



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	Ronald James (Jim) SCOTT
Organisation	Private
Email address or physical address	9(2)(a) [Redacted] [Redacted] [Redacted] [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.

Permission to reproduce

The copyright owner authorises reproduction of this work, in whole or in part, as long as no charge is being made for the supply of copies, and the integrity and attribution of the work as a publication of MBIE is not interfered with in any way.

Summary of questions

Part three: Consumers and prices

Consumer interests

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

1 – 3. Consumers have plenty of energy source choices. The electricity retail market options need to be simpler and better structured so that consumers can make the choices only they can make. They want power that is reliable, affordable and fairly priced.

They have adequate alternative energy options if an open, simpler and more competitive retail market can't be introduced and adequately policed.

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

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

Prices

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

4 – 6. The electricity system usage is well spread across 3 categories of customers - Residential/Commercial/Industrial.

The 1990 – 2018 price changes were heavily influenced while correcting the significant distortions that had developed in the pre-1990 era. During the decades prior to 1990 the large number of local body type ESA's (distributors) had pandered to their voting constituency with new tariff loadings against industrial/commercial entrants, to avoid residential price increases.

Allowing generators and retailers to combine and apply powerful pricing

forces like payment discounts up to 27% at the extreme needs addressing. Nothing can or should be done to reverse GST's impact on Residential charges. Maybe a 5% prompt payment discount could be justified. The distribution sector especially from the large vertically integrated companies market power has impacted pricing the most. Further distortions in pricing could lead to some industries seeking direct wholesale supply or alternative supplies. New technologies like solar, batteries, electrification of industries etc could also see distribution being by-passed. Returning to peak off-peak charging through retailers would better reflect the ever-changing balance of supply characteristics/options and would be a healthy for all parties.

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

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

Affordability

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

7 – 9. The affordability problem for the low-income households should not be allowed to influence the overall structure of pricing for the electricity sector in 2018 nor in 2050. The household sector has and is likely to continue to have a good range of heating or electricity alternatives compared to most of the Industrial/commercial customers. With some slightly better technology most households could have solar and batteries which shouldn't be any greater financial challenge than having a heat pump, a log fire, insulation or double glazing fitted. Most low-income households have many alternatives to electricity given that generally heating is the major issue.

The causes and the outlook are manageable given the likely rate of change with technology and electric vehicles. Added to this future legislative moves to separate generation; transmission; distribution and retailing into quite separate silos and making all electricity functions within each silo sharply defined could bring even greater real time reductions in cost to all sectors.

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

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

Summary of feedback on Part three

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

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.*

Solar Panels need a “kick along” as they will likely be significant going forward. Given some better Solar Panel pricing recognition, one way and two way supply and the existing electricity pricing structures moving to visibly peak and off-peak should open a total new era for consumers.

Electric vehicles depending on advanced battery developments have the potential to be a major new customer class.

The way to make these changes would be to start by restructuring the distribution areas, adjust pricing to more accurately reflect cost delivery through the system and then begin adapting to the new generation options and the technology.

Part four: Industry

Generation

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

12 – 14. The international community appears to be split on global warming and whether this is manmade or just another climatic cycling feature of world history. Are we going to get droughts or floods as a result and how long will the cycles be?

Given the strong prospect that electrification of vehicles and industry, to varying degrees, could greatly increase the demand for electricity over the next 30 years our heavy dependence on hydroelectric generation could be a major fluctuating supply risk.

Pumped-storage hydro, Solar Panels, wind farms, coal/gas, nuclear energy must be seriously considered from a future planning options perspective.

Technology developments anything like what the last 30 years have delivered would suggest that to exclude any options from future planning could be fool hardy. Even coal fired with chimney gas discharge cleaning technologies could return and become a strong future clean energy option.

We must continue to lower the barriers to competition in every area of the electricity industry. Competition is the best and most effective force for greater cost and production efficiency and the last 30 years has shown us what worked best.

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

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

Retailing

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

15 – 16. Pricing changes from the monopoly transmission and distribution sectors must be passed through “unaltered” to end users of all classes. Peak and off- peak variations in aggregate values at the retail level must be re-introduced to give the correct and most efficient price signals. Any discounts for prompt payment should be restricted to typical commercial practice to avoid possible virtue signaling. We need to restructure so that the competitive retail sector and the local monopoly distribution companies can slim-down to approx. 10 strong companies competing right across the market place. Further development of one-way flow to two-way flow arrangements will also be important acting as additional capacity and delivering increased competitive pricing.

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

Vertical integration

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

17 – 18. Vertical integration needs to be phased out with a clear separation into independent silos for those currently in both areas (also strict limit on other businesses included)

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

Transmission

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

19. Not familiar enough with background to say other than hopefully the system ensures that the next generators operating characteristics match the new market demands and are located at or near where they are most needed so as to minimize the overall grid pressures.

Distribution

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

20 – 23. From my view of our local distributor's actions over the last few years they need to be rigorously reassessed. They have just built new \$12 million office block and seem to be creating new Boards, businesses etc to help absorb the surplus cash being generated.

This is not how I believe a lowest cost distributor should be functioning to ensure lowest possible pricing to all who must use their network.

Seems to me there is no incentive for distributors to aggressively encourage solar heating etc while they are regularly grabbing the headlines with more EV fueling stations etc

This sector I believe wins the prize for needing a thorough strategic review with a clear need to start looking at options for lowering costs to all end users while more accurately reflecting the costs of delivered energy.

Probably the largest change for distributors is to move the size, number and management style forward in line with modern day technology. I believe they need to get down to about 10 entities nationwide and focus in on delivering an acceptable standard of service at the sharpest possible prices.

Just like for most of the local authorities throughout NZ they seem determined to resist moving their business models forward in line with the private sector. They need to adopt extensive use of GPS's, mobile phones, tablets, and modern cloud-based technology. This would allow rationalization into much larger natural areas of efficient coverage and service delivery within natural boundaries rather than historical ESA structures. Some rationalization took place but basically back between 1990 and the early

2000's strong political and regional resistance inspired compromises that won the day.

Electricity systems for a healthy future, say 30 years forward, need to move on. Cash and asset rich businesses driving forward based on local parochial agendas is not what the 2nd 30 year growth phase needs.

Industrial and commercial customers who often have dedicated feeds and often at higher voltages should be able to be more accurately assessed especially if the true peak/off-peak and volume cost assessments are accounted for.

The compromise ownership models of the early 1990's, of transferring local assets to trusts who might then own a portion of the distributor, is totally out of time. They are an unnecessary cost for little or no return.

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

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.

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.

Most parts of the industry are functioning well within the parameters set for them. We now quite urgently need to restructure the distribution and the retailing functions by initially removing the vertical integration eligibility. Pricing that doesn't closely follow cost of production guidelines is an inefficient use of a critical resource.

We need to accept that climate change is normal (whether man made or not) and although our high dependence on hydro is internationally something to be proud of more significant droughts or flood periods need a better more balanced capability. Solar Panels, large storage batteries, electric vehicles and other new technologies will likely change the usage patterns and the respective costing structures overtime.

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?*

26 – 28. This is the big chance to allow many new players to enter the market facilitating competition and having access to the distribution networks or providing their own. Hopefully much of this new technology, with traditional generator demand being flattened out, will significantly lower overall prices and drive real efficiency into the distribution sector.

The charging structures applied at the retail level are totally out of sync with the generation and transmission costings. Such mismatches of pricing and cost in any business is bad but for electricity as a nearly \$9 billion turnover critical supply sector it is super critical

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

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?*

29 – 33. All parties' best interests are served by open and highly competitive options reflecting the true system costs as applicable.

There is no room for social engineering pricing (fairness) inside the pricing structures of electricity. The regulatory frameworks need to reflect future not

past operations and technologies.

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.*

Once misleading inconsistencies with the current industry structure is set right much of the technical administrative machinery can be quickly adapted to new targets.

Additional information

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

During the 1980's NZ was suffering from widespread power shortages and the Government wanted to stop being responsible for the capital costs and using the Ministry of Works to build much needed new generation and transmission capacity. The era of "think big", electricity using developments, as a way of exporting our hydro generated resources, had stretched our capabilities. The transition from Government Depts to more commercially viable operations through SOE changes had begun.

I was appointed to the new Electricity Corporation of New Zealand Board in 1987 and for the next 2 years our task was to recommend to government a total restructuring of the sector. John Fernyhough was the Chairman and the CEO was Roderick Deane. This Board was later supported by a task force team of senior staff who helped develop the proposed new structures. The reactions to our draft ideas created a major reaction especially from the numerous ESA's around the country.

I was appointed as the new CEO of Air New Zealand in 1988 and after several months decided to stand down from ECNZ board due to the work pressures in my new position. Even though this was before the final report came out the major issues were well advanced by this time. The core structure settled on was to separate Generation, HV grid, local distribution and retailing. The 2 monopolies were most easily understood however the significant restructuring and consolidation within regional distribution and retailing brought forth major political pressures especially from the then local body ESA monopolies.

A strong argument was for structures that might end up as economy of scale businesses for distribution on one hand and retail on the other, without any ownership cross overs – no vertical integration. Throughout much of the 1990's the political agendas and pressures from throughout the country resulted in numerous compromises as successive changes to fully implement the master plan were being processed.

Today we can now see what worked well and what simply failed.

This latest review is totally different in that it comes at a stage where the existing system is well bedded in and the likelihood of a doubling of the industry sector size, due mainly to new technology, is imminent. Even if the driver of this special review was to answer the belief that low-income households often "can't afford the current cost of electricity", the review timing is ideal. The preliminary report highlights the confusing signals the current regime is working to and therefore the urgent need to set forth an updated strategy.

The real challenge is preparing for the highly likely future doubling of the sector and ensuring that a cost efficient and accurate allocation of the predominantly monopoly activities of electricity is being adhered to.