



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?*

Network Waitaki is an electricity distributor. Our role is to convey electricity from the transmission grid exit point to the point of consumption, in as vendor-neutral a way as possible. We are agnostic over where the electricity comes from, where it goes, who uses it and what it is used for. We are concerned mostly with conveying electricity as efficiently as possible, ensuring coincident peak load remains within network capacity, and minimising our transmission charges.

We periodically survey our consumer base, covering a number of issues. A clear response each time is that the aspect most valued is "that the lights work". Security, consistency, and reliability of supply is prized over all else.

After that, there is no such thing as a typical consumer. Secondary priorities differ based on circumstances, and include overall cost, environmental sustainability, the ability to support new technologies, etc. It could very well be that residential consumer priorities are heavily influenced by the amount of their disposable income. For the non-residential sector, the secondary priorities are the ability of distribution to up-scale if the consumer needs more capacity, and that the prices being paid have been set fairly.

It is not our job to attempt to influence these priorities. All we can do as an EDB is to ensure any cost impact to us of meeting these priorities is fairly indicated through our pricing to retailers. In the end we are here to satisfy consumer demand.

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

Regarding high level policy issues, consumers have a direct voice every three years as part of the national election cycle. They also have a direct voice in legislative changes through the select committee process, as well as the ability to lobby members of parliament and attempt to influence opinion through the media etc. For distributors owned by consumer trusts, consumers also have a voice through the trustee election process. Consumers may also engage through processes such as this.

The fact that most consumers do not engage is not endemic to the electricity industry. We note that lobby groups and community organisations do become involved where there is sufficient collective interest (e.g. Grey Power, Federated Farmers, Salvation Army), and that energy policy is often a differentiator for political parties during election campaigns. It is not clear whether there is a collective consumer voice that might build more substantive cases in making the industry and government aware of points of concern.

In a competitive market, individual consumers also have a direct voice through their purchasing decisions. Standard market forces would ensure that a vendor that did not address consumer issues would lose market share. We know from our own records that approximately 15% of our consumer base switches retailer during a year. However, there is switching in both directions so little overall change

Within our own business, we both listen and observe actions. We periodically survey consumers regarding our services. We also observe trends in consumption patterns and

use both of these as a guide to investment. We believe one of the benefits of being a locally-focused business run by a consumer-owned Trust is that it keeps us close to our consumer base. The front door is open and we often have consumers arriving to discuss their plans with us.

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

Our surveys of our consumer base tell us that we are generally trusted to provide a secure and reliable supply, and that where there are issues (voltage drops, reliability etc.) we will invest to address the problem. This level of trust has been built up over a number of years and stems primarily from our closeness to our consumers and our willingness to listen. Maintaining this trust level requires us to properly introduce any suggestions for change, to maintain a fair and transparent pricing regime to retailers, but to retain a high level of consumer trust the most important factor is to “keep the lights on” at a fair price.

Prices

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

In terms of our consumer base, we have analysed our distribution pricing since 2008. This shows that our pricing for each consumer group has been changing on average at the same rate.

What is important is to have a structure where consumers are charged a fair price for the electricity they use and the costs of getting it to them, and that one class of consumer is not cross-subsidising another in any significant way. If policy makers then wish to impose intentional cross-subsidies through regulation, then it ought to be transparent that this has happened.

We note that the distribution industry is presently in the middle of a nationwide process to review pricing structures to be more cost-reflective and service-based, and to reduce the revenue sourced from volume for what are essentially fixed-cost businesses.

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?*

Focussing on distribution we believe what is important is that price structures need to provide the correct signals so that people making investment decisions that impact their own energy costs and those of others are not starting from a false premise, or “gaming the system” by using their resources to exploit a pricing loophole and pass the cost to those without access to the same resources.

Affordability

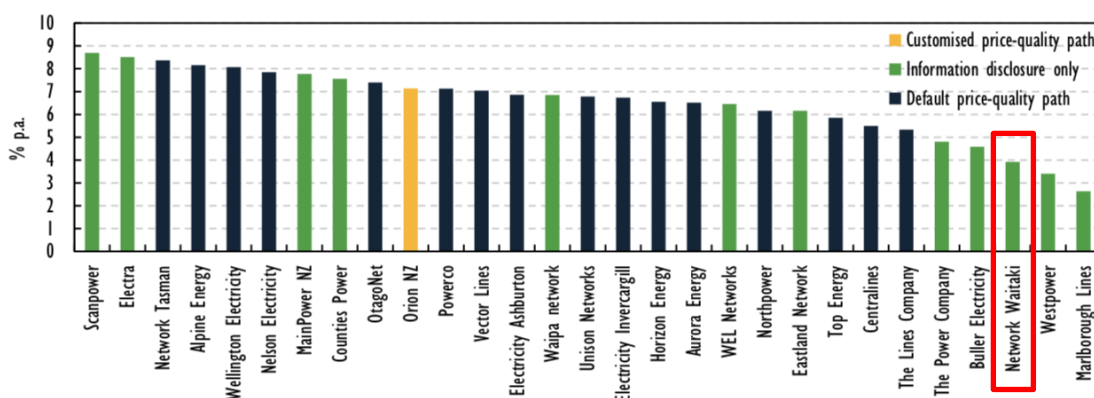
7. What are your views on the assessment of the size of the affordability problem?

Network Waitaki as an EDB is in the business of transporting electricity. The power account relationship is between consumer and retailer. Retailers would have the payment history, so they have information on payment issues that we do not.

We can only comment anecdotally from information in the public domain. The ability to pay a retailer's prices is not something we have surveyed. We agree that there are households experiencing incredible hardship that will find it hard to afford electricity. These same households would find it difficult to pay the rent, visit the doctor or dentist, buy medication, run a car or pay their insurance.

We, as a community trust-owned company attempt to do our part by being a low-cost efficient operator. The following is from the 2017 IEA review of NZ energy policy:

Figure 7.1 Distributors' nominal internal rate of return, 2013-15



Government has assessment agencies and support structures for households experiencing difficulties. As an example, there is the community services card scheme, to reduce medical costs for a section of the community. The Government also directly supports some individuals through hardship allowances.

If the Government wishes to spend tax dollars meeting some of the cost of electricity for deserving households; that is its right.

Attempting to effect affordability by regulating pricing has unintended consequences. It passes messages to the owners and investors in the industry that will alter their behaviour; this is not necessarily in the best interests of long term supply stability.

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

Without delving into the cause of the affordability problem, figure 9 (OECD ranking of residential prices) shows that the electricity industry is not the cause of this issue. Making it structure its prices to achieve a social welfare benefit (e.g. Low Fixed Charge regulations) leads to unintended consequences and counter-productive results. If household incomes were higher, households would not be in the same predicament with their power bills. The electricity industry's job is to generate, transmit and distribute electricity. Taxation, household income, social welfare and income support issues are the domain of central Government.

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.*

Reviews of both the transmission pricing methodology and distribution pricing are in progress to address these issues, and these should be allowed to run to completion.

There are no short-term silver bullets for affordability; cost reductions are medium to long term and come from better designed networks using latest technology for their control systems, more efficient processes and technology, actions to counter the growth in peak demand on which network sizing is based and the non-replacement of stranded assets at end of life.

There are questions regarding the generation and retail markets, and whether these are as competitive as they could be. We note from our own network that about 15% of the consumer base changes retailer during a year, but these changes are in both directions. We also note from our own network that a significant number of consumers do not change retailers at all.

Affordability issues should be addressed as social issues. Government already takes this role in other industries (e.g. aged care) with direct subsidies for struggling members of society. Requiring electricity pricing to be structured with a social welfare component would result in unintended consequences without necessarily solving the original problem.

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.*

Affordability issues must be dealt with through Government. It may be necessary to subsidise the bill for deserving households rather than paying a hardship grant, if the social policy objective was to ensure the intervention was spent on electricity.

There are no “silver bullets” within the industry to dramatically take overall prices lower, without taking a cross-subsidy approach and introducing distortions for investment that are in no-one’s long term interest.

“Pricing related to cost” is key to ensure consumers make decisions and take actions for the correct reasons, rather than just trying to “game” a pricing anomaly for personal benefit, transferring costs onto others less able to take the same actions.

Part four: Industry

Generation

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

N/A

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

N/A

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

N/A

Retailing

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

N/A

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

N/A

Vertical integration

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

N/A

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

N/A

Transmission

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

The transmission pricing methodology should allocate cost to users that will promote efficiencies in the way decisions are made irrespective of whether it is to increase demand, connect to the network or not, and/or where to connect.

Any pricing signal can only be effective if the targeted party can respond to the signal. If certain areas are allowed to socialise the cost of increased transmission capacity, and other areas are not allowed to socialise similar costs, does that mean the pricing signal requires the economic growth to move to the area where socialising is allowed? Fairness would imply all are treated using similar rules.

Peculiarities in network design as a result of technical choices made in the past where the paying consumer could not influence the decision-making process directly should not be the basis for discriminating between socialising costs or not when capacity is increased at a load point. This specifically refers to the application of the Grid Investment Test where certain assets do not qualify for cost socialisation as a result of being classified as non-core and thus having to pay for all costs associated with the investment.

We fail to find a convincing objective to motivate why an EDB does not qualify for socialising of cost to increase capacity, as currently manifested in the transmission pricing regime. The aim might have been to contain transmission costs, but in practice it is restraining economic growth in regions where growth is needed.

Distribution

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

EDBs have been making relatively minor profits either as regulated businesses or as trust owned entities where profit is not the main driver.

We agree that a small number of distributors might be making profits above the WACC, but even then it is mostly marginal. We submit that none of these WACC issues are in themselves cause for concern. Profitability cannot be interpreted in the absence of business context.

- An understanding of the asset management plan and 5-year capital expenditure requirements is needed. An organisation with large known upcoming costs may want to pre-load to ensure it has the funds to pay for these costs.
- A distributor may simply have priced expecting some costs that did not eventuate, or some revenue eventuated that it was not expecting. For trust-owned distributors, any surplus revenue can be returned to the consumer base. The profit for a trust-owned distributor cannot be interpreted in isolation to its distribution policy.
- A distributor with low pricing, a modern network, good SAIDI statistics and with a higher profit should be learned from.

A higher profit is only a problem if several of the following are true:

- It happens consistently
- The network maintenance and replacement programme is not up to date
- The SAIDI statistics are unfavourable
- Its pricing does not benchmark favourably
- It does not have a mechanism that distributes excess revenue back to consumers.

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

Price structures:

There is a process under way in which all distributors are reviewing their pricing structures. We agree that a flat per kWh price for volume provides no indication of peak load aspects and must be replaced by some form of peak demand or time of use pricing for volume. In our network, this will have to be time of use and a reliance on retailers for demand data if we were to apply demand pricing, as we have no control over or access to data recorded by smart meters.

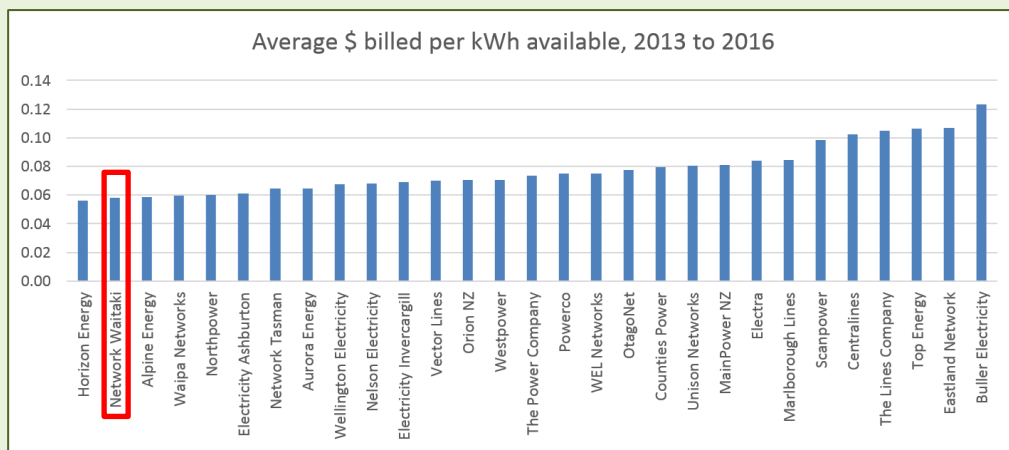
We agree that it is important to have price structures aligned with cost structures. We also agree with the challenges mentioned, though the effectiveness of economically efficient prices that provide appropriate pricing signals is not accentuated enough.

A particular issue not covered in the review report is that similar to other EDBs, we charge retailers for distribution and transmission costs. No matter how innovative, any price plan that provide the signals we want could be neutralised if the retailer treats this as an overhead and offers a retail plan that does not pass through, in a transparent way, network prices.

Business size:

The IEA report has been selectively referenced. It also concluded “*However, no official empirical analysis has been undertaken on economies of scale in New Zealand’s distribution businesses, and there is little evidence that small firms are less innovative or perform less well than large ones.*” They also concluded “*In addition, a programme of sponsored amalgamations is likely to be highly contentious*” and “*likely to be strongly resisted and potentially counterproductive at this time*”.

Differences in cost per consumer can often be explained by topography. The “continuity of supply” provisions in the Electricity Act also do not assist; in our network we have several rural spur lines put in under the Rural Electrical Reticulation Council (RERC) scheme, each with a significant volume consumer at the end, and which we are now obligated to support. It is noted that the users of the network do not see “cost per consumer”, they pay according to the distribution price plans and retail pricing does not necessarily match cost per consumer. The following graph is from Disclosures, and plots line revenue in terms of “kWh available to consumers”.



Amalgamation appears to be a way of addressing something that is not near any of the expressed consumer priorities, and of making it harder for consumer voices to be heard.

A point not made in either the IEA review or this consultation document is that if there were fewer EDBs, there would be fewer benchmarks. New Zealand is dominated by 5 main generators. If they benchmark similarly, does this mean they are equally efficient? Or equally inefficient?

We agree that there is scope for collaboration and this has been practised extensively throughout the distribution industry as noted by the ENA.

Metering data:

We agree that access to metering data is imperative for efficient management by distributors of their networks.

Governance:

The assessment refers to the views of some stakeholders that are concerned about governance of the distribution sector and some stakeholders that have suggested alternative business models, joint ventures and collaboration.

However, the absence of a factual basis for these propositions shows they are no more than assertions.

It is our view that unsubstantiated statements tell nothing about the quality of governance of EDBs and that the published results of EDBs highlight the effectiveness or not of the EDB governance quality for each business.

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

There is a distribution pricing review presently under way, which includes in its scope addressing the issue of what is a fair way to apportion network costs across consumers. It is suggested that this review be let run its course.

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.

Transmission Pricing currently has some bias built into it, with discrimination towards some regions in the country, and is not economically efficient as a result. It inhibits load growth in certain regions and encourages growth through socialising transmission cost for other regions.

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.

Pricing in general should be non-discriminatory and should aim to be as efficient as possible to provide effective pricing signals to consumers.

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?

Much is said about EVs and PV panels and batteries, and huge problems will arise when these technologies mature and electricity tariffs are not restructured to be more efficient and aligned with cost drivers. If EDBs price on demand (not volume) new technologies could be accommodated in such a way that users of the new technologies pay the true cost of using it.

Efficient decision making by early adopters can only be expected if the pricing signals provided to them is also efficient, in other words, aligned with the cost impact of the introduction of the technologies. Such information contained in electricity prices would allow for new technologies to go mainstream when appropriate. Inefficient electricity prices could very well provide a subsidy to any new technology if the prices do not contain the appropriate pricing signal, and such a situation would skew the market to think a new technology is ready for mass deployment when, in fact, it is not.

We do not know what disruption is in store from technologies we do not even anticipate right now. For EDBs, in a long term fixed cost business, the best position to be in is to have pricing aligned with cost drivers. With that in place, EDBs will have the best chance to survive when disruption occurs.

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

The impact (and possible future impact) of technology highlights the urgency for the electricity industry to develop proper and efficient pricing for every segment of the electricity industry. A fixed cost industry cannot survive with volume based prices. A variable cost industry can't survive with fixed prices. The electricity industry should aggressively pursue fixed "take-or-pay" type contracts for part of the services provided as had been done in the mobile phone industry.

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

If we move on and allow pricing of electricity services to become efficient, prices can remain stable while revenue increase when new technologies start to be used, to maintain security of supply in a growing market. Similarly, in a declining market, revenue to survive can be maintained if the function of the electricity supply to consumers change even if the reduced volumes does not save on cost.

But the industry cannot wait for a technology to appear and have an impact before changes are proposed, because that would lead to cries of foul play. Efficient prices should be the aim right now, and that would make it easier for the industry to accommodate any changes when it arrives, because a change in consumption patterns would be met with efficient prices that price the changes in line with changes in cost to the electricity industry. It is easier to adapt when the basics are correctly applied.

Regulation

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

It is easier for private companies to react to issues such as environmental sustainability when it is driven through legislation and regulations. If that is not in place, different EDBs might approach issues from totally different angles when having to choose options that are not obviously the optimal choice. Any option with an unsure pay-back over the long term but an immediate cost premium is almost impossible to make for a privately owned company, and doing so leaves management open to criticism. If the objectives are legislated or regulated, the least cost option now includes the long term expensive features, and efficiencies can be gained by each EDB by being smart in execution. It is

unrealistic to expect private profit focussed companies will be in a position to do “the right thing” without legislation and regulations.

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

Most participants do not understand them. The regulations are achieving their documented objective, clearly written in clause 3(a) “to assist low use consumers and encourage energy conservation”. They are not regulations aimed at affordability, or to assist consumers in distress; they are specifically aimed at benefitting consumers who place a low average demand on the grid, and reward them regardless of their affluence:

- If a high net worth residence installs a large PV system with battery support, then that will reduce their volume consumed from the transmission and distribution network to virtually nil. Rewarding this residence through a regulated plan appears to be in line with the intent of the regulations as it currently reads.
- If a consumer in distress somehow acquires an EV or installs a heat pump to replace a coal-fired potbelly (both of which align with other government initiatives), the LFC regulations will penalise them if this pushes their volume over the 8000 limit (9000 in LSI region) because they are no longer a low user.

The regulations are no longer fit for purpose. It is the total energy footprint that is important. Someone switching from coal for electricity for heating, or

from petrol to an EV for transport, ought to be encouraged not penalised.

The regulations also make it difficult to structure an efficient price plan. At 15c per day for the fixed charge, the remaining cost for supplying the consumer must be recovered through variable charges. There are three types of variable charge (volume, demand and capacity).

- Outside TPM assessment periods, volume is not a driver for network cost. A consumer that reduces their volume has absolutely no effect on a distributor’s costs. There is also an equity issue over why the price per kWh should differ for two otherwise identical consumers living in adjacent properties.
- Using a demand charge requires meters capable of measuring demand, and access to demand data. This may require Use of System Agreements to be renegotiated, or regulatory intervention to ensure the EDBs have access to metering data.
- Supply capacity is a sunk asset. If a consumer voluntarily asks for a reduced capacity, this does not allow network components to be recovered, but that should not be a huge problem since distribution is a long term business and should have pricing systems with long term objectives.

We are trying to remove our dependency on volume charges. The LFC regulations do not describe when a charge will be considered to be volume-based. The impact of the LFC regulations on our smallest consumers is that their price would most probably go up if we shift away from volume as the variable component.

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

Single regulators have been shown to work at least as well as multiple regulators in other jurisdictions. The aim should be to regulate at least cost to consumers, and if a single regulator can do the job at a lower cost, that should be the way to go. But the solution to

the regulatory problem is probably more complex and requires the inputs of people with extensive knowledge and experience in regulatory issues.

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

There is not enough emphasis on the ability of efficient pricing to allow new technologies to thrive and different business models to emerge. If the basics are correctly implemented, less problems will be experienced when consumer behaviour change for whatever reason. By interfering with the basic requirements of regulation (efficient operations and efficient pricing) distortions are created that require new regulations, which result in more distortions and more regulations again.

We do appreciate it is not an easy problem to solve. However, we consider that by not attacking the problem at source creates a tendency to escalate the unintended consequences of treating the symptoms.

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

If the basics are done right it would be less of an issue to have specific efforts for different issues. The regulator should focus on basic principles, like efficient non-discriminatory pricing and efficiency of operations, and most issues would be addressed, lowering the cost of regulation for all.

Regulatory influence on the availability of metering data to EDBs is required. From a regulatory point of view, it is unfair to expect an EDB to deliver a product without providing the EDB with a right to know how much of it was delivered. Full availability of retail metering data is required, even if there are limitations on how it can be used.

Summary of feedback on Part five

34. Please summarise your key points on Part five.

1. Protection of vulnerable consumers should not be an objective of the electricity pricing regime but should be the domain of government.
2. Environmental sustainability should be encouraged through government action using legislation, levies and subsidies.
3. Least cost regulation as the objective should drive the attempts to re-organise regulatory bodies.

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.

The main factor to solve many of the issues would be to encourage economically efficient pricing to emerge by removing all barriers to achieve that. If prices are more efficient, less disruption would occur when consumer behaviour changes for whatever reason,

because truly efficient prices would be in a better position to recover required revenue even with different consumption patterns.

Additional information

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

In a competitive environment, the market penalises any inefficiency of the participants. Thus, for electricity distribution, a natural monopoly, the regulator should aim for efficiency in operations and efficiency in pricing, and strive to remove non-related influences from the regulatory objectives. Get the basics right and it should be easier and cheaper to have effective regulation of EDBs. Easier said than done, but the focus should be on the basic principles, to ensure everything else builds on a sound foundation.