



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	Spence McClintock
Organisation	Ngati Tuwharetoa Electricity Limited
Email address or physical address	spence.mcclintock@nthl.co.nz

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?*

We agree with the assessment of consumers priorities. The electricity sector services Industrial, Commercial and Residential customers (Consumers). There is a risk that the review could get captured mainly by the Consumer Priorities and the expense of Industrial and Commercial. Balance must be maintained. As a merchant generator we are interested in all market segments.

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

Not relevant to our organization as a merchant generator.

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

Not relevant to our organization as a merchant generator.

Prices

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

Price relativity between market sectors seems fair. As a base load geothermal generator we generate 24 hours a day 365 days a year. We therefore place additional value on customers who do the same or are mainly off peak consumers.

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

internationally?

We think this demonstrates that Industrial Electricity is a significant enabler for New Zealand Industry. As an isolated export driven nation the globally competitive Industrial Electricity prices help equalize our isolation. Being a large proportion of Renewables should increasingly be valued.

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

We need to make sure the focus and regulatory settings focus on whole system efficiency. Poor building standards and a large proportion of the population living in low income households are social issues that the energy sector cannot solve.

Affordability

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

Again a broader social issue. Rapid rise in Distribution costs must be investigated further.

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

The cheapest/expensive network area sensitively warrants further consideration. Some form of Distribution aggregation must be considered.

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

There is a risk that in future the affordability problem could get much worse. Combining solar, car charging and smart appliances into a smart grid may see high income households lower their costs while passing the burden of fixed costs onto low income households that will not have the same ability to load shift and shed.

Summary of feedback on Part three

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

There are broad social issues exposed by households electricity costs. The electricity sector is not unique in its disproportionate effect on low income households. Care must be taken not to exacerbate this problem as smart appliances, solar and electric cars could significantly widen the energy cost gap between high and low income households if not consciously managed.

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.*

The true contribution value of household Solar to the NZ system is likely to be low, but if policy settings are not correct the cost savings to individuals may be high. Serious consideration needs to be given to recovering Distribution costs by way of capacity charging as capacity drives investment requirement not annual consumption level.

Part four: Industry

Generation

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

A fair assessment. One challenge facing the Industry is there are limited price signals to pay for any form of energy system buffer capacity to back up the hydro volume variation. As a reliable base load Geothermal generator we do contribute to the stability of the energy system on a year on year basis better than hydro and on a day by day basis better than wind.

We believe the structure of the short term contract market is correct and achieves mostly appropriate outcomes. The deviations from the 5% bid offer requirement must be enforced and maintained.

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

In general we agree with the assessment.

For us uncertainty over future access to Transmission capacity and the uncertainty over how long the large coal units may remain in service (and therefore price uncertainty) are the biggest factors holding us back from investing on more renewable electricity generation.

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

We do have concerns about Transmission capacity. Building Transmission capacity ahead of projected demand growth is logical and achievable. What is more challenging is ensuring there is enough Transmission capacity to support a net exporting location that contains significant load which may close at limited or not notice and thus strand generation until more Transmission capacity is built.

The rising carbon market does not appear to be translating into proportional responses from high carbon generation sources. Carbon hedging policies driving high coverage ratios appear to be resulting in generators being prepared to generate at prices below face value economics. While we fully support generators freedom to choose their generation price thresholds this behavior may be having a price suppressive effect on the longer term Contract Market, and therefore slowing new renewables build.

Retailing

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

Seems appropriate. Key metric is the existence of 36 retailers, 28 new since 2005.

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

In our view there are a few barriers to competition in retailing as evidenced by there being 36 currently. We strongly disagree with comments from some retailers that they can't access risk management contracts on competitive terms. The terms are the same on the ASX energy futures market for all. In our view the issue for many retailers is the timing at which they choose to seek risk management contracts. We have been contacted by several who are searching for below contract pricing at a time of market tension, i.e. they want favorable terms.

We do agree that the lack of standardized distribution pricing may create significant systems costs and therefore represent an implicit barrier. Again 36 retailers so does not appear to have severely limited the depth of retailing.

Vertical integration

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

A Transparent Contract market is vital to us and we believe the current arrangements give us that. The need to enforce the 5% bid offer spread rules is important. It is our observation that only one gentailer is net short on generation vs their customer demand level. All the remaining gentailer participants are either balanced or net long in generation and have a vested interest in ensuring the futures curve represents a collective view of the future risk on the price of electricity.

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

We have invested in generation assets on the basis that we are exposed to market driven returns. It is our view that generator profit levels are the appropriate outcomes of market based forces.

Transmission

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

We believe the TPM review should be stopped and the status quo should prevail. There are already wholesale market price signals that appropriately deal with investment signals by location. As an investor in renewables we have no choice on location, our fuel has chosen for us. Our choice is whether to invest further or not, and Transmission capacity is the biggest issue for us.

Distribution

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

In our view the bigger issue is the level of efficiency rather than profit. 29 Distributors cannot be the optimal number for New Zealand.

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

The local ownership aspect of some of the small Distribution Companies appears to be a barrier to the level of appropriate consolidation that should occur.

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

Distribution costs need to move toward capacity charging. This could potentially be on a regionalized or nationalised basis to minimize the winners and losers outcomes that a user pays regime would create.

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

Electricity Distribution must move toward the efficient management of a countrywide set of distribution assets. Having companies that service as little as 5000 connections does not appear to be the most efficient model.

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.

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?*

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?*

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.*

