



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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Contact details

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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?*

We agree with the general assessment that consumers' priorities and expectations are changing in the ways that the paper identifies.

A further specific change that consumers are experiencing already in a variety of other sectors, but hasn't yet touched electricity consumers, is the ability to share data with approved third parties in an open, timely and portable manner across different platforms. This is despite the wealth of data that electricity suppliers and other market participants invariably collect and hold about consumers, individually and/or in aggregate. And, given the paper's assessment of consumers' changing priorities, we doubt that the status quo here is sustainable for suppliers or the sector generally.

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

No, in general, consumers don't have an effective voice in the sector. But, changing consumers' priorities, expectations and behaviours mean that it's increasingly important that they do.

This can potentially be partially addressed by consumers being able to more actively participate in electricity markets, directly or via third parties. Our general observation is that markets where consumers have an effective voice tend to be characterised by more engagement around the products and services consumers receive, as opposed solely to the suppliers that they might switch between.

The paper identifies Consumer NZ as a potential advocate for electricity consumers. Given the complexities of the sector and the challenges and opportunities ahead, could TUANZ be a more appropriate model to seek to emulate?

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

The conclusion on p.18 that NZ consumers have greater trust in their retailers than in Australia may be true, but that's not fully clear from the research quoted, as the questions that were asked appear to be different.

To perhaps highlight the point that the pace of change risks eroding any trust in the sector, Nielsen Consumer and Media Insights reported in 2017 that 45,600 Kiwi households said they planned to install solar power in the next 12 months, which was an increase of 31% on a year earlier:

<https://www.nielsen.com/nz/en/insights/news/2017/switching-on-what-energy-retailers-can-learn-from-the-changing-new-zealand-landscape.html>

In any case, we're not sure that surveys are an effective way of assessing a complex issue such as consumer trust, particularly in terms of comparing responses from different countries. Cultural factors, such as possible preferences for diplomacy over directness, and other demographic factors such as age and ethnicity can all influence expressed levels of trust by particular consumers.

Prices

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

As electricity is an essential service, on par with services like health and education, the assessment of the make-up of recent price changes is concerning and deserves scrutiny. While residential consumers require more infrastructure to get electricity to their homes and tend to use more electricity at peak times, they have also generally been 'captive' (although technology is now rapidly changing that). Residential consumers don't have the same ability as commercial and industrial consumers to absorb or 'pass through' price increases.

Electricity markets, even those parts that may be considered to be subject to competitive supply, are not the same as those observed in other spheres of the economy. The assessment highlights the critical importance of decisions re: market design and institutional settings in achieving desired outcomes.

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

Overall, we're optimistic on the long-term outlook for electricity prices. Technology change can be expected to enable a greater abundance of energy sources, that are also closer to the loads being consumed, the opportunity to more actively participate in markets, which should positively impact prices.

One implication of the current period of relatively high spot prices is that over-reliance on hydro sources could be risky in a warmer and/or drier climate. Optionality is valuable.

The major challenge though, as identified, is perhaps around how distribution prices are structured.

Affordability

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

Unfortunately, we're not surprised. The general assessment that the affordability problem is worsening is consistent with what we see and hear anecdotally.

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

While we recognise that the affordability problem is multi-faceted, the correlation with the price changes in electricity that have occurred since since 1990 cannot be ignored.

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

We absolutely agree that the affordability problem is one the industry, regulators and government must tackle together. However, it also needs to be recognised that the behaviours and decisions of these same groups are primarily responsible for the emergence of this problem.

It's odd to us that solar panels and electric vehicles are considered separately as factors that may adversely impact households' relative cost of electricity. New technologies are rarely, if ever, a factor in causing such outcomes. Instead, new technologies usually offer an opportunity for increased productivity that can deliver long-term benefits for all.

More likely, and as the paper also notes, it's current market settings and/or price structures that are the actual cause of a potentially worsening affordability problem. This is where the focus should (and needs to) be.

Summary of feedback on Part three

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

We agree with the general assessment that consumers' priorities and expectations are changing in the ways that the paper identifies.

Open, timely, and portable access to data, as experienced in many other sectors today is, and will continue to be, increasingly important for electricity consumers.

Given the complexities of the sector and the challenges and opportunities ahead, we suggest that TUANZ be a useful model to seek to emulate in terms of better advocacy of consumers' interests.

Electricity markets, even those parts that may be considered to be subject to competitive supply, are not the same as those observed in other spheres of the economy. The assessment highlights the critical importance of decisions re: market design and institutional settings in achieving desired outcomes.

The general assessment that the affordability problem is worsening is consistent with what we see and hear anecdotally.

While we recognise that the affordability problem is multi-faceted, the correlation with the price changes in electricity that have occurred since since 1990 cannot be ignored.

Current market settings and/or price structures that are the actual cause of a potentially worsening affordability problem, not new technologies like solar, electric vehicles etc.

Solutions to issues and concerns raised in Part three

10 *Please briefly describe any potential solutions to the issues and concerns raised in Part three.*

More active participation in electricity markets by consumers is possible and is required to help deal with the impacts of new technologies and changing consumer expectations. The Electricity Authority (EA) has already consulted on enabling multiple trading relationships - in our view, this work should be advanced as a matter of priority. In our submission on its consultation on this topic, we have recommended that the EA avoids prolonged consultation and, if needed, instead looks to actively promote real-world, market-based pilots to help find solutions for any uncertainties or concerns it has about making such changes.

Distribution pricing structures should be another primary focus to help deal with issues and concerns raised in Part 3. Pricing methodologies and market settings are driving potentially inefficient and inequitable outcomes, not new technologies. Local pricing that reflects actual 'use of network' costs could incentivise larger volumes to move at a local network level and ultimately reduce variable charges for all.

Such solutions should not be feared. They are ultimately another opportunity for New Zealand to lead the world in electricity market design.

Part four: Industry

Generation

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

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

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

Retailing

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

High levels of switching are often presented as evidence of effective competition and performance of the retail sector. However, we think this is a supplier-centric view of the world that misunderstands how consumers generally experience effective competition. For consumers, competition is a function of the extent to which a they can move seamlessly (and sometimes even simultaneously) between similar and/or complementary services, as opposed to suppliers.

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

We're formally entering the market as a Type 2 retailer soon so expect to then be able to answer this question from experience.

For whatever reason, though, evidence from others suggests that growth is challenging. We note that New Zealand has not yet reached a level where 'mid tier' retailers have a similar market share as in Australia.

Vertical integration

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

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

Transmission

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

Distribution

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

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

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

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

We broadly agree with the assessment provided.

Summary of feedback on Part four

23 *Please summarise your key points on Part four.*

Solutions to issues and concerns raised in Part four

24 *Please briefly describe any potential solutions to the issues and concerns raised in Part four.*

As we noted in an earlier section, we think that local pricing for distribution services will be an increasingly important part of addressing the challenges facing electricity distribution.

Part five: Technology and regulation

Technology

25 *What are your views on the assessment of the impact of technology on consumers and the electricity industry?*

Our view is that the impact of technology presents a major opportunity, in particular, for consumers, but also the electricity industry generally. We broadly agree with the paper's assessment, but would point out that several of the changes that are identified as potentially occurring in the future are already happening (albeit perhaps not yet at scale). We welcome further engagement with the review panel about our own operations and plans if that is considered helpful.

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

As noted earlier, our view is that pricing mechanisms will need to change to ensure fairness of prices given technology changes. Eschewing technology and/or business model change is unlikely to be an effective or equitable response.

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

With appropriate market settings, security of supply, resilience and pricing can be managed appropriately and even improved as a result of emerging technologies.

Regulation

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

In general, we agree with the sentiment that economy-wide approaches are preferable in terms of attempting to achieve environmental sustainability and/or fairness in the regulatory system. We note that the Zero Carbon bill is currently under consultation/preparation.

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

We agree with many others that the LUFC regulations appear to have been ineffective in achieving its intention.

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

We agree that the issue of access to distribution networks does need to be clarified given technology changes.

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

As noted earlier, we strongly support the EA's work on multiple trading relationships. We think this is an absolutely vital change for enabling new technologies and business models to emerge. We encourage the EA and policy makers generally to expedite this work.

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

As also noted earlier, we encourage regulatory experimentation, initially at a small scale, as a way of testing whether new market design arrangements could be effective. Our expectation is that this approach will generate much more valuable information for regulators and, ultimately, better outcomes for consumers than apparently endless rounds of consultation.

Summary of feedback on Part five

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

Solutions to issues and concerns raised in Part five

34 *Please briefly describe any potential solutions to the issues and concerns raised in Part five.*

Additional information

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