

7 May 2018

## **Entrust doesn't support expansion of the Electricity Authority's 2018/19 work programme**

Entrust does not support the Electricity Authority further expanding its proposed work programme for 2018/19. The Authority isn't coping with the existing projects in the work programme. Adding four new projects would only make matters worse.

### **The Authority should not be adding to an already bloated work programme**

We reiterate that we question whether having over 40 projects in the work programme is justified or sensible. The Authority should prioritise areas where it can make the most difference and pull back from projects where other regulators or agencies, including the Commerce Commission, have a remit.<sup>1</sup>

The Loss and Constraint Excess (LCE) issue appears to relate to changes the Commerce Commission made in the operation of price control when it developed the Input Methodologies. Any concerns about these changes could have been raised at that time or during the recent Input Methodologies review.

Entrust finds it curious the Authority seems fixated on projects, including the Transmission Pricing Methodology, Avoidable Cost of Transmission payments and now LCE allocation, that have more to do with wealth transfers than improving efficiency. The Authority has been clear that "in virtually all circumstances, only the efficiency gains of an initiative should be treated as benefiting consumers, with wealth transfers excluded".<sup>2</sup>

We support the Authority halting the review of the distribution sector. This project extends into both the Commerce Commission's responsibilities, including its statutory objective to promote incentives to improve efficiency and innovate, and the scope of the Electricity Price Review.

Halting the distribution sector review is somewhat notional though. There has already been a six year delay in starting the project.

### **Entrust is increasingly concerned about the Authority's project planning and management**

There are problems with the Authority's project planning and management processes. Adding new projects, while the Authority struggles to keep on top of its existing work programme, would only make matters worse.

What we have increasingly observed is:

- ongoing and lengthy project delays;

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<sup>1</sup> Entrust, Submission to the Electricity Authority on 2018/19 appropriations and work priorities, 18 December 2017.

<sup>2</sup> Electricity Authority, Interpretation of the Authority's statutory objective, 14 February 2011, paragraph A6.

- substantial and unjustified lapses in time between consultations on projects;
- use of soft annual project delivery targets which mask project delays, rather than clear and transparent deadlines for critical milestones and project completion; and
- a lack of transparency about individual project costs and budget.

### **Adding new projects will exacerbate the slow progress the Authority is making on its work programme and priorities**

The Authority disclosed to the Select Committee that 15 projects were delayed in 2016/17.

Many of these projects have been delayed for several years. For example, there was a two-year gap between the last two consultations on the Default Distribution Agreement (DDA), and the gap for the pending consultation is even longer.

It is taking about the same amount of time for the Authority to draft the pending DDA consultation paper as the Commerce Commission proposes to give itself to develop an entire set of Input Methodologies for fibre services (18 months), and then make a price determination (12 months).<sup>3</sup> The difference between the two regulators' project management couldn't be more stark.

Despite the "intention to complete work deferred from 2015/16 during the 2016/17 financial year"<sup>4</sup> at least half these projects remain delayed.<sup>5</sup>

Additionally, it appears the Authority has under-reported the number of delayed projects. For example, the Authority's reporting of delayed projects excluded some projects which had not been started.<sup>6</sup>

### **The Authority's claim it is "tracking well on work programme" is based on soft targets**

Instead of acknowledging there are problems with delays and project management, the Authority maintains it "is progressing well on its comprehensive work programme" and "tracking extremely well against the targets set".<sup>7</sup>

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<sup>3</sup> Under Part 6, Telecommunications (New Regulatory Framework) Amendment Bill.

<sup>4</sup> Commerce Committee 2015/16 annual review questions 1 – 102 to the Electricity Authority, 15 November 2016, question 10.

<sup>5</sup> This includes the transmission pricing investigation, extended reserve arrangements implementation, DDA, systems access policies, reconciliation loss factor methodology, Transpower demand response protocol management and livening and energisation guidelines.

<sup>6</sup> We pointed this out to the Authority in our Appropriations submission. We provided the example of the "Review of distribution sector". The Authority had not included this as a delayed project even though it had not been started but had been on the work programme since 2012. The distribution sector review project was subsequently added as a delayed project for 2016/17.

<sup>7</sup> <https://www.ea.govt.nz/about-us/media-and-publications/market-commentary/outlook/authority-tracking-well-on-work-programme/>

These claims were made on the basis of soft targets, such as “complete an analysis of the submissions on the issues paper”, and “start investigation”. Two-thirds of the Authority’s targets fit into this category.

Soft targets					Hard targets		
Start project	Start consultation paper	Issue consultation paper	Decide next steps	Other	Implement	Completion	Total
5	2	7	8	4	2	12	<b>40</b>

The only reason the Authority is able to claim the TPM review is “on-track”,<sup>8</sup> for example, is that it changed the target from “finalise transmission pricing guidelines” and “issue decision” in the 2016/17 work programme<sup>9</sup> to “Board decision on the next steps” in the 2017/18 work programme.<sup>10</sup>

### **If the Authority is going to add new projects to its work programme it needs to commit to a transparent workplan**

Entrust has repeatedly asked the Authority for various information to improve transparency about its work programme and individual projects. The Authority should provide details of:<sup>11</sup>

- the workplan, including key milestones, consultation steps and project completion date;
- the projected budget for the project, broken down by internal and external resourcing, including consultants and legal advice;
- the budget appropriation for the pending financial year; and
- periodic updates about how the project is progressing against the workplan and budget.

Absent publication of planning information there is little to show what level of priority the Authority intends to give new projects.

### **Closing remarks**

Entrust wants to see the Authority operating in an effective and efficient manner, and serving the best interests of consumers, including the over 327,000 households and businesses in Auckland, Manukau and parts of Papakura and eastern Franklin that are beneficiaries of Entrust.

<sup>8</sup> Electricity Authority, Electricity Authority Work Programme Report for the period 1 July 2017 - 31 October 2017, undated.

<sup>9</sup> Electricity Authority, Electricity Authority Work Programme: 1 July 2016 - 30 June 2017, undated, page 17.

<sup>10</sup> Electricity Authority, Electricity Authority Work Programme: 1 July 2017 - 30 June 2018, 30 June 2017, page 16.

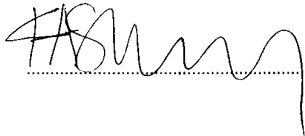
<sup>11</sup> Entrust has proposed the Electricity Authority provide this information in our submissions on the Electricity Authority’s appropriations, and its Multiple Trading Relationships and Equal Access projects.

The Authority should not be adding projects to its work programme it doesn't have the ability or capacity to deal with in a timely manner. It is apparent there are more projects in the existing work programme than the Authority can manage. Addition of four new projects would only exacerbate the problems with delays and slow progress.

**For further information, contact:**

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Kind Regards



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