



MAJOR ELECTRICITY USERS' GROUP

31 January 2006

Jenny Walton
Electricity Commission
By email to info@electricitycommission.govt.nz

Dear Jenny

Submission on proposed 2006/07 appropriation

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Commission (the "Commission") consultation paper Proposed Request for Appropriation for the 2006/07 Financial Year released 22 December 2005.

Comments on the consultation process

2. This is the second year the Commission has consulted on the proposed appropriation for the forthcoming year and several improvements to the process are welcome, eg the pre-consultation on big-picture issues and publication of some additional detail of historic and projected expenditure.
3. MEUG and other submitters last year suggested a number of other changes to improve transparency and accountability that have not been adopted by the Commission, eg
 - a) Expected current year (2005/06) outturn (paper only publishes 2005/06 budget)ⁱ;
 - b) Publishing more detail on proposed activity costsⁱⁱ; and
 - c) Performance indicators attached to each "Key" and "Other" Proposed Activity so that the Commission is held accountable for outputs rather than simply expenditure inputsⁱⁱⁱ.
4. It would be useful to understand why the above information has not been provided by the Commission otherwise the same comments will be repeated in next years draft budget consultation round. Perhaps these changes will be made for the consultation round next year or perhaps the Commission believes the suggested improvements are unrealistic. Either way it would be helpful for the Commission to clarify and explain its position.

Detailed comments on work priorities and draft appropriation

5. Appropriation for the Whirinaki contract should be either the most accurate figure known when the budget is finalised or the upper range of possible outcomes. At present this would lead to an appropriation of \$25m (paragraph 13) rather than carrying over the original voted, but now known overstated budget of \$29.333m. If the Commission were voted this additional \$4m excess over expected costs, then it could seek to use the "saving" in Whirinaki contract costs to offset other cost increases. The Commission is concurrently consulting on exactly this approach for a proposed funds transfer within the existing 2005/06 appropriation. MEUG do not agree with excess funding being appropriated for Whirinaki contract costs (or any other activity) that has the purpose of being a contingency "saving" offset for cost overruns in other work streams.

6. Other proposed activity (i) in the Transmission Workstream (p20) is to “*manage the interaction between Transpower and the auditor appointed to audit Transpower’s published prices.*” There is a risk final transmission prices as invoiced are subsequently found to be incorrect because of an inadequate audit process. This would affect both the cash flow of parties paying for transmission services and the integrity of the Commission. In the view of MEUG this is a key risk that should be avoided and hence the activity should be a Key Activity not an “other proposed activity.”
7. Other proposed activity (iii) in the Transmission Workstream (p20) is to “*monitor implementation of new transmission framework investment, eg GIT and GRS, and refine as appropriate.*” Improving investment decisions for transmission and transmission alternatives by regulators and market participants is high priority^{iv}. The performance of the Commission in implementing Part F will be monitored very closely by affected parties, the public and politicians. The Commission therefore should have as a priority to review whether the Part F framework for investment has scope for improvement. In the view of MEUG this is a Key Activity not an “other proposed activity.”
8. MEUG suggest the following additional Key Activity for the Security of supply workstream (p20):

“To investigate in detail the NZIER *Market Design Report* proposal for^v, “*the introduction, by voluntary agreement with retailers, of contracts aimed at consumers which have them responsible for some of the management of dry-year risk in return for lower prices in other years.*”
9. Compliance with low fixed charge tariff regulations is covered as a Key Activity in the Market Governance workstream (activity (iv) p27) and in the Retail Market and Distribution work stream (activity (iii) 3rd bullet point (p24)). This may be an unintended duplication.

Yours sincerely



Ralph Matthes
Executive Director

ⁱ This suggestion made on last years draft appropriation consultation (MEUG submission 12 May 2005), paragraph 2 (b)

ⁱⁱ Ibid, paragraph 2 c) i), ii)

ⁱⁱⁱ Ibid, paragraph 6

^{iv} Transmission investment is one of the four priorities specified in the GPS, October 2004, ie the end sentence of paragraph 122 and bullet point 2 state, “In terms of Government’s high level expectations, priority should be given to ... Working with Transpower and grid users to facilitate priority investment in the grid.”

^v NZIER, report to the Electricity Commission, Market Design Report: The Way Forward?, August 2005, section 6, 3rd bullet point, p46