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Dear Carl

2011/12 Appropriations and Work Priorities

Business New Zealand is pleased to have the opportunity to provide a submission to the Electricity Authority on its consultation paper entitled 'Proposed Appropriations and Work Priorities for the 2011/12 Financial Year' dated 22 November 2010.¹

Introduction

The success of the Electricity Authority, in the eyes of its stakeholders, will essentially boil down to two key facets, these being what it does, and how much it costs. The former has largely been addressed in the disestablishment of the Electricity Commission and the creation of the Electricity Authority with a new objective statement and set of priorities.

This consultation process is the first opportunity for the Electricity Authority to assure its stakeholders that not only is it delivering the right outputs, but that it is offering value-for-money in doing so. The Electricity Commission was to its ultimate cost consistently unable (and in some eyes, deliberately unwilling) to do this.

BusinessNZ acknowledges that "this consultation paper includes only high level information regarding the Authority's appropriations, as it has only recently come in to being."² The inadequacy of the information provided can be justified on this basis. However, it is crucial that the Electricity Authority

¹ Background information on Business New Zealand is attached in Appendix One.

² Electricity Authority consultation paper entitled 'Proposed Appropriations and Work Priorities for the 2011/12 Financial Year', dated 22 November, 2010, page 3, paragraph 4.

move to deliver on its promise of greater transparency. To this end, BusinessNZ considers it imperative that the Electricity Authority make substantial improvements in future to the nature of the information provided and urges the Electricity Authority to be more open and transparent in its dealings with stakeholders when seeking views on the ‘value-for-money’ of future appropriation requests. This is not an unreasonable request in the difficult financial times being faced by those who will ultimately cover the costs of the Electricity Authority – end-consumers.

A number of suggestions are made for future appropriation consultations in this regard which BusinessNZ considers are consistent with the new open and transparent approach that the Electricity Authority has been signalling it will take. BusinessNZ is happy to work constructively with the Electricity Authority as it develops and implements these suggestions.

The Basis of the Requirement to Consult

The requirement to consult on the Electricity Authority’s appropriation is seen by BusinessNZ as a crucial bulwark to the Electricity Authority’s ability to otherwise determine its work programme (and therefore level of expenditure) in a manner otherwise unfettered by stakeholder input.

Implicit in such an obligation being imposed on the Electricity Authority is two interrelated aspects. These are:

- a. *meaningfulness* – that is, that stakeholders are provided with timely and sufficient information which enable them to make informed and meaningful contributions to the Electricity Authority’s appropriation bids; and
- b. *accountability* – that is, in seeking input from stakeholders about the appropriation bids, that stakeholders are, albeit in some small and indirect way³, able to hold the Electricity Authority to account for its proposed functions and costs.

If this proposition is correct, then the intent behind the legislative obligation is for electricity consumers to be able to form a view as to whether the proposed expenditure by the Electricity Authority, both for its own operations and for the purchase of services from other parties, is either justifiable or prudent.

This, in turn, implies that the Electricity Authority is at least implicitly obliged to provide such information as enables stakeholders to determine this. BusinessNZ contends that in order to determine precisely what information future appropriation consultation papers should encompass, that the Electricity Authority must ask itself the following question:

“what information do stakeholders reasonably require to be able to comment meaningfully on the Electricity Authority’s appropriation request?”

³ BusinessNZ recognises that the Electricity Authority’s primary accountability for its appropriation is to Parliament.

Information Required for More Meaningful Future Stakeholder Feedback

To a certain extent, BusinessNZ is agnostic as to the precise nature of the information that the Electricity Authority provides to be able to allow stakeholders to answer this question to their satisfaction. However, in general, any reasonable response to such a question would enable stakeholders to determine 'value for money' and therefore be likely to entail the following:

- a. any 'feedback' from either changes in the general market environment or as a result of the outputs delivered in the previous year in terms of any changes to be made to the Electricity Authority's strategic objectives/outcomes it wishes to achieve for the new financial year;
- b. the linkages between the Electricity Authority's strategic objectives/outcomes it wishes to achieve for the new financial year and the outputs to be delivered to meet those strategic objectives/outcomes; and
- c. forecast out-turn information for the key outputs delivered by the Electricity Authority (both in terms of costs and quantities) for the current financial year compared to the proposed amounts for the forthcoming year.

This is standard financial planning information which should be readily available to the Electricity Authority, and is more likely than not, required as a part of the Electricity Authority's actual budget-bid. Generally accepted public sector budgeting practice is for the request for appropriation to bring together a number of strands in a comprehensive way so as to underpin a budget-bid – most notably, this involves demonstration of a seamless 'thread' from overarching outcomes sought through to strategic direction and outputs to be delivered to achieve the outcomes.

The on-going absence of this type of information would mean that no realistic third party assessment of value for money could be made. In essence, it would:

- a. prevent stakeholders from testing the likelihood of the proposed outputs achieving the desired outcomes in any meaningful way;
- b. not be possible to assess the impact on the Electricity Authority's proposed appropriation of any changes suggested by submitter's to particular work priorities (in other words, whether a suggested deletion of a task will have a small or large budgetary impact);
- c. make it impossible to draw any inferences from the current year's performance to date through to the forecast expenditure for the new financial year. For example:
 - i. how much was spent on similar tasks the previous year;

- ii. were the tasks over or under-spent; and
 - iii. what tasks are being 'carried over' from the previous year and what is the total expenditure on them across years; and
- d. hinder an holistic assessment from being made of the Electricity Authority's overall contribution to the regulatory environment - a list of activities would not of itself constitute a measure of the Electricity Authority's performance or effectiveness.

Without such information, it would be impossible to evaluate the Electricity Authority's budget proposal to any meaningful extent.

Specific Comments

Having outlined BusinessNZs expectations as to the nature of the future information requirements, BusinessNZ has a number of comments on the specifics of the consultation paper. These are (in no particular order):

- a. it is extremely difficult to tell, from the presentation of the numbers in Table 2 what the new *total* 2011/12 proposed appropriation actually is. While this appears to have been predominantly driven by the multi-year appropriations (such as the promotion of customer switching), assumptions around these multi-year appropriations should be made and an annual total provided for stakeholders information. This could be complemented with a list of any deductions where an appropriation does not flow through into the levy (such as the proposed security management appropriation of \$6m over 5 years);
- b. in the context of external advice, Table 3 includes a distinction between 'business-as-usual' and 'projects'. However, unlike the priority projects, there is no information available in the balance of the consultation paper that enables BusinessNZ to correlate the costs of external advice for the 'business-as-usual' work to specific deliverables;
- c. paragraph 22 of the consultation paper states, in the context of the proposed increase in the appropriation for the SOSPA, that:

"These forecast increases will be offset, if necessary, from savings within the Authority's operations."

However, it is unclear whether this means that other appropriations will (or indeed already have) been reduced in Table 2 to reflect this offsetting, or that the Electricity Authority is, despite the claim of the offsetting, simply preserving itself the flexibility to push the increase through into the levy should it not be able to achieve a reduction in costs elsewhere;

- d. the issue of prudential security does not appear in Tables B or C. In its current form prudential requirements tie up over \$100m of capital/credit that could be released for productive use. This is potentially a barrier to new entrants scaling a retail business (due to the requirement for \$3 for each \$1 per month supplied); and
- e. it is difficult to gain a good appreciation from the qualitative description of the Electricity Industry Governance and Market Operations Output Description set out in Appendix A of the link between the component parts of the description (for example, 'Operation of the Electricity System and Markets' and 'Compliance') and what is actually being delivered by the Electricity Authority. The generic process-oriented descriptions (for example, "appointing", "performing", "maintaining", and "monitoring") are disconnected from an actual description of what those words mean in terms of what is actually being delivered (the exception being the listed priority projects in Tables A – C which is directly linked to the generic description set out under paragraph 42 (b) of the "Market Development" component of the output description). For example, what does "monitoring compliance with the Act" mean in terms of what is being delivered, in a tangible sense by the Electricity Authority? Is the expectation one of monthly reports to the Board? Such a connection is important to enable stakeholders gain a better understanding of the quantity and therefore value of the outputs being delivered.

Summary

The Electricity Authority needs to quickly draw a bright line under the inadequate appropriation consultation processes previously run by the Electricity Commission. It needs to move beyond essentially meaningless high-level numbers that in turn are disconnected from generic descriptions of what it proposes to do, to placing its stakeholders into a position of confidence that expenditure by the Electricity Authority is justifiable and prudent.

BusinessNZ believes that such an approach would be consistent with the Electricity Authority's own objective of being an open, consistent and transparent regulator and we look forward to working constructively with the Electricity Authority in its attainment.

Yours sincerely



John A Carnegie
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APPENDIX ONE: ABOUT BUSINESS NEW ZEALAND

Encompassing four regional business organisations (Employers' & Manufacturers' Association (Northern), Employers' & Manufacturers' Association (Central), Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), Business New Zealand is New Zealand's largest business advocacy body. Together with its 58 strong Major Companies Group, and the 70-member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, Business New Zealand is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy on behalf of enterprise, Business New Zealand contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.

Business New Zealand's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). It is widely acknowledged that consistent, sustainable growth well in excess of 4% per capita per year would be required to achieve this goal in the medium term.