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

15 Stout Street

PO Box 1473

Wellington 6140

Contact details

Name	**Ian McChesney**
Organisation	**Public policy contractor, energy hardship researcher**
Email address or physical address	9(2)(a) [redacted]

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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Submission to the Electricity Price Review by Ian McChesney

My submission focuses on consumer aspects of the report, in particular affordability, prices, issues of energy hardship and fairness. More detailed comment is made to some of the questions asked (below), but there is one over-riding recommendation I would make to the Review as follows:

A joined-up approach to addressing energy hardship:

Energy hardship and associated issues such as affordability and pricing is at the core of many parts of this report. I fully support the review's view that multiple parties need to come together to address energy hardship. I recommend that a formalised grouping is needed involving government agencies, the industry and relevant non government and consumer representatives.

Multiple tasks can be identified including at least:

- Develop agreement on terminology, a definition or description, and the indicators for monitoring for 'energy hardship'
- Serve as a joint committee monitoring and reporting on progress to reduce energy hardship
- Review the effectiveness of interventions such as the Winter Energy Payment and recommend improvements (which could include targeting, structure of assistance, and methods of payment)
- Consider options to the low fixed charge tariffs.

Response to questions:

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

"There is no such thing as a typical consumer" (p15) is welcome recognition of the diversity of consumer interest in electricity. But I don't think that diversity is fully represented in the report. Consumer NZ[1] has recently suggested *"Consumers want: fair prices and contract terms; an effective complaints process; penalties for misleading behaviour; better protection for vulnerable consumers; and consumer participation in regulatory processes"*, and I think this usefully adds to the report's assessment.

Also I suggest the review consider whether the issue of the 'dual market' in relation to switching, with 23-42% (p36) never having changed supplier, is in part a reflection of a key priority for some of those that have not switched - supplier 'stability'. The reasons may be broad and encompass brand loyalty, wanting to keep it simple, a scepticism that benefits from switching will be short term, perception that effort will outweigh benefit, and that staying with their existing supplier provides non-monetary benefits such as standards of service, timeliness, fair process, proactivity on the customer's behalf when warranted. I would argue this is different from the portrayal of this group in the report as 'failing' to engage with the competitive market; rather it is better characterised as a deliberate choice by these consumers.

[1] Jessica Wilson, Consumer NZ quoted in Utilities Disputes: https://www.utilitiesdisputes.co.nz/UD/WhatsHappening/News/2018/Interview_with_Jessica_Wilson,_Consumer_NZ.aspx

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

Having *"an effective voice"* begs the question - what is 'effective'? The implication is that it goes much further than just having 'representation' at various levels of the industry, and suggests being able to meaningfully influence policy decisions and outcomes in the sector. One of the difficulties faced by consumer voices is the technical nature of the sector, with engagement points often of a highly specialist and technical nature. This can be extremely limiting to consumer voices.

One of the most effective voices for individual consumers is Utilities Disputes, which is missing from Figure 3 (p16) as a key decision-maker. Utilities Disputes' rulings often having the ability to influence broader electricity industry behaviour.

In my view the report incorrectly asserts that consumers are represented on the Electricity Authority working groups (p17 and p79). This may have been the case in the past but the two current advisory groups, Market Development, and Innovation and Participation, contain no consumer representatives as far as I can ascertain from participant profiles on the Authority's website. The advisory groups comprise industry representatives and technical experts.

The discussion on whether Consumer NZ should extend their advice and advocacy role to helping those in energy hardship seems misplaced in this section (and somewhat left-field). Those in energy hardship often need individualised assistance from specialist agencies. There are long established organisations in the community addressing energy hardship and related issues such as those providing specialist energy advice and services[2], budget advice services etc.). Consumer NZ may have a valuable role in helping support the relevant organisations on the ground.

In its further reporting I suggest the EPR outlines what it considers an 'effective' consumer voice within the sector should be, looks at how this could be measured, and assesses how the industry currently performs. This would provide a much better basis for considering options for improving the consumer voice. For example, the Energy Consumers Australia initiative mentioned in the report is an interesting idea. Whether we need something similar in New Zealand should be informed by a clearer 'problem statement' and examination of relevant options.

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

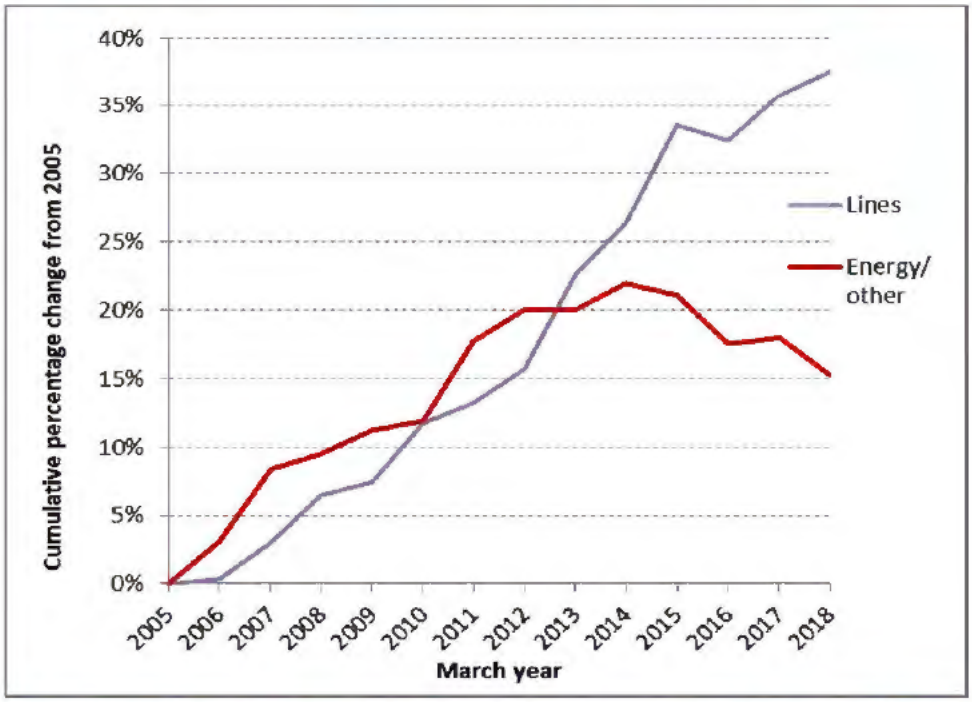
The information on real price trends (Figs 5-8) is useful, and helps characterise the composition of price increases faced by consumers since the early 1990s. There appear to be four significant issues:

- Increased distribution charges in the decade 1990-2000 due to a re-assignment of charges from commercial users to residential, (Fig 6 and Fig 7)
- Increased distribution charges caused by new asset valuations and earning commercial rates of return (Fig 6 and Fig 7)
- An increase in 'retailing' costs since mid -2000s (Fig 6 and Fig 8)
- An increase in GST (Fig 6 and Fig 8).

However the components of price changes experienced in the residential sector in the last 6 years are not adequately explained in the report. The graph below takes sales based average annual cost per unit data (real costs) from MBIE and presents the two components of residential prices reported

[2] For example see: https://communityenergy.org.nz/

(lines, and energy/other) as cumulative percentage changes from base year March 2005[3]. The graph clearly shows a change from around 2012-2013 when increases in the energy/other component stabilised and decreased while increases in the lines component have largely continued unabated.



Cumulative % change in the 'lines' and 'energy/other' component of average residential electricity costs

This ongoing increase in lines charges, and the reasons for them, are not clearly explained in the report. In order to understand this key aspect of residential energy price rises we need to know how the composition of lines charges has changed over time i.e. how much is due to actual reinvestment, operating costs, profits and so on. Clearly there are differences between lines companies that relate to network size, topography and the area serviced (e.g. whether rural or urban) but detailed analysis by distributer is lacking.

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

It is unclear why the data sources for the international comparison of residential prices differ between the EPR Terms of Reference document and this report. The TOR cites the IEA In Depth Review of New Zealand (2017) that found that residential electricity prices in New Zealand were *"well above the IEA average in 2014"*. This report uses OECD Innovation and Employment tables to show that *"New Zealand's average residential price was in the lower half of all OECD countries in 2016"* (p23). These seemingly conflicting reports provide quite different narratives which potentially can steer responses one way or the other. Which report is correct, and why?

With New Zealand's factor advantages in generation we might expect to see relatively low prices compared with other countries. However neither report bears that out once New Zealand's relatively low tax component of prices is taken into account (i.e. Fig 9, p23). It is also not clear that we compare favourably with countries having a similar generation mix.

[3] From https://www.mbie.govt.nz/info-services/sectors-industries/energy/energy-data-modelling/statistics/prices/electricity-prices - extracted 19 October 2018. In 2005 the lines component made up 40% of total average residential price; by 2018 this had risen to 44%.

For residential consumers comparing electricity prices alone gives a very limited view. A more comprehensive 'energy services' approach is needed comparing the prices of the relevant mix of energy sources used in homes, energy efficiency, and affordability especially the incidence of energy hardship (and taking account of other cost-of-living issues such as housing costs).

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

Energy hardship - I welcome the EPR team bringing affordability and energy hardship to the forefront. I acknowledge that any assessment of energy hardship and affordability in New Zealand is hampered by an historic lack of coherent government policy in this area, with no formal consensus about terminology, definitions or measurement. But the choice of data used, and the analysis in this report, can and should be greatly improved.

The EPR report asserts that energy hardship is commonly measured by a household spending more than 10% of its income on energy. This is incorrect. While it is true that some in New Zealand have used this approach, very few have applied the original intent or methodology correctly, and as a result the measure cited in this report is a relatively meaningless indicator of energy hardship. The original methodology was developed in the UK and used up to 2013 as the formal definition of fuel poverty. But the UK definition was not based on what a household actually spent on energy, but what they would need to spend if required indoor temperatures and adequate levels of other energy services were achieved, taking account of house features including insulation, heating system etc., and actual prices paid for energy. If the household needed more than 10% of income to meet this energy need it was deemed to be in fuel poverty. This approach requires detailed house information and energy modelling. In the UK national fuel poverty assessment was based on regular, detailed house surveys and associated analytics.

Using actual energy expenditure tells a completely different story to that told by the UK definition, and is unlikely to account for the common reality in New Zealand where households in energy hardship are constrained in their ability to spend on energy and would not meet the 10% threshold of actual expenditure (as the report acknowledges on p25). But even the original formulation has been replaced as the official measure of fuel poverty in England following review in 2011-12[4], some of the reasons being that the 10% threshold was 'essentially arbitrary', and the measure did not allow the 'depth' of fuel poverty to be determined[5]. Note this misunderstanding also features in the arguments about the low fixed charge tariff and high energy use in relation to the UK (para 3, p76) – the UK study cited was looking at high required energy use not actual use.

The EPR report uses the results from Stats NZ's energy hardship study published in 2017 to quantify household numbers sitting above the 10% actual energy expenditure threshold[6]. But it is not clear why the EPR team chose this particular indicator when it was not one of the indicators Stats NZ used in their preferred 'bundle of indicators' approach to describe energy hardship. The bundle featured a strong preference for subjective indicators that asked householders directly about adverse

[4] Scotland, Wakes and Ireland have retained the 10% energy expenditure definition.
[5] Hills, J. (2011). Fuel Poverty: *The problem and its measurement*. CASE Report 69. London: Centre for Analysis of Social Exclusion.
[6] Stats New Zealand, 2017. *Investigating different measures of energy hardship in New Zealand*. Accessed at: http://archive.stats.govt.nz/browse_for_stats/people_and_communities/Households/energy-hardship-report.aspx

outcomes such as putting up with the cold and being unable to pay energy bills on time. The 10% expenditure indicator generally correlated poorly with these subjective indicators.

Stats NZ's analysis of the bundle of indicators approach gives an interesting view of the extent and depth of potential energy hardship[7]. They estimated that across New Zealand 21% of households (356,000) displayed one energy hardship indicator, 5% (85,000 households) two indicators, and 3% (51,000 households) three or more indicators. Those households displaying two or more indicators suggest an increasing depth of energy hardship (although this is not necessarily the only, or best, way of measuring depth of the problem). Looking at just low income households 45% (150,000 households) displayed one indicator, 13% (45,000) two indicators and 9% (30,000) three or more indicators. Overall low income households comprised 46% of all households displaying one or more energy hardship indicator, but this rises to 55% when looking at households with two or more indicators.

The Stats NZ study should not be regarded as the final word however – it still needs refinement and consensus around the final indicators used in the bundle and formalising this within government policy as the way energy hardship is described and measured. Because of the centrality of electricity to residential energy in New Zealand electricity-based indicators potentially have an important place as formal energy hardship indicators. The electricity industry holds unique information that relates to energy hardship (e.g. the breadth and depth of electricity debt, disconnections for non-payment (include pre-payment meters), electricity prices paid per kWh, and other attributes, by deprivation index. Indicators based on this information could be a very valuable addition to indicators already identified by Stats NZ, and I recommend this to the review team.

Consumer NZ survey results – The energy affordability questions asked by Consumer NZ for the EPR report are good ones. But it is not clear that their survey represents the population as a whole, or that necessary checking and baselining back to other known databases has been carried out. For example, the graph in Figure 11 showing the percent of households that had their power cut off because they couldn't pay the bill suggests a total over 120,000 households. But the Electricity Authority collects this data on a quarterly basis from electricity retailers, and in the 12 months to 31 March 2018 the total recorded was just over 26,000. Note that this total fails to account for regular, 'involuntary' disconnections from the pre-payment provider Globug - accounting for these disconnections could raise disconnected households to around 50,000, but still considerably less than indicated by the Consumer survey[8].

Thus the concern is that the graphs in Figure 11 are not reliable to help quantify the size of the problem.

What are your views of the assessment of the causes of the affordability problem?

This section makes some good points, and is well-informed by input from budget advisers. I would add the following:

- Terminology – throughout the report issues of affordability are often equated with low gross income. While this is a significant factor, the income constraint is better characterised as

[7] Note that there is no formal adoption of these indicators at this stage.

[8] There is a need for the Electricity Authority to bring consistency to this collection because while Globug disconnections are not counted disconnections from other pre-payment providers are counted.

one of low income net of other expenses of which housing costs tend to be the most significant. Also the report sometimes equates income with deprivation index (e.g. see p 66). This is incorrect – the deprivation index encompasses a broad range of factors including income, home ownership, employment, qualifications, family structure, housing, access to transport and communications[9].

- Rental dwellings compared with home-owned. A large proportion of consumers facing affordability issues rent their dwelling. There are several barriers to achieving more affordable energy outcomes in such homes:
    - Higher overall dependency on electricity for household energy needs (lower access to reticulated gas and wood burners)
    - Successive BRANZ House Condition Surveys have shown lower levels of installed energy efficiency
    - Many of the cheaper electricity plans listed on the Powerswitch website are for a fixed term but these may not be appropriate for renters because the fixed term is incompatible with rental tenure agreements[10]
- Access to smart meters – lack of access restricts the ability of those households to access the full range of tariff options. As at 31 December 2017, 19% of households did not have a smart meter[11]
- For some on fixed incomes and tight budgets high winter power bills or unplanned expenses in other areas can result in missed electricity payments, which then escalates as recurring debt. One of the issues not discussed in relation to those missing getting the prompt payment discount (Fig 11) is that many of those missing the discount multiple times may only have had a single debt event, but if repayment is spread across several months the discount can be lost for those months.
- Clarity is sought from the EPR on the prices paid by those on pre-payment plans. In particular EPR's recently released 'Initial analysis of retail billing data' report suggests prices paid on pre-payment plans are similar to those on debit payment plans. Yet perusing the Powerswitch website shows Globug prices consistently20-40% higher than the cheapest tariffs available in each area.

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

One of the issues raised in this section, and mentioned frequently throughout the report, is the potential for private investment in solar panels to result in electricity fixed charges being increasingly concentrated on low income households because these households are unable to afford solar panels themselves. While I think this is an important issue to consider, the report does not explore the reality that to some extent this phenomena has been going on for decades through wealthier households investing in technologies that result in reduced electricity use (such as energy efficiency, gas appliances and wood burners). It would have been helpful to have seen an assessment of whether this has resulted in cost shifting of some distribution and retailing charges to low income households (or whether this has been offset by the low user tariff).

[9] https://www.otago.ac.nz/wellington/departments/publichealth/research/hirp/otago020194.html
[10]. McChesney, Ian. 2018. Guaranteeing Healthy Homes? Challenges to achieve warm, dry, healthy homes for tenants under potential HHGA Standard. Community Energy Network
[11] https://www.emi.ea.govt.nz/Forum/thread/prepaid-and-low-fixed-charge-contract-uptake-2017/

One distinction I think the report fails to make clear with respect to the distributive effect of cost allocation to consumers is that the electricity industry concern over the impact of PV is not just about a loss of the margin through reduced sales of electricity but the minimal impact on peak loads (unless batteries are installed). For example Unison Networks makes it clear that their PV pricing strongly relates to the limited ability of PV to reduce peak demand capacity[12].

The report rightly observes that time-of-day pricing creates winners and losers, even although in the long terms such prices may improve affordability. Households particularly impacted would be those with sole energy reliance on electricity, poor levels of insulation and warmth retention, and without the flexibility to shift peak demands. Households need the resilience (both financial and behavioural) to be able to manage the potentially very high prices during peak periods. The major concern is that vulnerable, low and fixed income households will respond by turning things off, thus exacerbating energy hardship.

Enhancing energy-related welfare payments, as noted, needs to be part of the mix. However, such payments commonly do not have a good effectiveness track record, and there is concern that the Winter Energy Payment is poorly targeted to those in need. Even where it is well targeted because the payment comes in the form of additional income over the winter months the payment is likely to be spent on a range of things, not just energy[13].

Footnote 60 needs to be updated with respect to the potential requirements of the Healthy Homes Guarantee Act 2017; at this stage specification of some form of heating seems highly likely[14].

What are your views oo the assessment of barriers to competition in retailing?

As noted in the report the ability of a retailer to offer a win-back discount potentially stymies competition and leads to a system of dual pricing whereby long-term customers suffer a 'loyalty premium'. Based on fairness alone, on the face of it an industry code preventing win-backs is supported.

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

The discussion in the report on distributer's profits which focuses on whether distributers are operating within Commerce Commission rules avoids the main point of critique[15]. Compliance is not the issue (and if it were one would have expected the Commerce Commission to have acted). The main issue is around rules that have allowed upward revaluation of assets and assured returns, resulting in greatly increased profits from the sector.

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

I accept the report's conclusion that a re-adjustment would provide greater fairness for residential customers. However the analysis of winners and losers requires moving beyond the 'average' to look at the specific impacts within each distribution network. The analysis also needs to ensure that

[12] https://www.unison.co.nz/tell-me-about/electricity/solar-energy/your-solar-pricing-questions-answered.
[13] Ibid at 10.
[14] https://www.mbie.govt.nz/info-services/housing-property/housing-quality/consultation-healthy-homes-standards/discussion-document.pdf
[15] Bertram, Geoff. 2018 *It's all there in the accounts: electricity distributors are making excessive profits.* https://www.stuff.co.nz/business/opinion-analysis/107508109/its-all-there-in-the-accounts-electricity-distributors-are-making-excessive-profits - extracted 19 October 2018

whatever readjustment, and methodology is chosen, is robust given future projections (e.g. increased efficiency, PV, electric vehicles).

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

The main difficulty in putting 'fairness' as a specific regulatory obligation is the potential conflict between objectives (e.g. fairness vs 'competition' and 'efficient operation') with the undesirable possibility that unelected officials/board will be arbiters of trade-offs. Such decisions should be the responsibility of government to make (and be accountable for). It may be better that obligations that have a fairness objective are specified by government for the industry, although this would need to be weighed against other options to provide fairer outcomes. This would be a more transparent and accountable approach.

I agree with the desire for more joined up policy/ decision-making between public bodies, but also that meaningfully involves NGOs and consumer organisations.

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

Critique of the low fixed charge tariff is fair enough, especially the 'blunt instrument' concern where high income households living in energy efficient homes or using duel fuels are captured as well. However the tariff was put in place for a reason, and to date despite criticism of the tariff being made over a long period of time by the electricity industry, a solid alternative is not obvious.

That said, I agree there are likely to be better ways of providing similar benefits to needy households. There is an urgent need to move to identify potential options and undertake a detailed analysis.

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