ELECTRICITY PRICE REVIEW

SUBMISSION FORM

How to have your say

We are seeking submissions from the public and industry on our first report into the state of the electricity sector. The report contains a series of questions, which are listed in this form in the order in which they appear. You are free to answer some or all of them.

Where possible, please include evidence (such as facts, figures or relevant examples) to support your views. Please be sure to focus on the question asked and keep each answer short. There are also boxes for you to summarise your key points on Parts three, four and five of the report – we will use these when publishing a summary of responses. There are also boxes to briefly set out potential solutions to issues and concerns raised in the report, and one box at the end for you to include additional information not covered by the other questions.

We would prefer if you completed this form electronically. (The answer boxes will expand as you write.) You can print the form and write your responses. (In that case, expand the boxes before printing. If you still run out of room, continue your responses on an attached piece of paper, but be sure to label it so we know which question it relates to.)

We may contact you if we need to clarify any aspect of your submission.

Email your submission to energymarkets@mbie.govt.nz or post it to:

Electricity Price Review

Secretariat, Ministry of Business, Innovation and Employment

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Use of information

We will use your feedback to help us prepare a report to the Government. This second report will recommend improvements to the structure and conduct of the sector, including to the regulatory framework.

We will publish all submissions in PDF form on the website of the Ministry of Business, Innovation and Employment (MBIE), except any material you identify as confidential or that we consider may be defamatory. By making a submission, we consider you have agreed to publication of your submission unless you clearly specify otherwise.

Release of information

Please indicate on the front of your submission whether it contains confidential information and mark the text accordingly. If your submission includes confidential information, please send us a separate public version of the submission.

Please be aware that all information in submissions is subject to the Official Information Act 1982. If we receive an official information request to release confidential parts of a submission, we will contact the submitter when responding to the request.

Private information

The Privacy Act 1993 establishes certain principles regarding the collection, use and disclosure of information about individuals by various agencies, including MBIE. Any personal information in your submission will be used solely to help develop policy advice for this review. Please clearly indicate in your submission whether you want your name to be excluded from any summary of submissions we may publish.

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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?*
energyclubnz believes that the NZ electricity market is on the verge of being 'broken' and is weighted in the favour of the Gentailers and not consumers. There is a real risk that the majority of NZ consumers are getting a poor deal as evidenced by the Electricity Authority recent 2017 Annual Savings estimates which implies that the overall savings available have increased from $290 million to $370 million per year. Loyal 'non-switching/disengaged' incumbent customers are being 'priced up' by their existing retailers which is driving up the overall savings available. This could result in pricing that is up to 20% higher than their current incumbent retailers best market deals. When potential savings are highlighted to these consumers by other brands the incumbent win-back strategies then address this pricing gap, which ultimately limits competition, and leaves up to 90% of the remaining market on higher pricing than the switchers benefit from. The Gentailers are putting shareholders interests (including the Crown) ahead of the interests of the people of New Zealand. Consumer NZ's 2018 Energy Provider Survey found 44% of households were concerned about the environmental impact of the electricity they used (P15, Electricity Pricing Review Report) yet the Gentailers are **<u>not</u>** choosing to invest their retained earnings, primarily gained from the New Zealand people, to invest in transforming the renewable Generation landscape to eliminate coal, as fast as humanly possible, and potentially reduce electricity costs to residential consumers. Disappointingly we have already recently experienced two examples from incumbent, majority owned Crown retailers, where their investments/actions will increase the long term cost of NZ residential electricity. This includes Meridians' commitment to provide additional Generation to Tiwai to start the 4th pot line at a c.30% discount to average residential wholesale pricing which will ultimately tighten supply (c.4%) and consequently increase residential pricing in New Zealand. Also Mercury Energy's recent significant investment in TILT will use resources, derived from NZ customers, to invest primarily in the decarbonisation of Australian Generation rather than creating more Generation in New Zealand which would increase the supply and ease the pressure on pricing over the mid to long term.

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

energyclubnz does not believe that consumers have an effective voice in the electricity sector. Figure 3, page 16 of the Electricity Price Review document issued on 30/8/2018 supports this with the ‘Key Decisions Affecting Consumers’ being heavily influenced and controlled by an environment that is designed to support the status quo (heavily influenced by the incumbent retailers).

The new challenger brand propositions in the retail sector are built off better delivering against consumer needs but effectively are being suppressed by poor regulations, ineffective wholesale markets and policies that support the status quo rather than investing in taking the electricity category into the future.

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

Consumer Trust surveys have to be very carefully considered and the Industry tends to ‘shout about the results’ through ‘rose tinted spectacles’. Comparisons with Australia aren’t relevant as the sector in Australia has been highly politically motivated for more than a decade with failed policy so ‘Trust’ levels will be low.

energyclubnz strongly believes that the high trust scores publicised by both Consumer NZ and the Energy Retailers of New Zealand (ERANZ) actually represent a total lack of engagement and understanding by NZ customers. For example ‘Do I trust my electricity retailer to supply my electricity (the switch works when I flick it on) and bill me for it?’ – Of course I do, it is their job.

Prices

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

Caution should be used when analysing Generation inflation across time due to the lack of separation between some of the Generation and Retailers businesses. Within some of the incumbent operators the Generation prices are more internal ‘accounting’ prices and do not always fully reflect the actual wholesale markets.

Some Gentailers will give their Retail business a single price irrespective of the profile of the energy actually consumed across the period - Genesis Energy publish an internal ‘transfer price’ within the annual report. If the Gentailers retail business declines, or exceeds, the expected volumes there will be no additional financial cost or penalty. These types of deals are not accessible to the ‘non-Gentailer’ retail businesses who are consequently carrying a greater risk as they have to actively trade on the wholesale markets and constantly focus on the shape of the load and the structure of the individual hedges to minimise risk.

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

New Zealand is positioned very well at the average level given the size of country/distribution network versus the population size, high levels of previous Government investment in renewables and complexity of the industry. However without any major Generation builds we would expect wholesale pricing to start to increase significantly, accelerated by the electrification on transport and worsened by the Generators managing their portfolios to maximise value and prices. This is likely to mean that New Zealand will move towards the left of Figure 9 over time.

6. *What are your views on the outlook for electricity prices?*
energyclubnz does not have a positive view on the outlook of electricity prices due to the control and influence of the major incumbent Gentailers on the Generation, Retail and the Industry. This view is worsened by the incumbents desire to deliver stronger returns to their shareholders (including the Crown) at the cost of the New Zealand consumer and potentially future generations. 3 of the major incumbents are already high invested (Genesis Energy after the increased KUPE purchase and LPG acquisition) or actively investing in other International markets new generation rather than New Zealand (Mercury Energy and Meridian). In addition to this available Generation capacity has been constrained by selling this capacity to start the additional pot line at Tiwai. All of this will have a negative impact on the short to mid-term wholesale markets.

Affordability

7. *What are your views on the assessment of the size of the affordability problem?*
The review has captured the scale of the affordability problem and has identified some of the core issues that are making electricity less affordable for key socio-economic groups. Outside of the quality of housing energyclubnz is also concerned that the use of Prompt Payment Discounts used primarily by the incumbent retailers, which the Meridian CEO has recently described as unfair are having a bigger impact on those that can least afford it.

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

There are three areas that are not adequately included under the causes of the affordability problem.

1. We would encourage the Electricity Review to request from the incumbent retailers the actual spread of pricing, for equivalent usage on the same meter type in each network area versus their best price offered to new customers for both uncontracted and contracted customers. energyclubnz estimates that the difference in pricing between 2 households which are exactly the same in usage, meter type and tariff type could be up to 20% different. This does not deliver the 'Fairness' expected in the Electricity Pricing Review. This exaggerates the affordability issue and we would recommend that any pricing offered to any customer should be automatically available 'as a best price' to all existing customers who should automatically be upgraded to their best plan. This would help these customers who cannot switch companies but would prevent them being penalised by a 'loyalty tax'.
2. The Government has recently put in place 'Winter Energy Payments' to try and support households. energyclubnz would recommend these payments being paid directly to the relevant households energy bills so that the funds are not diverted to other areas.
3. energyclubnz believes the impact of Prompt Payment Discounts being missed is 'significantly under-estimated' meaning that the impact of these penalties will be far greater than expected on 'Affordibility'. If Residential consumers paid $3.6 billion to electricity retailers last year (P9 Electricity Pricing Review) then we estimate that the impact of non-payment could be between $100-$200m which would disproportionately impact lower income households. energyclubnz would encourage the Electricity Pricing Review to request more information from the incumbent retailers to determine the total cost of non-payment during 2017. We believe that the impact of both point 1. and 3. could make a low income households bill more than 30% higher than a higher income household.

Eliminating both 'unfair' pricing and removing all Prompt Payment discounts could have a potentially transformational impact on affordability.

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

As stated energyclubnz believes that the Industry needs to take immediate corrective action on affordability via stopping prompt payment discounts, improving the targeting of Government Energy Payments directly to the bill and bring 'fairness' back into the pricing rather than favouring the 'switchers' ahead of the 'stayers'.

On new technologies affordability will become worse unless Government, Charities, Industry Participants and potentially even trusts start to partner with new and innovative retailers to fund and install technology onto these households to eliminate part of the bill.

There are also significant improvements that can be implemented on housing specifications for both new builds and retro-fits across all segments that will increase the energy efficiency of properties (double glazing specifications, insulation, maximising roof space and angles towards the sun and minimum heating efficiency standards). This would also have an indirect positive impact on affordability if it was implemented across different segments.

Summary of feedback on Part three

10. *Please summarise your key points on Part three.*
energyclubnz is concerned that: i) New Zealand is not investing in the new renewable Generation required to create the electricity market required for the future (Transpower forecast of doubling demand by 2050) ii) We are in an environment of 'tightening supply' which will ultimately increase prices iii) The market has been regulated to maintain the 'Status Quo' heavily influenced by the incumbent Gentailers iv) There is a widening pricing gap between those that switch and those that stay which is creating unjustifiable discrimination between different customers in the same distribution areas on the same meter types v) The heavy use of 'Prompt Payment Discounts' (aka 'Late Payment Fees') are having a disproportionate impact on those who can least afford it

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
• Separate the Generators from the Retailers and force investment into new renewable assets – even if this is done via the Government creating a new Generator or using their 'Golden Share' to take back ownership of the Generators. • Force retailers to automatically upgrade all customers onto their best price in each distribution area, on each usage and meter type. If they are prepared to offer it to one they should offer it to them all. • Ban win-backs from the market • Review how State payments (ie Winter Energy Allowance) can be targeted directly to customers bills

Part four: Industry

Generation

12. *What are your views on the assessment of generation sector performance?*
The current wholesale market (October 2018) clearly demonstrates the vulnerability of the New Zealand Generation Sector with a dramatic increase in spot prices due to a gas outage and lower than average hydro levels. Regulatory changes in 2010 may have changed the Generation behaviour but the penalties still fall on <u>all</u> retailers when effectively, those without Generation, have no ability to influence the Generation. energyclubnz recommends that these penalties are changed to reflect existing size of Generators or to exclude retailers who do not have any Generation assets. During October 2018 NZ's largest coal Generator wrote to all market participants in the Industry to clearly state that they only had enough coal on the ground to support their own residential business during a dry period but would be willing to get more expensive international coal on the ground for other clients if required. The current market structure dominated by the Gentailers is ineffective. The lack of separation of retailers and generators penalises the current 'retail only' businesses. The market structure actually encourages Generators to reduce available supply in the market-place to drive up wholesale pricing and consequently does not encourage investment in new renewable Generation. The current environment favours returning funds to shareholders above investing in the future. A recent EY report detailed that New Zealand would require +50% more Generation by 2050 to be able to meet expected demand. Transpower forecast a doubling of Generation is required. Retiring coal by 2030 will also increase these demands on Generation yet we still do not have a significant glide path from the Generators to transform and step-change the Generation available in New Zealand. Instead we have at least 2 major primarily Crown owned Generators choosing to invest internationally rather than in New Zealand.

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

energyclubnz disagrees with findings of the initial review and believes there are significant barriers to competition in the Generation sector which is supported by the fact that the incumbent operators still own over 90% of the market. There are 3 key issues

1) capital raising – to deliver a significant Generation asset then this requires a balance sheet that is backed by a significant asset base; the current incumbents have a balance sheet that was created by the partial sell-off of these crown assets and consequently should be limited to investing back into New Zealand Generation assets only

2) investing in Generation assets is a long term strategic decision which is unlikely to pay-back within the lifespan of a CEO's role and

3) It suits the current incumbents that these barriers do exist as it will drive up the price of wholesale electricity over time due to the relationships of supply and demand.

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

energyclubnz believes that the current arrangements will fail to ensure that there is sufficient new generation to meet demand. The incumbent Gentailers will make more money the higher price that the electricity is. They have absolutely zero motivation to invest heavily in building more Generation that will increase supply and reduce the value of their own businesses.

If coal was removed from the Generation mix because adequate renewable generation was available (typically coal comes into the mix at a minimum wholesale price of $85) then wholesale pricing would be significantly lower and could potentially almost halve.

Due to a significant improvement in wind technology across recent years all wind consents would need to be renewed to accelerate wind development and this will require substantial changes and potential acceleration of consent processes at a national level.

Retailing

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

There is not only an emergence of a two tier market but also, even within each brand, a two tier customer base – the ‘stayers’ and the ‘switchers’.

energyclubnz would recommend that the Electricity Price Review compares the range of rates being offered within the same brands within the same distribution company areas. The ‘non switching loyal stayers’ are effectively funding better deals for the ‘non loyal switchers’. This cannot be solely accredited to ‘switchers’ looking around for better deals as a proportion of switching is a result of more direct marketing activities from other brands.

energyclubnz strongly believes that nearly half of customers who have never switched are being ‘priced upwards’ to fund better deals for new and exiting customers and deliver increased levels of profitability for shareholders.

Winback activity, and the recent ‘Save Protection’ scheme that the Electricity Authority delivered, limits competition and the ability for new entrant, innovative retailers to establish themselves. Winback activity should be eliminated in the market to maximize competition.

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

There are still significant barriers to retail competition.

energyclubnz does not accept that Prudential changes have reduced the barriers to entry significantly. This barrier is why most retailers have to go through major funding rounds to deliver growth or establish significant investor partnerships.

In total summing up all Prudential payments, including both the NZX and Distribution companies, will range between c.2 to 4 months per individual customer. Distribution company Prudentials above 2 weeks attract high interest rates, from the Distribution company, but NZX payments that typically ranging between 56 and 74 days do not. The NZX 'Exit' period of 18 days constitutes the time that it is deemed to take to switch a retailer customer base from the point of default. This assumption is outdated and given improvements in switching should be shortened significantly.

Prudential payments can also significantly change across a few days due to high market volatility as often the paperwork from confirmed deals can take a period of time to get lodged. These high fluctuations can increase the risks associated to growth.

As a growing retailer energyclubnz initially found it challenging to secure wholesale deals from the Generators, to reduce risk, due to the minimum hedge sizes required. As we have grown the number of responses from Generators has started to increase but trades only occurred after we had exceeded a minimum hedge size.

We would have expected a more 'sophisticated' wholesale market to have been available from the Generators considering most of their own incumbent businesses would have a single price allocated to their retail businesses across a year, and will not be influenced by changes in wholesale pricing, shape etc. The Genesis Energy transfer price is issued in their financial year reports. Similar types of deals are not available to 'non incumbent' brands.

The Futures market has developed allowing trades as low as 0.1MW but gains cannot be lodged against reducing the NZX Prudential. Consequently this means that a Futures trade can create value that can only be used to off-set a market risk, after settlement, leaving short term unnecessary Prudential increases to be managed.

Vertical integration

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

energyclubnz does believe that vertical integration limits competition.

The incumbents retail businesses benefit heavily from the simplicity of the internal wholesale relationship and the matching of their Generation load to their retail businesses.

Also the scale of the New Zealand market does not necessarily allow fully liquid markets to be formed which is demonstrated in the Peak Futures markets where little volume is traded and pricing is very thin.

Generators also do not have to pay NZX Prudentials so they automatically have a scale advantage that can be fully leveraged and can efficiently use the cash that they have to hand.

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

energyclubnz would recommend that the panel reviews retail profitability on a more granular level across the incumbents which accounts for whether a customer is a 'stayer (having never switched)' or a 'switcher'. When the full cost to serve is allocated, to every customer, we would expect the 'stayers' to demonstrate that exceptional levels of profit are being made and the 'Switchers or those that have been won-back' are closer to break-even or even loss-making. Within the 'Switchers' we would expect those that have more recently switched to be the less profitable.

Transmission

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

No relevant views on Transmission

Distribution

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

No relevant view on distributor profits

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

Due to the increasing pressure on distribution companies networks there are 3 key areas that could help to improve efficiency:

i) Improved Peak load management – including simpler tariffs to encourage customers to switch their usage from the Peak. Energyclubnz currently has relationships with 2 Distribution companies where there is a ‘Peak Load’ charge that occurs **after** the period ends. This is equivalent to you visiting Countdown and getting billed after you have left the store dependent on the price of a key commodity.

ii) energyclubnz would support the establishment of a centralized repository for metering data based on the Victorian model in Australia with clear delivery standards. Until recently Metrix, owned by Mercury Energy, could only supply half-hour data to 14 out of 34 retailers and were more than a year behind on a major systems upgrade. This discriminated against new retailers, without any meaningful action from the Electricity Authority to fix the situation. The other key meter provider also has a poor delivery performance on files. Whilst the industry contemplates ‘blockchain’/’multiple participant trading’ we would strongly recommend that the Industry makes its existing technology fit for purpose.

iii) energyclubnz, subject to Privacy regulations, would support an Industry wide initiative to give distribution companies better access to data that will allow them to better plan network investment and thus minimise costs to the customer.

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

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

Summary of feedback on Part four

24. *Please summarise your key points on Part four.*
1. energyclubnz is concerned that the Industry is setting itself up for failure by not investing in adequate new renewable generation assets 2. Due to this, and the tightening of supply, we expect wholesale costs will increase across the coming years which will significantly benefit the Gentailers 3. There are significant barriers to entry for a new retailer (and we have experienced all of them) including high Prudentials, a relatively unsophisticated wholesale market that does not easily support growth retailers 4. A widening pricing gap between the ‘switchers’ and the ‘stayers’

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.
1. Separation of Generation and Retailing assets, with Generators being forced only to invest back in New Zealand 2. Review of the barriers to entry including reduction of Prudentials and banning of win-back activity 3. Regulation that supports all customers having access to a brands ‘best price’ rather than the ‘new customer only’ deals that we see today.

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?*
Technology will have a significant impact on both consumers and the electricity industry. It should be recognised that the Industry needs to make its existing technology 'fit for purpose' including the poor quality of the Industry databases and providing access to 'live and timely metering data' that can help consumers change their behavours.

27. *What are you views on the assessment of the impact of technology on pricing mechanisms and the fairness of prices?*
Until 90% of the market can deliver 'fair pricing' on their core business the risk is that technology will only widen the current pricing gaps.

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

Regulation

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

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

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

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

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

Summary of feedback on Part five

34. *Please summarise your key points on Part five.*

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.*

Additional information

36. *Please briefly provide any additional information or comment you would like to include in your submission.*