed at improving the forward contract market.

E1: Issue a government policy statement on transmission pricing

While the Authority does not think that it is necessary to introduce a government policy statement (GPS) on transmission pricing, if one is to be developed it should have three characteristics:

- 1) It must be short
- 2) It should promote efficient grid-investment and grid-use outcomes
- 3) The instructions in the GPS should be very clear and unambiguous with respect to the direction being given on the form of the desired pricing methodology. We suggest that direction be provided on issues that focus squarely on policy aspects that may also have potentially controversial distributional consequences, such as the recovery of the cost of historical assets.

It is important that the cost and benefit implications of instructions incorporated into a GPS be transparent (that is, how instructions could result in more or less efficient investment, or how they would yield better environmental impacts). The draft GPS proposed by Transpower in its submission on the panel's first report contains aspects that are at clear odds with promoting efficient transmission investment. In this regard we acknowledge the variation to this option suggested by the panel. If the Government has a strong view on an aspect of transmission pricing that potentially conflicts with the Authority's statutory objectives, the Government may need to change the Act to ensure that view is implemented. Otherwise, issuing a GPS could unintentionally increase uncertainty.

E2: Issue a government policy statement on distribution pricing

While the Authority does not think that it is necessary to introduce a GPS on distribution pricing, if a GPS is developed it may be beneficial to include some guidance on pricing reform. It would be useful for example to reinforce the urgency of distributors addressing their individual pricing frameworks, to provide for a suitable transition for consumers that may otherwise experience 'bill shock', or clarify to what extent pricing may reflect locational differences in costs.

As was noted in our feedback on a GPS on transmission pricing, any GPS should be short, promote efficient network investment and use, and should be clear and unambiguous with respect to any pricing guidance.

E3: Regulate distribution cost allocation principles

The Authority does not support this option.

The EPR panel's technical paper in August 2018 found that cost allocation between residential and business consumers appeared to be subsidy free. Provided that distributors are not deliberately cross-subsidising consumers (and pricing methodology documents indicate distributors are not

doing so), distributors should be allowed to retain the flexibility to adapt their costing and pricing approaches to the needs of their individual networks. We intend to monitor the methodologies and pricing adopted.

E4: Limit price shocks from distribution price increases

The Authority agrees with the concern the panel is raising, but does not support this specific option.

Distributors are very aware of the need to limit price shocks to customers. To avoid the risk distributors do not act, the Authority is encouraging distributors to develop transition plans when reviewing their pricing structures. Regulation of price shocks is unnecessary at this time, and could potentially create a conflict between the roles of the Commerce Commission and the Authority with respect to the regulation of price levels.

E5: Phase out low fixed charge tariff regulations

The Authority recognises that retailers and distributors are critical of the Low Fixed Charge (LFC) tariff regulations and the impact it has on their pricing options. Given the urgent need to reform distribution pricing structures we support the relaxation of the current regulations to help facilitate pricing improvements.

E6: Ensure access to smart meter data on reasonable terms

The Authority supports this option.

A default data sharing agreement between distributors and retailers is part of the default distributor agreement work currently underway. We understand the draft agreement is acting as the basis for negotiations between parties, and we expect it to be refined as a result.

The Innovation and Participation Advisory Group is currently considering data access. If regulatory changes are required, one approach may be to establish standard terms and conditions for metering equipment providers.

E7: Strengthen the Commerce Commission's powers to regulate distributors' performance

No comment

E8: Require small distributors to amalgamate

The Authority does not support this option. We agree with the panel's view that more contracting and collaboration between distributors will help to improve outcomes for consumers.

E9: Lower Transpower and distributors' asset values and rates of return

No comment

F1: Give the Electricity Authority clearer, more flexible powers to regulate network access for distributed energy services

The Authority supports this option. Updating the legislation to provide the Authority with more flexible powers to regulate network access for distributed energy services is a prudent risk management approach. The proposed changes represent an extension of the existing 'ring-fencing' arrangements which are being tested by technology-driven change to the sector, and would provide orthodox regulatory tools available to market regulators in Australia and the United Kingdom should the Authority need them in future. This is preferable to Authority having to seek a time consuming legislative change once it becomes aware of a problem.

F2: Transfer the Electricity Authority's transmission and distribution related regulatory functions to the Commerce Commission

The Authority does not support this option for the reasons set out by the panel.

F3: Give regulators environmental and fairness goals

The Authority agrees with the panel's view that giving the Authority and Commerce Commission environmental and fairness goals is not desirable.

We consider an explicit consumer protection function is necessary only to the extent there are gaps in the existing arrangements, including the Authority's powers relating to consumer/supplier interactions (eg, minimum terms and conditions for domestic contracts), the Fair Trading Act (administered by the Commerce Commission) and the ombudsman scheme operated by Utilities Disputes. If there are no gaps, then including a wider consumer protection role in the Authority's functions will create an unneeded duplication of functions.

F4: Allow Electricity Authority decisions to be appealed on their merits

The Authority does not support this option. We agree with panel's assessment that the potential costs associated with merits reviews outweigh any potential improvements in regulatory accountability.

F5: Update the Electricity Authority's compliance framework and strengthen its information-gathering powers

The Authority supports this option.

Regardless of where the compliance function is located organisationally, the function needs to be strengthened to provide a more effective tool to influence participant behaviour.

There are a number of steps that could be taken to improve the current framework. For example, it would be preferable to move the administration of the Rulings Panel to an agency other than the Authority (such as the Ministry of Justice) in order to avoid potential conflicts of interest.

With respect to the potential separation of compliance, monitoring and rule making functions, we note that there are a number of benefits associated with having the three functions within the same organisation such as improved cross-functional understanding and communication (accepting the need to avoid conflicts of interest), and a better aggregate ability for the regulator to provide compelling performance incentives to sector participants. Separation of these functions would also introduce additional administration costs associated with managing them as separate entities.

F6: Establish an electricity and gas regulator

The Authority supports the conduct of a preliminary review to understand if there is a material benefit in moving to a joint electricity and gas regulator.

Our initial reaction is that there are unlikely to be major cost savings given the relatively small size of both organisations. The two organisations already interact through a number of channels. Most of the potential benefits of a full merger could likely be realised through increased co-ordination and information sharing between the two regulators.

G1: Set up a fund to establish more innovation

The Authority is neutral towards this option, although we would note that there are already a number of funds design to support innovation across a range of industries (examples are the Callahan Innovation fund and the Provincial Growth Fund).

G2: Examine security and resilience of electricity supply

The electricity industry is likely to see some significant shifts over the coming decades as a result of changes arising from technical innovation and environmental drivers. Continually reviewing market arrangements to ensure that security and reliability outcomes are maintained remains a top priority for the Authority, as required by our statutory objective.

The Authority is continually monitoring security and reliability as part of its day-to-day activities. We conduct investigations into, and report on, specific security and market events (the Winter 2017 review for example) in order to highlight any potential improvements to market and operational arrangements. The Authority also acknowledges the important role the Security and Reliability Council plays in this area.

A number of substantive reviews have been conducted by various agencies over recent years. Before undertaking further reviews it may be useful for the panel to familiarise itself with the insights from published material and identify potential gaps. This would help sharpen the focus of any subsequent review and avoid duplicating effort.

The Security and Reliability Council (SRC) has written to the Authority outlining its response to the review proposed by the panel. A copy of the letter is attached as an Appendix to this submission. The SRC is supportive of the review, but noted that the scope of the review will need to be clearly set, and appropriate resources made available for its conduct. The Authority agrees with this response.

G3: Encourage more co-ordination among agencies

The Authority supports this option and is happy to engage with other agencies through either formal inter-agency bodies or directly through formal/informal bilateral arrangements. The Authority already has strong relationships with other relevant government and industry organisations, but welcomes opportunities for increased engagement where this can usefully contribute to wider regulatory and policy outcomes.

G4: Improve the energy-efficiency of new and existing buildings

No comment

Appendix: Security and Reliability Council letter to the Electricity Authority (advice on EPR option G2)

15 March 2019

Dr Brent Layton
Chair
Electricity Authority
PO Box 10041
Wellington 6143

Dear Brent

Advice on the Electricity Price Review's option G2

As you are aware, the Expert Advisory Panel to the [Electricity Price Review](#) have released the [second phase of their review](#) for consultation. Among the many options discussed, the Panel favours an option (option G2) to examine security, reliability and resilience of electricity supply in a way that involves the Security and Reliability Council (SRC).

“The Minister of Energy and Resources would ask the Electricity Authority to conduct a thorough review of the security, reliability and resilience of the electricity supply, in response to the range of technological and other developments that, as noted in our first report, have the potential to profoundly alter the way the electricity sector works. A review would examine whether the electricity supply was positioned to meet those challenges in the decades ahead.

The Electricity Authority would assign the task to the Security and Reliability Council to complete within 12 months. The review should include the Council's own terms of reference and work programme; Transpower's policies and procedures for risk monitoring (as system operator responsible for managing the power system and operating the wholesale electricity market); the Electricity Authority's market development work programme and market performance monitoring functions; and other relevant matters, including matters overseen by agencies such as the Commerce Commission and Gas Industry Company.

Some submitters said security of supply should not be taken for granted, particularly in light of the many uncertainties facing the sector. Others emphasised the need to focus less on security and more on resilience. We think both are important.

We favour this option.”

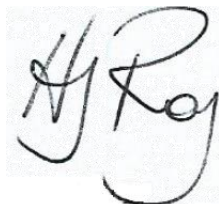
Source: Page 35 of the Electricity Price Review options paper, 18 February 2019

The consultation closes on 22 March. As we are not due to meet until the week after this, the SRC have urgently discussed option G2 so that I can provide this letter of advice. We would like the Electricity Authority to include it and consider it as part of its submission to the Electricity Price Review.

The SRC's advice to the Electricity Authority on this topic is that:

- The SRC is supportive of option G2 and willing to assist.
- For a high-quality outcome to be achieved, the scope, timeframe and resourcing of this project would need to be aligned.
 - At the moment, the scope is not well defined. For the 12 month timeframe to be achieved it is vital that the scope is set clearly and commensurately.
 - If the scope is to be broad it is vital that the project has sizable resources allocated to it. We consider it is likely that expert analysis and secondary research of relevant foreign electricity markets will be an important part of the resourcing for this project. Currently this resource is not available to the SRC.
 - There may be some merit in considering greater flexibility with scope and timing. Aside from smoothing resource requirements, it could also give time for Government climate targets to be set as a result of Interim Climate Change Commission reporting.

Yours sincerely

A handwritten signature in black ink, appearing to read 'H Roy', is placed over a light grey rectangular background.

Heather Roy

Chair of the SRC

cc: SRC members, Rory Blundell (Electricity Authority)