# ELECTRICITY PRICE REVIEW

## SUBMISSION FORM

23 October 2018

Electricity Price Review

Secretariat, Ministry of Business, Innovation and Employment

15 Stout Street

PO Box 1473

Wellington 6140

By email: energymarkets@mbie.govt.nz

**Introduction to Submission**

Counties Power Consumer Trust fully owns the shares in Counties Power Limited, (CPL). The beneficiaries of the shareholding in CPL are the consumers who have premises or facilities connected to the CPL lines network located within the Franklin district and parts of Papakura.

While we all expect our lights to come on and electricity to be instantly available, the reality is there are a lot of people and resources who make this happen at CPL. Along with CPL many other consumer owned EDBs, are important drivers of regional economic growth. We are the face of development and service and we partner with confidence.

**Contact details**

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# Summary of questions

## Part three: Consumers and prices

### Consumer interests

1. *What are your views on the assessment of consumers' priorities?*

As customer-elected trustee owners of Counties Power Ltd, CPCT represents the interests of the company's consumers. Accordingly we have a strong focus on those consumers' interests, and on consumer well-being generally, and consider ourselves well-informed on consumer priorities. We are conscious that, individually, those priorities vary considerably (reflecting levels of dependence on reliable power supply, economic circumstances, health issues, etc.) and that even collectively they may vary according to time of year, current weather, business and farming cycles and so forth.

In our view the priorities for most of our consumers, most of the time and not necessarily in this order for all consumers, are:

1. **Reliable supply, especially at peak times.**

   While reliability tends to be taken for granted until outages occur, the level of consumer concern that is evident at such times demonstrates that this is accorded a high priority. Our relationship with consumers on matters relating to supply is a key performance measure for both the Trust and the Company, and as Trustees we draw considerable satisfaction from the high regard that consumers have for the company when those matters become topical.

2. **Prompt reconnection after any fault.**

   Prompt reconnection directly reflects the priority given to reliable supply. The effectiveness of Counties Power crews and contractors, often working under trying conditions, is a strong public messaging tool and is recognised by the Trust in its exchanges with the Company.

   As examples from this year, consumers regularly supplied food etc. to linesmen working to restore power after two violent storms. Following each of those events, the Trust and Counties Power had joint presentations to the public (with feedback from the first presentation proving very helpful in responding to the second storm). The Company's performance then was given very favourable press coverage.

3. **Effective public and workplace safety levels.**

   A high level of consumer concern for safety issues is seen as a given by the Trust and the Company, reflecting the strong engineering culture within the electricity industry, and general awareness of the dangers inherent in power systems and electrical applications. This concern carries over into associated technologies and activities, ranging from power storage through to road works.

   Safety is given a pre-eminent place in the communications between CPCT and the Company. As stated in the 2018-19 Statement of Corporate Intent, the prime component of our health and safety policy is to be proactive and take all practicable steps to promote an accident and incident-free workplace to support a corporate goal of achieving zero harm in the workplace. This focus on safety is repeated in our asset management planning.

4. **Effective communication (fault reporting and company response, communication and consumer feedback on priority issues, accessible**

**information on performance and planning, etc.).**

The Trust serves as a communication link between consumers and the company, through the processes set out in the Statement of Corporate Intent negotiated between CPCT and Counties Power Ltd (further commentary on this is given in our response to Question 2 below). Effective two-way communication with consumers is given a high priority - for example the current SCI includes our expectation that the Company will:

- Be responsive to its Customers and Consumers;
- Act at all times with integrity and respect the requirements of our Customers and Consumers;
- Communicate clearly with Customers and Consumers; and
- Have an effective complaints resolution service that meets the needs of Customers, Consumers and Regulators.

**5. Fair pricing based on consistent and readily understandable principles.**

Professor Yarrow's submission on behalf of ETNZ addresses the concept of pricing 'fairness' in some detail and we endorse his comments. Our experience is that consumers have been becoming more concerned about price-related elements of power supply, such as 'value for money' and environmental impacts, but – as Prof Yarrow points out – they are most concerned about horizontal equity, i.e. their costs in relation to comparable peers.

Electricity distribution pricing generally is going through a transformative stage, spurred along by changing consumer loads and behaviours, regulatory pressures and customer equity issues. As outlined in the Statement of Corporate Intent, most of the Company's costs of providing distribution network access are fixed and are associated with building and maintaining infrastructure that can meet peak demand. Furthermore, the Company's variable cost component is driven by the consumer's peak demand and associated transmission charges (along with retail costs). While consumer volume is decreasing, the consumer peak is increasing and this creates a mismatch between revenue received and costs incurred.

Counties Power's current lines charges to its consumers are not directly cost-reflective. CPCT and the Company believe that moving to a more cost reflective, service based pricing structure will enable consumer choice and control and ensure fairer pricing to all customers. For these reasons, the Electricity Authority has also instructed all line companies to introduce cost reflective pricing. Consequently, Counties Power has introduced prices that are higher at peak times and lower off-peak. This sends clear price signals to consumers enabling them to reduce their peak time use and save money (as well as reducing costs to Counties Power.)

Communicating the reasons for these price changes to the great bulk of our Trust's beneficiaries is a demanding process. The Company, like other EDBs, will ensure that clear public notices are issued, while CPCT and Counties Power will engage with interested groups and consumers where this can be effective. Trust governance gives scope for focussed dialogue on pricing policies with consumers at the AGM, and Trustees are well aware of the importance of avoiding disruptive changes.

The Pricing Review team's report acknowledges the various challenges associated with the evolution of distribution pricing but arguably under-estimates the significance of price rebundling by retailers, especially as more cost-reflective distribution pricing principles are being adopted. A regulatory approach that promotes the mirroring of distribution price signals in retail charges would be worth consideration.

We are doubtful about the usefulness of benchmarking of EDBs' pricing and costs drivers as a tool for improving customer awareness or for promoting efficiency (page 56 of the Review paper). As a company bounded by Vector, WEL Networks and Powerco (and with distribution activities in Auckland City), Counties Power's prices and pricing policies could be expected to lend themselves to comparison with larger neighbours. However, any direct benchmarking between companies is very difficult due to factors such as demand density, consumer profiles, and different terrains. Also, the relative contribution that varying Transpower services make to different distribution areas can have a significant impact.

In the year to March 2017 Counties Power had a demand density of 35.4 kW/km, vs 32.2 for Powerco, 50.9 for WEL Networks and 92.0 for Vector. Despite Counties Power having a low demand density its residential prices are lower than WEL Networks and will be materially less than Powerco's future prices under their customised price-quality path. While Counties Power's residential prices are higher than Vector's, this is accounted for by the difference in density and, furthermore, Counties Power's prices are substantially lower after the Counties Power discount.

It would seem pointless to expect significant numbers of consumers to become sufficiently informed about factors underlying benchmarking comparisons to make meaningful judgements. Similarly, tasking a regulator with giving appropriate weightings to those various factors would invite subjective views and outcomes that overlooked situational realities.

**6. Responsible provision of technologies and services that meet evolving consumer needs.**

Professor Yarrow makes the point very strongly that diversity creates a far more receptive environment for technological advancement than other options do. He is particularly scathing about use of regulation to impose a supposed 'best system' on an evolving industry, e.g.

*"Officialdom" tends to like uniformity: it makes administration easier. An illustration of the deadening hand is the reference made in both the IEA Report and the [Price Review's First Report] to the two designs for distribution systems adopted as normative by the EU. This is just officialdom responding to the pressure of facts on the ground that are working against what would almost certainly otherwise be its first preference; 'one type of system fits all'. In reality (a) there are many different possibilities, not just two, most of which are currently unimagined… (b) the performance of these alternatives will vary according to the 'environment' in which they are asked to operate, and (c) environments vary.*

As touched on in our comments on fair pricing in ‘5.’ above, there is considerable variation even among adjacent networks in New Zealand, reflecting customer densities, the impacts of relatively small numbers of major loads, topography, specific agricultural issues and so forth.  As Counties Power noted in a submission some years ago, at that time the Company had a separate distribution tariff for poultry farming because this was meeting a particular customer need, rather than imposing a one-size-fits-all regime on diverse consumers.  As distributors move further towards cost-reflective pricing we would expect technological options and alternatives to become increasingly commonplace, responding to various pricing signals.

2. *What are your views on whether consumers have an effective voice in the electricity sector?*

In our view consumers have a much more effective voice in the electricity distribution sector than they have in most other commercial situations. As Professor Yarrow notes in his submission on behalf of ETNZ:

*… the consumer voice at a Trust AGM is a rather different thing to the consumer voice at a private company AGM and the distinction should be recognised. The consumer voice is something of an interloper or 'third party' at the latter: the discourse is mainly between the shareholders (the principals) and managers (their agents). In contrast, at a Trust AGM electricity consumers are the principals. Their voice is rather louder in consequence, on all points: prices, stability of prices, security of supply, 'environment' and 'fairness'.*

CPCT's ongoing relationship with the Company reflects consumer views expressed at the Trust AGM, in discussions with Trustees, in the media, and at public and private meetings from time-to-time. Our annual *Statement of Corporate Intent* negotiation with the Company has, we believe, generated a guidance blueprint[1] that in particular reflects those consumer views. The Company's performance in following that guidance is monitored and assessed by the Trust.

In addition, the combination of regulatory information disclosure requirements applying to all EDBs, along with requirements on trust-owned companies and trusts to make comprehensive data available to their consumer beneficiaries, provides a facility for consumers to be very informed about policies and behaviours of EDBs. This is supported by analytical tools and information gathering on the energy markets by the Electricity Authority and the Commerce Commission.

Also, reactions by the media, politicians and commentators to consumer concerns tend to be notably more pronounced where electricity supply is involved than – say – when particular consumer goods or foodstuffs are in short supply or face price changes.

3. *What are your views on whether consumers trust the electricity sector to look after their interests?*

[1] http://www.countiespowertrust.org.nz/assets/CP%20Statement%20of%20Corporate-Update-v5-WEB.PDF

In CPCT's experience there is a high level of consumer trust in the distribution industry. The public are invariably appreciative of the efforts made by linesmen to restore power in adverse circumstances, complaints to the Utilities Disputes Commissioner about Counties Power and about EDBs generally are relatively few, and the Trust's focus on providing annual dividends to consumers is well received.

Trust in the wider electricity industry seems to be more muted, probably reflecting a mix of the following:

- A general wariness about 'big business'.
- Dissatisfaction with some fairly visible electricity retailer practices, such as non-standardised pricing terminology, and occasional misleading or aggressive telephone and door-to-door retail marketing.
- A possibly misplaced nostalgia for a 'golden age' when the state-dominated power system promoted consumer subsidies.
- For some more informed consumers an impression that competition is still fairly weak.

However, we note the Consumer NZ survey result (68% of respondents believed they could trust their retailer) and feel that is probably fairly reflective of levels of trust in our area.

## Prices

4. *What are your views on the assessment of the make-up of recent price changes?*

It would be helpful if the Report had made an attempt to reconcile its assessment of price changes with assessment of generators' and retailers' profits, given that competition is meant to be disciplining price and profits of the unregulated companies involved. As Figure 20 (page 46 of the report) illustrates, a pronounced downward trend in generator/retailer cash flows through to 2001 was replaced by a series of large upwards steps, followed by a long period of unrelieved price maintenance. We would have expected increasing levels of competition since 2004 to have tended to push cash flows downwards somewhat. The fact that this hasn't occurred is not examined in the assessment of price changes and yet it seems salient to the purpose of the Review.

We are uncertain about the position of pricing to the Bluff aluminium smelter in the analysis of industrial prices. As it is a very significant proportion of the industrial load, and its prices have been subject to occasional contractual changes, the impacts on the average industrial price will have been significant. Data on industrial price changes net of the smelter would be more informative. If this is not available then estimates of those impacts would be helpful.

The commentary on distribution price rises, associated with the commentary on distribution profits (p 21, then in more depth in the 'Distribution' section, beginning on p 53) suffer from incomplete analysis. For example, our understanding is that the Commerce Commission applied caps on some EDBs' allowed price rises in the control period to 2015 in order to avoid price shocks to consumers, and this is a possible (probable?) explanation for those companies then making comparatively small margins above the allowed industry WACC in the subsequent period. Also, as noted above, retailers' propensity to rebundle distribution charges means that the Report's views on distribution price structures could be elaborated on.

Beyond this we found the section on price changes informative and useful.

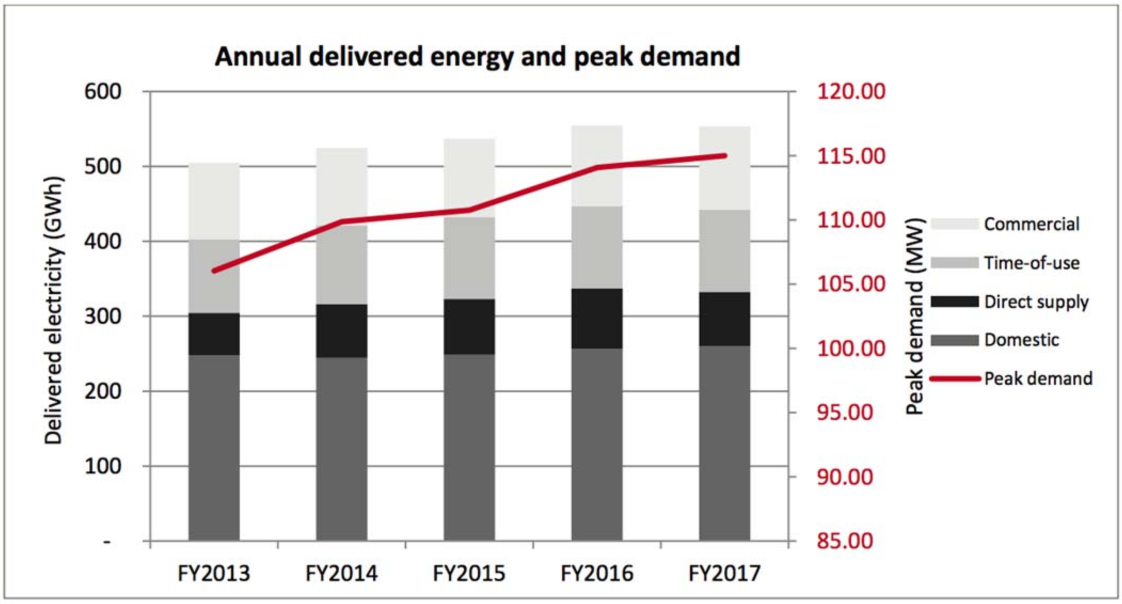
5. *What are your views on the assessment of how electricity prices compare internationally?*

The two charts provided are interesting and, to an extent, reassuring. Linking the data involved to relative international incomes, and perhaps to other indices such as GDP per capita, would be useful.

6. *What are your views on the outlook for electricity prices?*

We recognise several major uncertainties in predicting electricity price trends nationally. These include the impacts of existing and potential major loads (including the future of the aluminium smelter), the cost and penetration of new generation technologies such as solar power, and the impacts on loads of population changes. At some point in the distant future we can envisage downwards pressures on electricity prices, in the form of reduced generator/retailer margins, as demand-side technologies such as solar panels, fuel cells and storage options become cheaper and more accessible. However, in the next ten years we may see prices increase with the upwards pressures arising from the decarbonisation of the economy, which will require significant new generation and the closing of New Zealand's existing thermal plants. Overall, CPCT does not consider it prudent to make firm predictions on price trends.

Locally, the Company is experiencing consistent load growth and, in particular, disproportionate growth in peak demand. Counties Power's current Asset Management Plan[2] covers this in some depth - The Counties Power network is amongst the fastest growing electricity networks in New Zealand with connection growth in the order of 2.5% per annum. This is largely driven by the growth of Auckland and our location within the 'golden triangle' of growth between Tauranga, Hamilton and Auckland. The population of the area grew by 11.5% between the 2006 and 2013 census periods. Auckland was the fastest growing region, increasing by 8.5% over the same period. Waikato district was ranked in the top 10 territorial areas with a 10.1% population growth. The Hauraki district population decreased slightly overall, however the Kaiaua area population growth increased by 19% (an area which is supplied by Counties Power):




*Energy volumes and network demand 2013 to 2017*

The rise in peak demand, in particular, will place upward pressures on distribution prices. CPCT will encourage the Company to counter this trend with measures such as the move to cost-reflective pricing, along with the promotion of new technologies.

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[2] http://www.countiespower.com/vdb/document/95

In terms of the Trust's responsibility for assessing the Company's investment proposals, we are aware of the distribution pricing assumptions used by other companies and recognise that these are reflective of the Commerce Commission's demand-driven pricing model. We would expect regulated EDBs to gain greater forward pricing certainty with the planned ComCom move to a ROI-based regulatory price path. While the Company is exempt from price-quality regulation, the common information disclosure regime applying to all EDBs enables the Trust, and consumers, to assess price changes in the light of wider industry pricing trends.

## Affordability

7. *What are your views on the assessment of the size of the affordability problem?*

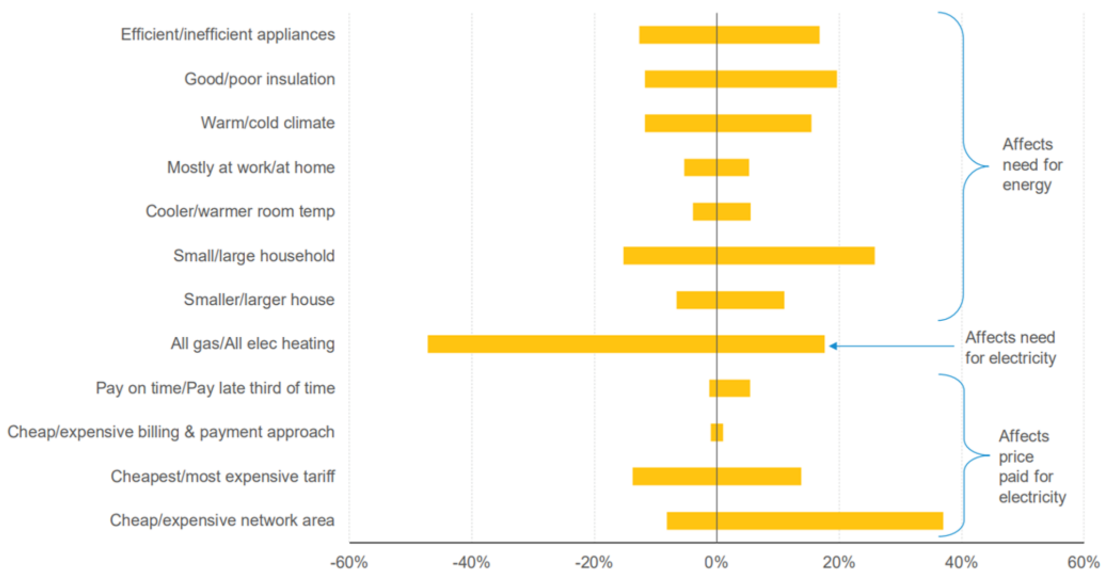
The Report's assessment of the affordability problem is useful and informative. We have no insights to add to it.

8. *What are your views of the assessment of the causes of the affordability problem?*

The report doesn't seem to go beyond its Figure 12 (reproduced below) in identifying and assessing the causes of the affordability problem. We find Fig. 12 confusing and potentially misleading: it identifies 'Cheap/expensive network area' as by far the dominant factor affecting consumption and price, and contrasts it with a host of other factors that does not include more obvious ones such as 'Cost of delivered energy', and 'Access to competitive retail tariffs' (we believe this is a significant issue in some rural areas especially).

With the combined generator/retailer segment making up 16 cents of an average residential GST-exclusive 25 cents per kWh charge, or over 19 cents if transmission is included (the Report's Figure 8, p 23) we can see no rationale for signalling out whether a consumer is in a cheap or expensive network area as the primary factor affecting "price paid for electricity". Furthermore, as affordability is clearly related to the net cost to vulnerable consumers, the Report's failure to include or make allowance for consumer rebates in its analysis (note with Fig. 6; also page 21) adds to the distortionary message created by Figure 12.

**Figure 12: Impact of factors affecting consumption and price**




*Source: Concept Consulting analysis.*

9. *What are your views of the assessment of the outlook for the affordability problem?*

We believe that the ‘death spiral’ prediction that *adoption of solar panels etc. by richer consumers will load additional burdens on less wealthy households* is completely overstated. In reality, especially with the planned move towards fixed cost rather than c/kWh price drivers after 2020, the costs of providing network services will continue to be met by virtually all households unless they choose to disconnect completely from their EDB. Those consumers that may disconnect are most likely to be in remote, hard-to-service areas meaning that their departure will lower rather than increase overall network costs.

The impacts of solar etc may put downward pressure on generation and retail prices but this is being offset through the more rapid increase in electric vehicles. Here we note the potential for the large sunk cost hydro generation base to price down to an extremely low marginal cost if strong competition emerges. However, this is some way in the future because there is a mismatch in timing between solar production and household demand that will be exacerbated with the increase in electric vehicles.

From a distribution perspective, we recognise that the legislative and political pressures on EDBs to maintain supply to remote consumers does, to some extent, imply a cross-subsidy to more needy communities and consumers. However, this is a very blunt instrument, with some very wealthy end users benefitting also.

Beyond this it seems unavoidable that a percentage of households and some communities will face difficulties in paying for electricity. This is a social rather than an industry issue, and would be best addressed by the welfare system.

## Summary of feedback on Part three

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| 10. *Please summarise your key points on Part three.* |

- **Electricity consumers are better placed than most other consumer groups to influence policy outcomes. They also have access to comprehensive data on supply issues, supported by information processing facilities provided by regulators along with EDB data disclosures, and covering wider energy market developments.**

- **The Pricing Review team's report acknowledges the various challenges associated with the evolution of distribution pricing but arguably under-estimates the significance of price rebundling by retailers, especially as more cost-reflective distribution pricing principles are being adopted.**

- **Diversity creates a far more receptive environment for technological advancement than other options do.**

- **As distributors move further towards cost-reflective pricing we would expect technological options and alternatives to become increasingly commonplace, responding to various pricing signals.**

- **We recognise several major uncertainties in predicting electricity price trends nationally. These include the impacts of existing and potential major loads (including the future of the aluminium smelter), the cost and penetration of new generation technologies such as solar power, and the impacts on loads of population changes.**

- **We have a number of concerns about the Report's views on pricing, and on the impacts of distribution pricing variation on affordability of delivered energy. The analysis of causes of affordability issues is confusing and misleading.**

- **Especially with the move towards fixed cost rather than c/kWh price drivers after 2020, the costs of providing network services will continue to be met by virtually all households unless they choose to disconnect completely from their EDB – currently an unlikely scenario.**

- **It seems unavoidable that a percentage of households and some communities will face difficulties in paying for electricity. This is a social rather than an industry issue, and would be best addressed by the welfare system.**

## Solutions to issues and concerns raised in Part three

| 11. | *Please* briefly describe any potential solutions to the issues and concerns raised in Part three. |
|---|---|
| | A regulatory approach that promotes the mirroring of distribution price signals in retail charges would be worth consideration.<br><br>Linking the data on international pricing to relative incomes in the countries involved, and perhaps to other indices such as GDP per capita, would be useful.<br><br>Further thought should be given to the causes of affordability issues, and the relativities of those causes.<br><br>The impact on industrial prices of pricing to the aluminium smelter should be accounted for.<br><br>The analysis of distribution pricing should be improved (impacts of regulatory price 'lids' on some EDBs; allowance for consumer rebates in affordability analysis). |

# Part four: Industry

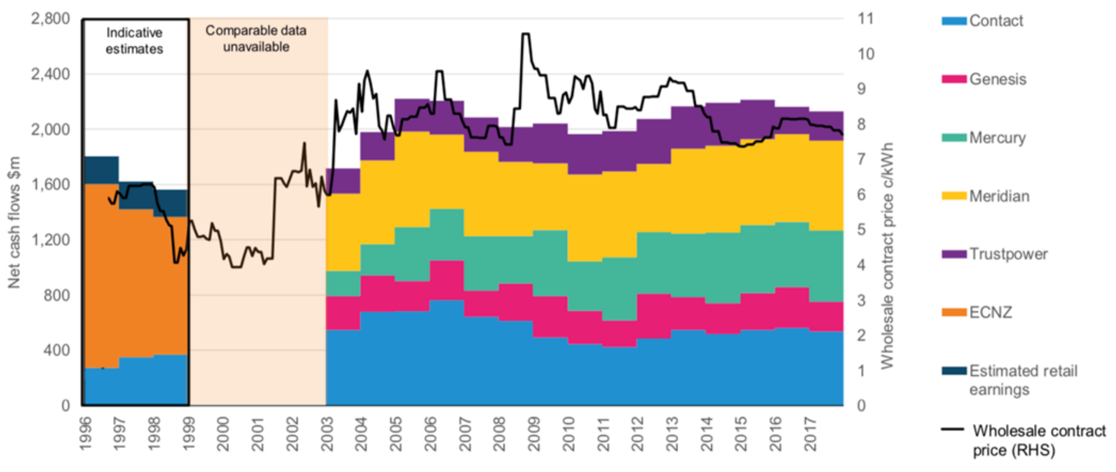
## Generation

12. *What are your views on the assessment of generation sector performance?*

As a distribution trust, CPCT is not well placed to comment on generation issues raised in the report. However we are concerned about the lack of analysis provided on the reversal in cash flow trends for generators and retailers that occurred in about 2001, represented in Figure 10 (reproduced below).

It seems clear that gross generator/retailer margins were on a consistent downward trajectory until 2000, after which they leaped up considerably through to 2005. After then they have remained relatively flat in real terms. If, as the Report appears to conclude, competition has become more robust, then we would have expected some tendency to have emerged for cash flows (and therefore prices) to slip back towards their 2001 level, especially in years where hydro inflows have been adequate. Given that the review is specifically focussed on electricity prices, this seismic change around 2001 and the pattern since then should be given intensive analysis.

**Figure 20: Cash flows for generators and retailers**




*Source: Concept Consulting analysis of company reports and other data. Wholesale contract price and net cash flows are adjusted for inflation and expressed in 2018 dollars. Net cash flows are volume-weighted.*

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| 13. | *What are your views of the assessment of barriers to competition in the generation sector?* |

Dominance by a few entrenched players is probably the most significant barrier. We would expect this to have a significant impact on smaller competitors when and if a major hydro shortage eventuates.

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| 14. | *What are your views on whether current arrangements will ensure sufficient new generation to meet demand?* |

As noted above, CPCT is not well placed to comment on this.

## Retailing

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| 15. | *What are your views on the assessment of retail sector performance?* |

As a consumer representative trust, CPCT is concerned about the size of retailers' margins and the upward trend in most of these (the Report's Figure 17). We believe that this should be a central focus of the next phase of the Review.

Other trusts have commented (at ETNZ meetings) on weak levels of retail competition in some parts of the country – notably smaller rural centres.

| | |
|---|---|
| 16. | *What are your views on the assessment of barriers to competition in retailing?* |

We note that individual retailers have not highlighted the 'lack of standardisation in distributors' contract terms and price structures' as a barrier, despite the views of the Electricity Retailers' Association on this. The ENA has been addressing this issue, and – in the main – we would expect retailers to have adequate resources to account for local variations in their contracting. However, from a consumer perspective, we believe that it would be of considerable benefit to competition to see more standardisation of retailers' terminology and contract terms – especially for households.

## Vertical integration

17. *What are your views on the assessment of vertical integration and the contract market?*

This is not an issue we are well placed to comment on. We note with concern the Report's comments on widening contract market price spreads and on the potential for vertically integrated gentailers to internalise contractual risk balancing, as consumer exposure to dry year price impacts could be magnified by weakness in contract market coverage.

18. *What are your views on the assessment of generators' and retailers' profits?*

We have no comment beyond our response above to question 12.

## Transmission

19. *What are your views on the process, timing and fairness aspects of the transmission pricing methodology?*

The protracted TPM debate has caused ongoing uncertainties for the industry and for consumers, especially those in communities potentially exposed to significant transmission service cost movements. This seems out of all proportion to the relatively modest not gains supposedly identified if the proposed new methodology is adopted, especially when there are fairly obvious uncertainties about whether, and how quickly, those benefits might flow through to consumers.

## Distribution

20. *What are your views on the assessment of distributors' profits?*

As a distribution company trust, the Report's failure to make a reasonable allowance for profit rebates to consumers, or to acknowledge that EDBs like Counties Power reinvest nearly all their profit, is a major concern to CPCT. While we recognise that it is convenient to adopt a one-size-fits-all approach in considering profits, the 'on-the-ground' impact of rebating part of what consumers pay back to them is that the net wealth transfer from consumer to the EDB's 'owner' is reduced. Given that the Price Review is focussed on consumer impacts, this is an error in the assessment process that should be corrected. Furthermore, ignoring the reinvestment of profits overlooks the need for consumer owned EDBs to increase their line prices to fund capital expenditure. Recent examples of historic material underinvestment by non-consumer owned EDBs highlight this latter point

As noted earlier in our response, the apparent over-WACC profits made by some companies probably reflect allowed recovery of margins foregone in the previous regulatory period (and perhaps other elements in the DPP methodology that promote investment earlier in the 5-yearly cycle). While the Report recognises that these apparent over-recoveries are of little consequence, they present a misleading impression.

The Report invites comments on the claim that there is potential for distributors to cross-subsidise any competitive businesses they may own from their network businesses. We consider this to be a type of scare-mongering, probably coming mainly from parties that would like to see competition from informed and reasonably well-resourced industry participants (EDBs) eliminated. If such cross-subsidisation were to occur, the comprehensive information disclosure regime overseen by the ComCom should make it readily identifiable, and – at that point – it might be more reasonable to regard it as a realistic problem.

Electric vehicle chargers and batteries are identified in the Report as examples of new technologies that could lend themselves to cross-subsidisation (although the Report acknowledges that it is unaware of this occurring). Suggestions from some market participants that EDBs should be prevented from investing in and applying these technologies are, in effect, aimed at preventing the rational evolution of the distribution industry at a time when the adoption of new technologies can a transformative impact on distribution and consumers. Professor Yarrow elaborates on this approach in his submission for ETNZ:

*… it fortuitously turns out to be the case that the existing structure of electricity distribution in NZ is exceptionally well adapted for the small-scale experimentation that current technological trends indicate will continue to acquire increasing economic significance. The underlying point lies in its diversity: in distribution, EDBs come in multiple shapes and sizes, with differing structures of ownership and control/governance. For innovation, adaption and evolution, diversity is a Good Thing."*

On page 59 of the Report some acknowledgement is given to the positive impact that its meter ownership had on Counties Power's ability to reconnect customers after a storm in April. This is a fairly graphic example of the importance of allowing distributors to invest in technologies in markets that are accessible to other parties.

21. *What are your views on the assessment of barriers to greater efficiency for distributors?*

The comments in the Review’s report on distribution governance (p 59) in our view give a very distorted impression. First, on the reference to a 2016 Auditor-General report that referred to “the inherent risk of distributors investing in areas outside their normal field of expertise” we have the following responses.

- Subsequent Auditor-General reports have been complementary about the business acumen of EDBs. In it’s 2017 report on an in-depth analysis of the performance of a sample of 3 EDBs, the Auditor-General’s office specifically addressed the issue of asset management governance by EDBs and reached the following conclusions in relation to investments in non-core activities:

**The effect of subsidiary investments on the management of the network**

3.6
Managing subsidiary investments did not appear to distract from the three companies' governance and management of their networks. The Appendix summarises the corporate structures of the three companies and their company investments.

3.7
In some instances, the three companies' investment in subsidiary contracting companies may help to create close and complementary relationships that could improve the overall management of their networks. Unison's investment in ETEL Limited has given it the opportunity to operate better-performing transformers. Alpine's investment in Infratec Limited has provided it access to emerging technologies.

3.8
There are risks in non-core investments. Waipa does not expect a significant return on its fibre investment until at least 2020, and Infratec Limited is exposed to risk, particularly with its overseas operations. In our view, the three companies are appropriately recognising and managing these risks.

Professor Yarrow, again, has a telling view on the EDB governance issue:

*Both the IEA Review and the [Price Review’s First Report] mention the issue of Trustees using EDB funds to diversify EDB activities. The implication is that, in a particular case, a misjudgement might have been made and it is recounted that the Auditor General investigated (which is itself an indication that the governance system does not lack the normal kind of negative feedback loop). There is no conclusion that the relevant decision was a misjudgement in the sense that, at the time that it was made, it could clearly be seen that is was not likely to be to the benefit of the local community, so this seems to me that this individual piece of evidence does not even* *get to first base for a study in comparative governance from which safe conclusions can be drawn.*

*A comparative international study would, I suspect, reveal that publicly or community-owned entities tend to be less prone to unbeneficial diversification than comparable private companies, not least since the underpinning legislation tends to be more restrictive concerning the allowed scope of their activities (a private company is allowed to roam freely among activities that might make money).*

We think that regulatory rigidity is a significant barrier to efficiency, despite the best efforts of the regulators to avoid this. Here we note that, in the UK, the Treasury this month tasked the National Infrastructure Commission with finding a way past this problem[3]:

> ***The regulation study is expected to examine:***
>
> ***What future changes will affect the regulated sectors: The National Infrastructure Assessment identified the UK's infrastructure needs to 2050. The study will aim to set out the key drivers of change over the coming decades***
>
> ***Competition and innovation: whether the regulatory model encourages where appropriate, sufficient competition and innovation to support efficient delivery of infrastructure***
>
> ***Regulatory consistency: How regulators work together and collaborate on cross-cutting challenges and significant infrastructure projects***
>
> ***How Government and regulators work together: How Government can effectively deliver its objectives in these regulated sectors, while continuing to safeguard the independence of the regulators***

As far as the need for greater recognition of cost-reflective signals in distribution pricing goes, we support the effort that the industry is making to achieve this, in parallel with the planned changes in the DPP pricing methodology. Counties power has been one of the leaders in ensuring the early adoption of smart meters in New Zealand, and CPCT supports the efforts that a number of EDBs are making to gain access to metering data, which – as our experience with the April storms recovery this year showed – can be of critical importance to network management.

3 https://www.waterbriefing.org/home/regulation-and-legislation/item/15519-treasury-tasks-national-infrastructure-commission-with-review-of-uk-utilities

22. *What are your views on the assessment of the allocation of distribution costs?*

Covered in our other responses.

23. *What are your views on the assessment of challenges facing electricity distribution?*

A primary challenge that CPCT faces in its assessment of investment planning proposals is the mix of uncertainties associated to load growth, penetration of new technologies, and regulatory exposures. We also have to consider factors such as forecast labour shortages in the electricity sector (which may affect the timing of investments) and an emerging longer term threat of competition for conventional networks due to technological advances such as fuel cells. The very long life of distribution investments amplifies these uncertainties.

Public and workplace safety poses its own challenges, such as the limited ability that the Company (like other EDBs) has to ensure the safe distribution of electricity across private land. Aging local lines put across private property pose risks to our consumers (this is one area where aging assets present a real problem for consumer-focussed entities). Similarly, trees under lines on the road reserve and in other places are often growing on private land, creating fire risks and other safety hazards.

## Summary of feedback on Part four

24. *Please summarise your key points on Part four.*

- **The generation assessment seems seriously inadequate in failing to explore the reasons for the major generation/retailing cash flow surge after 2001, or reconciling the sustained high prices since that surge with the claimed rising level of competition in subsequent years.**

- **As a consumer representative trust, CPCT is concerned about the size of retailers' margins and the upward trend in most of these (the Report's Figure 17). We believe that this should be a central focus of the next phase of the Review.**

- **The prolonged uncertainties arising from the TPM process seem out of all proportion to the relatively modest net gains supposedly identified if the proposed new methodology is adopted**

- **The Report's failure to make a reasonable allowance for profit rebates to consumers is a major concern.**

- **We consider the comments on potential cross-subsidies to support EDB investments in batteries etc. to be a form of scare-mongering, probably coming mainly from parties that would like to see competition from informed and reasonably well-resourced industry participants (EDBs) eliminated.**

- **The comments in the Review's report on distribution governance (p 59) in our view give a very distorted impression. A subsequent much more focussed report from the Auditor-General gives a far more favourable assessment, and Professor Yarrow makes a very pertinent comment on the governance issue that also gives a much more realistic perspective.**

- **We draw the Review's attention to the UK NIC's current project to review infrastructure regulation in order to, amongst other things, reduce the barrier to efficiency it creates.**

- **Our Trust, and our Company, face a number of challenges associated with investment planning in a very uncertain environment, and also in promoting public safety where regulatory change has had an impact on access.**

## Solutions to issues and concerns raised in Part four

| |
|---|
| 25. Please briefly describe any potential solutions to the issues and concerns raised in Part four. |
| It would be of considerable benefit to competition to see more standardisation of retailers' terminology and contract terms – especially for households.<br><br>Pricing analysis should take account of distribution rebates and their impacts on consumers.<br><br>The distorted impression in the report of distribution governance impacts should be reconsidered.<br><br>Public safety issues could be incorporated into the review, given the reference in the Terms of Reference to the existence of regulatory failure. |

# Part five: Technology and regulation

## Technology

26. *What are your views on the assessment of the impact of technology on consumers and the electricity industry?*

We concur with most of the comments in the Report on the impact of technology. As noted in our response to '9', we believe that the 'death spiral' prediction that adoption of solar panels etc. by richer consumers will load additional burdens on less wealthy households is completely overstated. In reality, especially with the move towards fixed cost rather than c/kWh price drivers after 2020, the costs of providing network services will continue to be met by virtually all households unless they choose to disconnect completely from their EDB. Those consumers that may disconnect are most likely to be in remote, hard-to-service areas, meaning that their departure will lower rather than increase overall network costs.

27. *What are you views on the assessment of the impact of technology on pricing mechanisms and the fairness of prices?*

We expect pricing mechanisms to evolve rapidly to accommodate new technologies and this trend to be reinforced by the application of some of those technologies (e.g. on-line applications). It would be helpful if the Review were to examine the potential for some current pricing institutions (e.g. nodal pricing) that were designed to facilitate upstream planning and operations to be adapted or replaced where they may create barriers to emerging technologies and their application by consumers.

Professor Yarrow's comments (on behalf of ETNZ) cover the issue of fairness in some depth, and we support his comments.

28. *What are your views on how emerging technology will affect security of supply, resilience and prices?*

We expect emerging technologies such as community and household solar installations to improve local supply security and resilience, which – ultimately – may place some downward pressures on energy pricing from sunk cost generators. Decarbonisation of the industry, however, may well have the opposite effect.

## Regulation

29. *What are your views on the assessment of the place of environmental sustainability and fairness in the regulatory system?*

We again draw the Review's attention to Professor Yarrow's comments on 'fairness', and to the current UK NIC review of infrastructure regulation (which is tasked with considering related issues).

The Commerce Commission has done little of substance to meet its obligations under section 54(Q) of the Commerce Act, i.e.

> **Energy efficiency**
>
> **The Commission must promote incentives, and must avoid imposing disincentives, for suppliers of electricity lines services to invest in energy efficiency and demand side management, and to reduce energy losses, when applying this Part in relation to electricity lines services.**
>
> **Section 54Q: inserted, on 1 April 2009, by section 4 of the Commerce Amendment Act 2008 (2008 No 70).**

This is a matter that it would be useful for the Review to highlight.

30. *What are your views on the assessment of low fixed charge tariff regulations?*

We agree with the assessment, and consider the low fixed charge regime a barrier to the development of cost-reflective distribution pricing and the delivery of efficient distribution price signals.

31. *What are your views on the assessment of gaps or overlaps between the regulators?*

We support the following views on regulatory gaps and overlaps set out in ETNZ's letter to the Commission dated 29 December 2017:

1. ***Creating a well-defined regulatory frontier between the Commission and the Electricity Authority.***

   **We recognise that the two regulators communicate with each other, and that the interface is governed to some extent by a *memorandum of understanding.* However, as the representatives of very disparate owners of regulated distributors, we feel that the relationship between the Commission and the Authority is rather opaque and that some primary outcomes seem inconsistent with legislative objectives.**

   **As a current example, section 54Q of the Commerce Act requires the Commission to provide incentives and avoid imposing disincentives for providers of electricity distribution services to invest in energy efficiency and demand-side management. However, as noted in the EA's Briefing to Incoming Ministers, the Authority is in the process of dismantling the so-called ACOT (avoided cost of transmission) regime, meaning that what is probably the most material incentive to make such investments is about to go.**

   **We do not accept that it is the intent of legislators to give with one hand and take away with the other: the Commission was given a clear instruction to implement s54Q – the Act uses 'must' twice in that clause. Allowing the EA to intrude into this area adds to the investment uncertainties created by the regulatory structures.**

   **Given the EA's ability to effectively make regulations where it can justify these under the umbrella provided by its Code, it is important to ensure that this ability to by-pass legislative process is not used to over-ride actual legislation. We recommend that the Commission make an early move to create a more transparent interface with the Authority, and to review any Code-related initiatives that intrude into areas covered by the Commerce Act.**

2. ***Improving information flows to and from consumers***

   **As already noted, trusts and trustees are accountable to their consumers, are focussed on ensuring that current and changing consumer requirements are met, and are given additional directives to communicate with electricity users by the new Trusts Bill. Like the Commission, we recognise the increasing risk exposures associated with cyber security, health & safety, climate change and decarbonisation, all of which have direct impacts on customers and which many consumers will either be unaware of or exposed to misleading information.**

**We are also aware that communication with consumers can be challenging where complex technologies and long-term investment horizons are involved. ETNZ believes that trusts offer the most effective mechanism available to develop meaningful interchanges with the broad range of consumers and consumer interests. We would welcome the Commission developing a programme aimed at promoting consumer communication, recognising that trusts will have a legislatively defined requirement to do that once the new Bill takes effect.**

32. *What are your views on the assessment of whether the regulatory framework and regulators' work plans enable new technologies and business models to emerge?*

We recognise that regulators are focussed on facilitating new technologies. However, this is yet another issue where Professor Yarrow's report on behalf of ETNZ makes relevant points (the statement beginning "Officialdom" tends to like uniformity…" quoted under our point '6.' In the first section of this response). To the extent that regulators are attracted by structures that restrict access to technologies, or define roles for potential investors, they are likely to impede the emergence of new technologies.

33. *What are your views on the assessment of other matters for the regulatory framework?*

We support the assessment that Input Methodologies are mature and do not require further analysis by the Review team.

We would like to see public safety issues included in the next phase, recognising that these have relevance to distribution and consumers' costs and that the ToR identifies addressing *regulatory failure* as part of the Review's task.

## Summary of feedback on Part five

| 34. *Please summarise your key points on Part five*. |
|---|
| - **We believe that the 'death spiral' prediction that adoption of solar panels etc. by richer consumers will load additional burdens on less wealthy households is completely overstated. In reality, especially with the move towards fixed cost rather than c/kWh price drivers after 2020, the costs of providing network services will continue to be met by virtually all households unless they choose to disconnect completely from their EDB.**<br><br>- **It would be helpful if the Review were to examine the potential for some current pricing institutions (e.g. nodal pricing), that were designed to facilitate upstream planning and operations, to be adapted or replaced where they may create barriers to emerging technologies and the application of those technologies by consumers.**<br><br>- **Professor Yarrow's comments (on behalf of ETNZ) cover the issue of fairness in some depth, and we support his comments.**<br><br>- **The Commerce Commission has done little of substance to meet its obligations under section 54(Q) of the Commerce Act.**<br><br>- **We agree with the low fixed charges assessment, and consider the low fixed charge regime a barrier to the development of cost-reflective distribution pricing and to the delivery of efficient distribution price signals.**<br><br>- **We support the views on regulatory gaps and overlaps set out in ETNZ's letter to the Commission dated 29 December 2017.**<br><br>- **To the extent that regulators are attracted by structures that restrict access to technologies, or define roles for potential investors, they are likely to impede the emergence of new technologies.**<br><br>- **We would like to see public safety issues included in the next phase, recognising that these have relevance to distribution and consumers' costs and that the ToR identifies addressing *regulatory failure* as part of the Review's task.** |

## Solutions to issues and concerns raised in Part five

35. *Please briefly describe any potential solutions to the issues and concerns raised in Part five.*

- It would be helpful if the Review were to examine the potential for some current pricing institutions (e.g. nodal pricing) to be adapted or replaced where they may create barriers to emerging technologies and their application by consumers.

- Analysis of the scope for the regulator to implement the injunction in s54(Q) of the Commerce Act to promote energy efficiency would be timely.

- We would like to see public safety issues included in the next phase of the Review.

## Additional information

| 36. *Please briefly provide any additional information or comment you would like to include in your submission.* |
|---|
| We have no additional comments. |