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By Email

Dear Andrew

### **Comments on draft terms of reference for Electricity Price Review**

The Electricity Authority (Authority) welcomes the government's engagement with electricity industry matters, and the opportunity to provide the comments on the draft terms of reference for the Electricity Price Review (review).

### **Competition and future technologies**

#### **Consumer choice and competition are an important lens to use when considering whether electricity prices are fair and equitable**

The Authority believes increased consumer choice and competition are vital to achieving long-term benefits for consumers. Increased consumer choice and competition can significantly reduce prices by driving efficiencies, and incentivising retailers to pass on those savings to their customers, otherwise they could lose them.

In addition, increased consumer choice and competition are integral to the adoption of emerging technologies and new innovative ways of doing business, and what comes with those processes is variability of prices across customers and over time. Nevertheless, such innovation provides great benefits to consumers over time.

We welcome the emphasis in paragraph 5 of the draft terms of reference on the role of emerging technologies and the impact these may have on prices. Examining emerging technologies through the lens of consumer choice and competition could enhance the review's emphasis on the future impact emerging technologies may have. Reducing barriers to the uptake of emerging technologies is also a key focus of the Authority's work programme.

#### **Evaluating regulatory arrangements against what they were asked to do helps accurately assess their performance**

The Authority considers that evaluating regulatory arrangements against what they were asked to do should be the 'starting point'. This approach will aid the review's analysis of the current functioning of the electricity market. We would welcome any assessment of the Authority's performance against its statutory objective to promote competition in, reliable supply by and efficient operation of, the electricity industry for the long-term benefit of consumers. We are confident that analysing all relevant regulatory arrangements in this way would give the review a sound basis to determine whether to change regulatory arrangements to pursue new objectives (such as fairness). Otherwise, there is a real risk of misdiagnosing the causes and drivers of outcomes and consequently incorrect decisions could be made about the changes required to achieve different objectives.



**There are important factors that have an impact on electricity prices and it would be beneficial for the review to consider these**

Social, regional and environmental policies can have an immediate and long-term impact on prices. The World Energy Council has noted key factors affecting prices include policies on reliability, security of supply, resource management and emissions reduction. The Authority encourages the review to consider the past and potential future impact of these factors on prices, so the present state of prices can be understood in its broader context.

**Information collection**

**Analysing the financial performance of suppliers across the supply chain may be of limited value, because reliable and consistent comparisons can be very challenging**

Preparing financial metrics to accurately take account of the varied circumstances suppliers face, such as different ownership structures, the composition and age of asset portfolios, and the number of customers, is complex. Interpreting such metrics during periods of substantial innovation is not easy, because while innovation delivers great benefits to consumers, it can also provide significant margins to firms until the innovations are widespread.

We believe this restricts the ability to make reliable and consistent comparisons between suppliers. We refer to Professor Stephen Littlechild's recent publication noting issues with the financial performance analysis of the United Kingdom electricity market by the Competition and Markets Authority.<sup>1</sup> These issues made obtaining long-term benefits for consumers, the key outcome, in the United Kingdom electricity market considerably tougher. Further, we would not underestimate the time and resources required to consider the financial performance of suppliers.

**Out of scope**

**The impact of the Input Methodologies (IMs) is an important factor in considering the role of emerging technologies, and whether electricity prices are fair and equitable**

Emerging technologies and new business models are blurring the boundary between the competitive and monopoly elements of the electricity market, and have a growing potential to impact prices. The monopoly elements can also significantly impact prices, particularly between regions and within consumer segments. In our experience, discussion of matters relating to future electricity pricing quickly focuses on emerging technologies, stranding risk and the IMs.

The Authority therefore recommends the review considers the market's interaction with networks regulated under the IMs, and the current and future impacts of this regulation on the market. If the review does analyse financial performance, including the impact of the IMs in the terms of reference, it will not only be a consistent approach across all components of the supply chain, but will also help in accurately analysing suppliers in the transmission and distribution components of the supply chain. The impact of the IMs on emerging technologies and prices could also inform any views the review may have about the future structure of the market.

**Process and timeframe**

**The Authority encourages open consultation at each stage of the review**

We note the Minister's expectation of wide consultation. In our experience, we always derive considerable value from consulting all interested parties on significant and complex matters at each stage of a project's development.

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<sup>1</sup> Network: A publication for the Australian Competition and Consumer Commission for the Utility Regulators Forum. Issue 63, June 2017.

The Authority again appreciates the opportunity to comment on the draft terms of reference for the review, and is happy to provide further information or answer any queries about its comments. We look forward to the commencement of the review and would be pleased to assist in any capacity.

Kind regards



Carl Hansen  
**Chief Executive**

