

The Future Direction and Focus for The Electricity Authority

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Chief Executive



Focus

Statutory Objective

Promote competition in, reliable supply by, and the efficient operation of, the electricity industry **for the long-term benefit of consumers**

There is no reference to

- Fairness or environmental sustainability
- Promoting or facilitating efficient use of electricity
- Specific objectives

Focus

Core Functions

- Contract for market operations
- Enforce the Code, Regulations & Act
- Develop the Code & market facilitation measures
- Pro-actively monitor and investigate market performance

Focus

SOI Outcomes

1. *Competition*: Widespread confidence in the competitiveness of NZ electricity markets
2. *Reliability*: Widespread acceptance of efficient levels of reliability across the 'supply chain'
3. *Efficiency*: Widespread recognition that NZ electricity industry efficiently coordinates production and consumption and facilitates timely and innovative investment

Focus

Clarity

Interpretation of the Authority's Statutory Objective

- *Competition*
 1. What do we mean by competition?
 2. In what ways does competition benefit consumers?
 3. What is the significance of focusing on the long-term benefits to consumers?
 4. When do we know we have enough competition?

- The same types of questions arise for reliability of supply and efficient operation of the electricity industry

Focus

Clarity

Interpretation of the Authority's Statutory Objective

Competition

1. What do we mean by competition?
2. In what ways does competition benefit consumers?
3. What is the significance of focusing on the long-term benefits to consumers?
4. When do we have enough competition?

Draft Answers

1. Workable or effective competition
2. Through efficiency gains (& ignore wealth transfers?)
3. Consumer and producer interests are aligned ... focus on barriers to entry, exit, & innovation
4. More competition is always better

Focus

Clarity

Interpretation of the Authority's Statutory Objective

Reliable Supply

1. What do we mean by reliable supply?
2. In what ways does reliable supply benefit consumers?
3. What is the significance of focusing on the long-term benefits to consumers?
4. When do we have enough reliability?

Draft Answers

1. Reliability of supply & security of supply
2. Avoid the cost of supply interruptions, quality degradations
3. Arrangements need to be robust to large adverse events to minimise investor uncertainty
4. When $MB = MC$

Focus

Clarity

Interpretation of the Authority's Statutory Objective

Efficient Operation

1. What do we mean by efficient operation?
2. In what ways does efficient operation benefit consumers?
3. What is the significance of focusing on the long-term benefits to consumers?
4. What efficiencies are 'out of' scope?

Draft Answers

1. It's a 'catch all' requirement
2. When the efficiency gains are shared with consumers
3. Need to take into account incentives for investment and innovation
4. Exclude pan-industry externalities

Focus

Clarity

Discipline

Code Amendment Principles (CAPs)

Core principles

1. Lawful and consistent with Authority's objective, powers & functions
2. Clear problem identification
 - Efficient multilateral contract
 - Market or regulatory failure
3. Emphasis on quantitative cost-benefit assessment (CBA) of contribution to the Authority's statutory objective

Focus

Clarity

Discipline

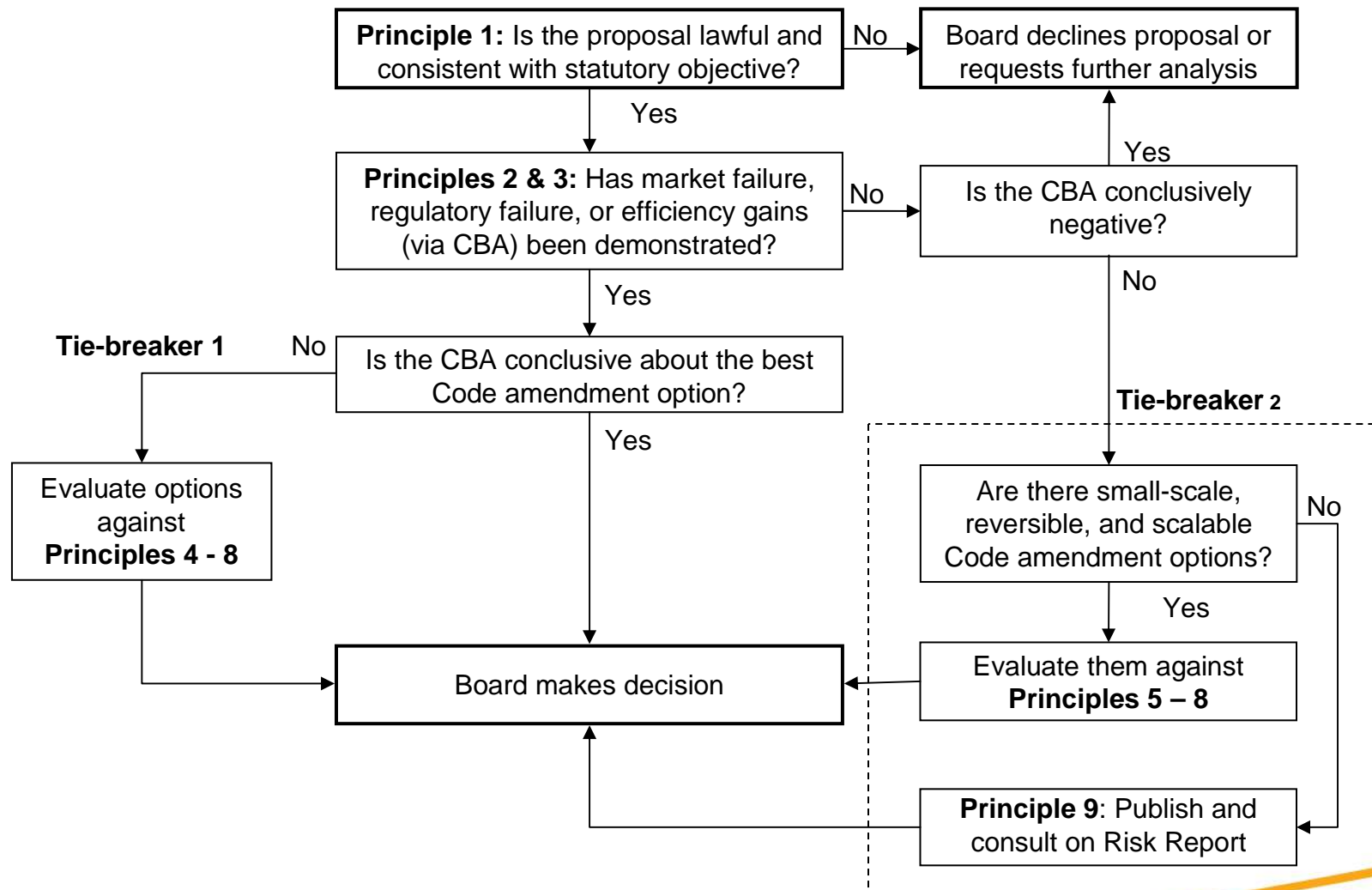
Code Amendment Principles (CAPs)

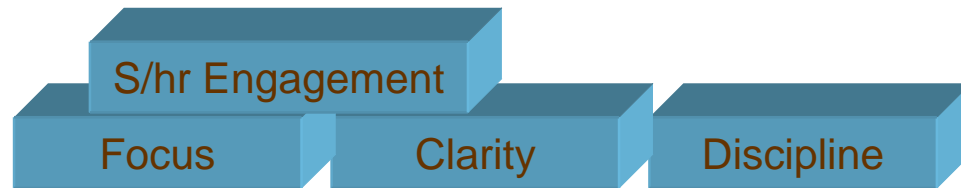
Tie-breaker principles

1. What if the CBA is inconclusive about which is the best option?
2. What if the CBA is inconclusive about whether a Code amendment is net positive or negative?
 - If there is a small-scale, reversible, scalable option then do it, monitor it, and adjust accordingly
 - If not, do **risk report**



The CAPs

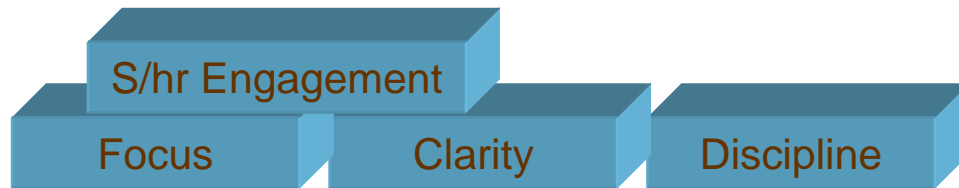




Consultation charter

- Covers processes for amending the Code
- Covers processes for consulting on proposed Code amendments

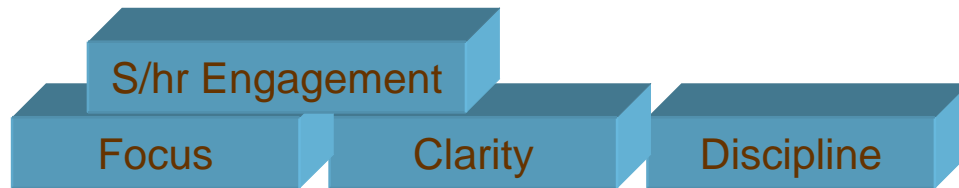




The Security and Reliability Council (SRC)

- The Act states it will provide independent advice to the Authority on
 - The performance of the electricity system and System Operator
 - Reliability of supply issues
- We see it as having a strategic advisory role
 - But it won't be directly involved in Code development
 - Nor will it have directing rights over the System Operator





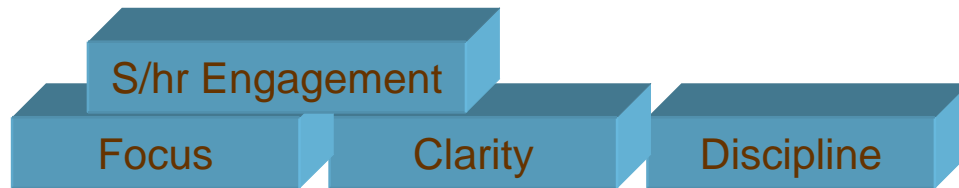
Advisory Groups

- The Act states the Authority must establish one other advisory group, in addition to the SRC

- We are proposing to establish three other standing AGs to develop the Code
 - Wholesale
 - Transport
 - Retail

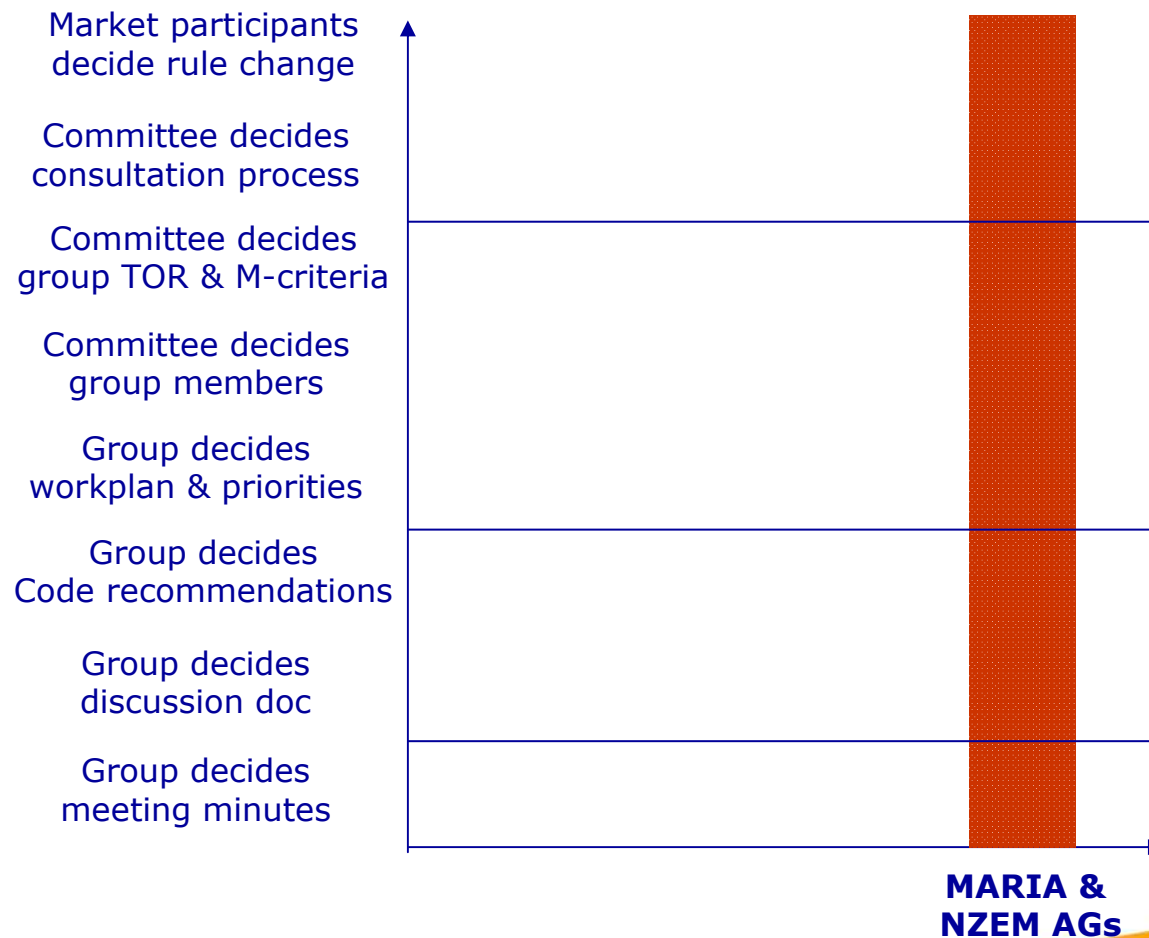
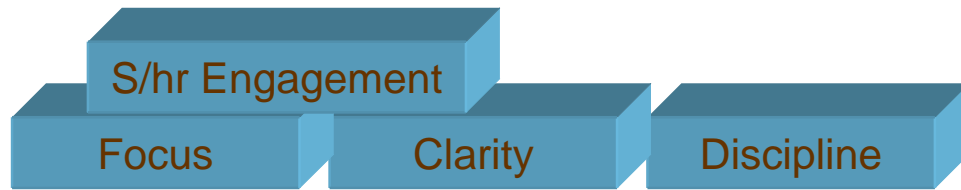
- There is also provision to establish ad-hoc AGs

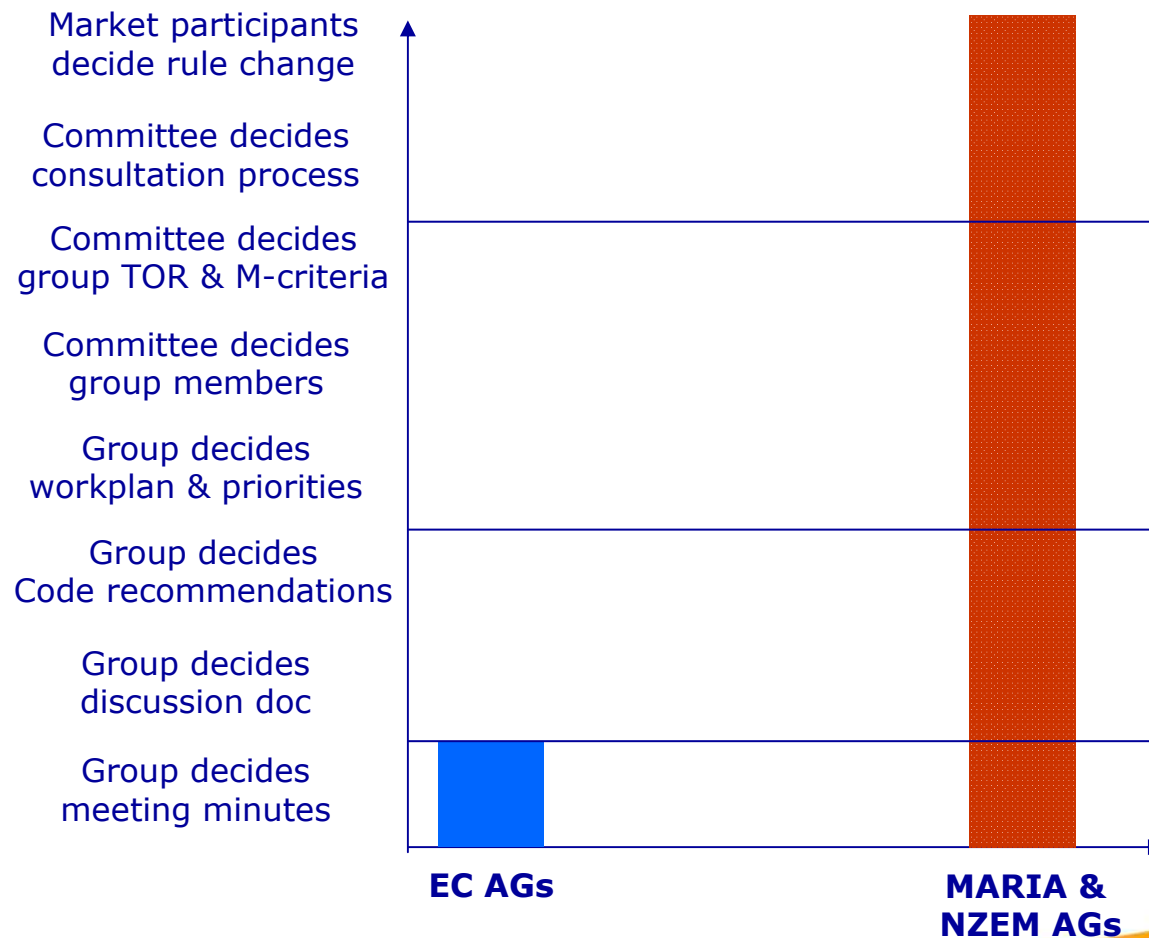
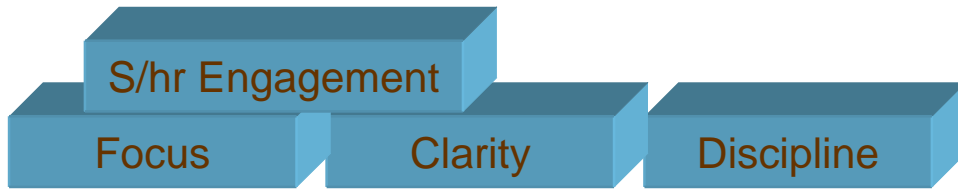


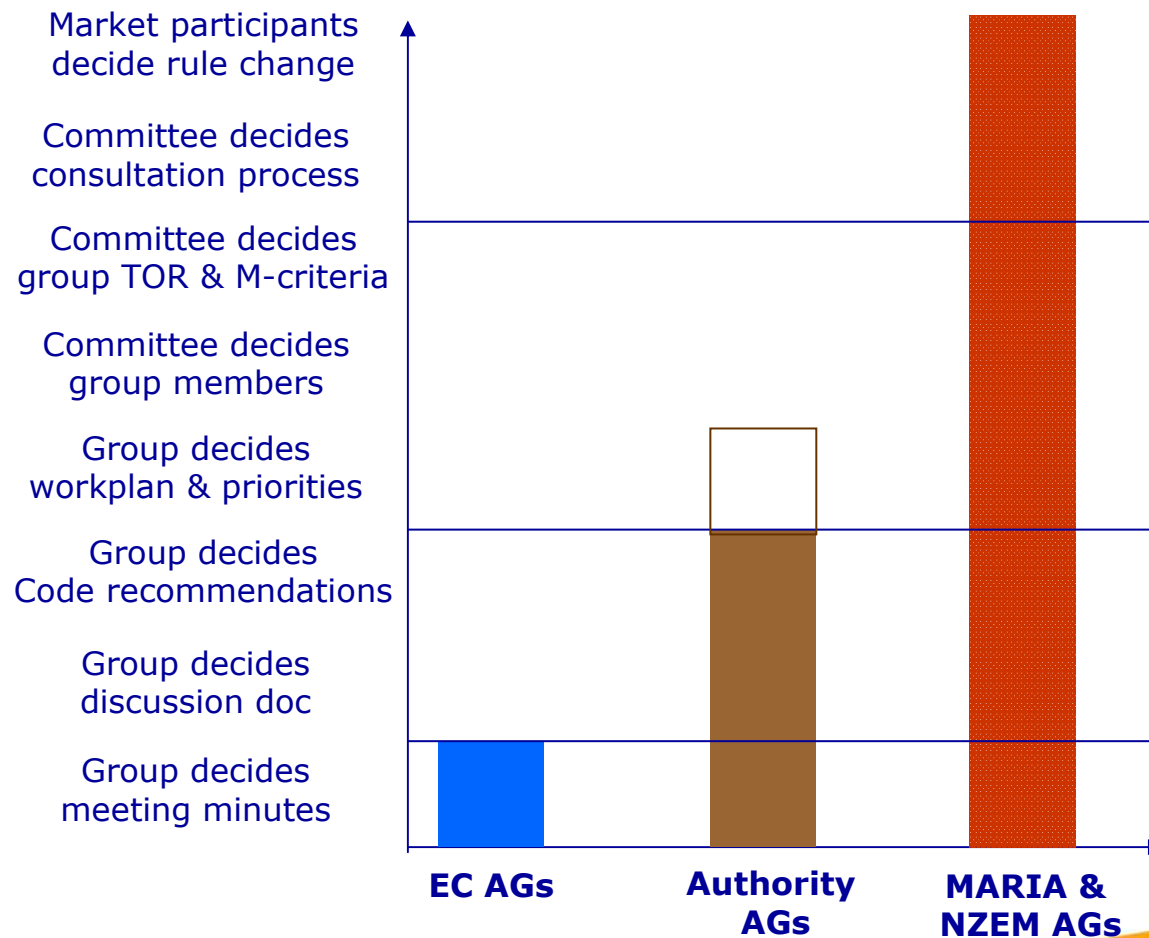
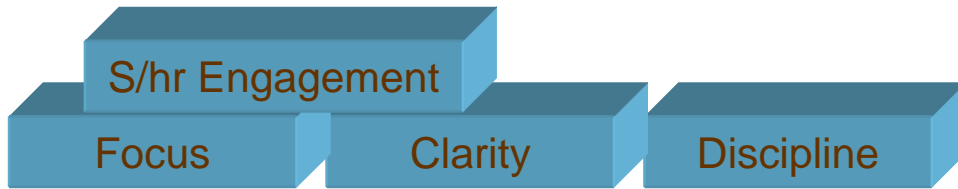


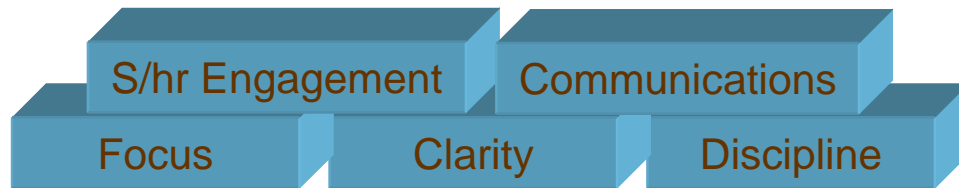
Advisory Groups

- Their primary focus is on reconciling divergent views and interests
 - Strongly encouraged to provide consensus recommendations to the Board
 - Recommendations must be consistent with statutory objective and the CAPs
- Their membership covers strategic, commercial, regulatory knowledge and expertise
 - They can establish working groups to provide specialist or technical expertise (joint decisions with Authority)





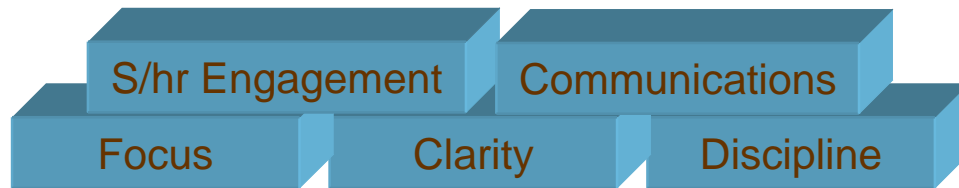




The Authority is an independent Crown entity

- Our job is to look after the long-term interests of consumers ... essential that they understand what we can do for them
- We can promote greater competitive pressure ... but we can't guarantee lower prices
- We can promote more efficient reliability ... but we can't tell hydro generators when to use their water
- We can promote more efficient operation of the electricity industry ... but we can't tell parties when, where & what to produce, consume and invest in



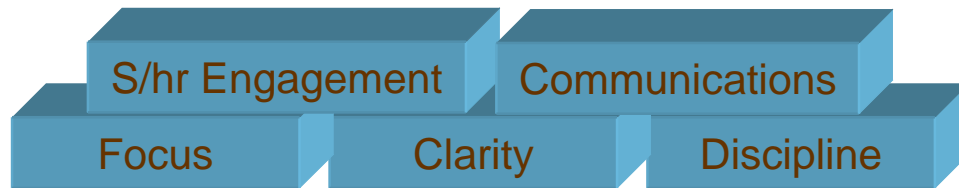


Competition and reliable supply

- Our initial media focus has been on competition
 - Establishing the consumer switching fund
 - Establishing pro-active market monitoring function

- But this is not intended to diminish the importance of reliable supply ... in reality they are intertwined issues
 - Concerns about price gouging when supply is tight
 - Concerns about hydro usage as only a few players involved
 - Initiatives to address security of supply problems carry implications for competition, and vice versa





Competition versus reliable supply

- Some have suggested we give primacy to reliable supply
- But competition is important for delivering long-term benefits
 - Confidence in pricing outcomes is essential to avoid a slide back to regulated prices and tariffs, and centralised decisions about entry and exit
 - Competition spurs innovation ... innovation delivers permanent wealth gains for consumers
- Perceptions about supply reliability are equally important for maintaining confidence in the electricity system





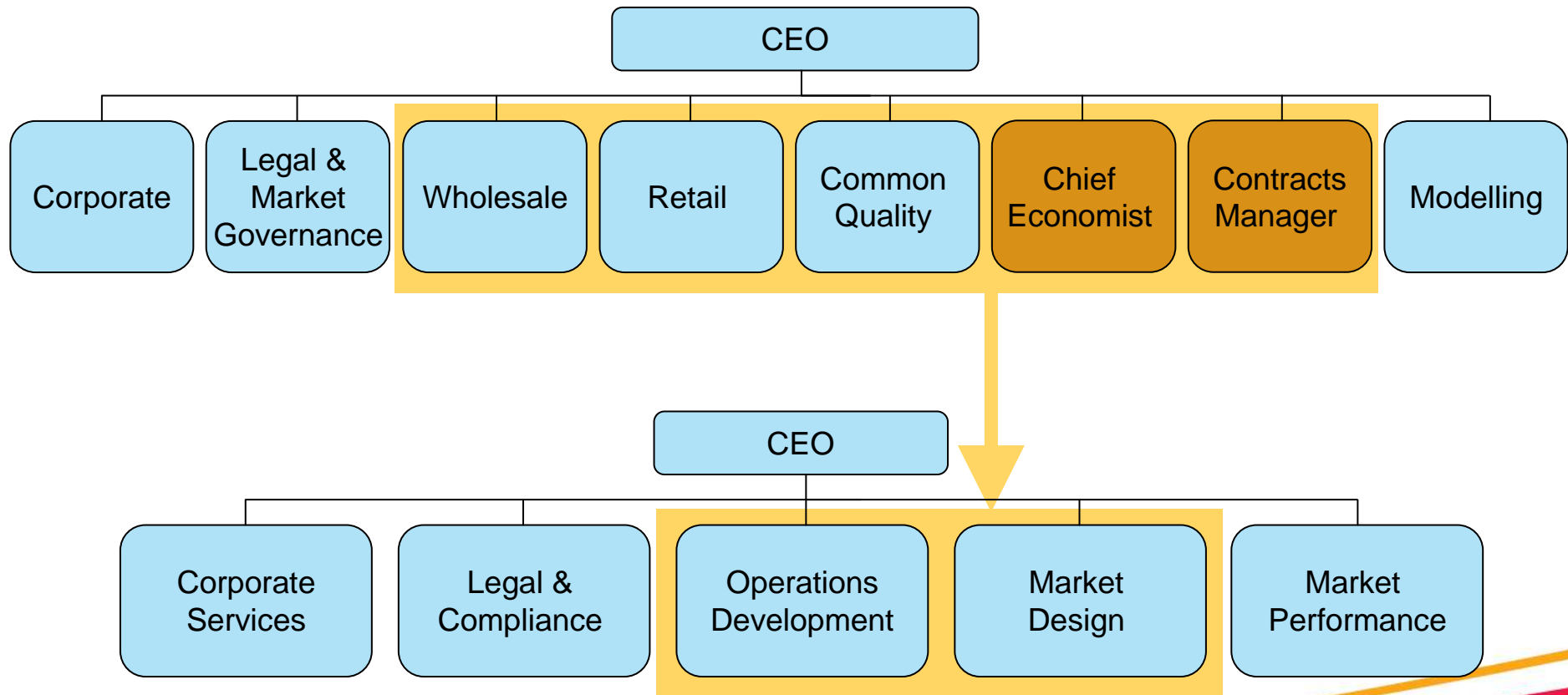
New functions

- Consumer switching fund (3 years only)
- Pro-active market monitoring
- Expanded compliance role
 - Now covers Act and regulations
 - Prosecution of Act breaches through the courts
 - Authority's market administrator role now subject to Code breaches
- Undertake inquiries, including when requested by Minister





New skills and structure





Vision

To be recognised as a world-class electricity regulator





Performance Framework

- Inaugural SOI presents three outcomes
 - Competition, reliability and efficiency
- The next SOI will outline
 - Initial outcome indicators ... both perceptions and actual performance
 - Impact indicators ... how our work affects those outcomes





Our Aim is to improve market performance and increase consumer and investor confidence in the sector

Greater regulatory
certainty & predictability

Greater stakeholder
'buy in'

Greater productivity





Questions?

