



# **ELECTRICITY PRICE REVIEW**

**SUBMISSION FORM**

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## 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](mailto: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

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|--|---|
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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?*

I think the reports assessment on consumer priorities is fair. In our region we have some of the worst energy hardship examples in NZ. Our expensive network charges and the low average resident income make this inevitable.

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

Our association's attempts to have our concerns heard by the community trust, which owns Eastland Network, have been frustrated by the lack of any action or accountability. The Trustees on our community trust are not elected. The commercial board that manages Eastland Network, which is consolidated within Eastland Group Ltd, has only one local director.

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

The corporate model that manages our community owned network clearly puts profits before its people. The electricity consumers in our region receive no discounts or annual rebates from our network, unlike most energy trust networks throughout the country.

#### Prices

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

In our region network charges now constitute 48% of residents power bills, well above the national average. Although our network has now stopped increasing its charges we believe the excessive profits it continues to generate are unjustifiable and immoral. We agree that the higher increase in the residential charges, over commercial, is unfair.

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

NZ power charges should compare favorably internationally given the well established generation and distribution infrastructure that has been paid for by tax payers over many decades. The previous government's insistence that publicly funded infrastructure should generate a commercial return has seen the taxpayer paying again and again.

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

We see no justification for further electricity price increases.

## **Affordability**

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

Energy hardship is a major issue in our region. We welcome the changes being proposed by the ACCC review.

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

We agree with the assessment and its emphasis that it is commonly those who can least afford their electricity who pay the most.

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

We agree that energy hardship must be addressed.

## 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.*

Calls by our association for Eastland Network to reduce its charges, and consider moving to a 'not for profit' model, received 70% support in a Gisborne Herald poll last year. Attempts to hold a community workshop with Eastland Network to debate how it should better serve its community continue to be frustrated.

## Part four: Industry

### Generation

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

The assessment is reasonable.

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

The excessive market power of the five largest generator/ retailers does not bode well for consumers.

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

There appears to be sufficient returns from generation to ensure demand is met.

### Retailing

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

The assessment is fair.



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

There is healthy competition in this sector but the multitude of plan options is confusing to consumers. The pay on time discounts are really a late payment penalty and should be exposed.

## **Vertical integration**

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

We are concerned by the growing vertical integration of the electricity sector and were opposed to the privatization of the generation sector.

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

The assessment is fair.

## **Transmission**

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

We believe transmission pricing should not include a rebate to government. Transmission should be viewed as vital infrastructure funded by the taxpayer for the public good. For the Commerce Commission to impose artificial pressures on Transpower to imitate private sector behavior is a nonsense and should be abandoned.

## **Distribution**

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

To assess profit just on the return on investment is misleading and easily manipulated. We believe the excessive profits being generated by our network significantly adds to the energy hardship experienced by many in our region. In 2018 Eastland Network achieved an EBITDA of \$20m on revenue of just \$40m (pg. F15 Annual Report 2018)

Our network has been investing heavily in upgrading its infrastructure, typically spending \$7 - \$8m each year, increasing its asset valuation significantly (\$20m in 1993, now \$161m). This has permitted the network to dramatically increase its charges under the Commerce Commission rules. With the ability to borrow funds at 4% for capital expenditure and then generate a return of 8.9%, their ROI in 2017, the Commission is incentivizing CAPEX this behaviour at the expense of consumers

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

We agree that changing distribution charges to reflect the true costs, and incentivizing a reduction in use during peak use periods, makes sense. However, access to smart meter technology at an affordable cost for all consumers, to level the playing field, should become mandatory.

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

The high cost of network charges in our region is in part due to the large geographical size and sparse population of our region. The opportunity to consider transitioning isolated rural communities to off grid generation options is restricted by the current legislation. The current urban / rural subsidy policy of our network acts as a disincentive for these rural communities to adopt new, more appropriate technologies.

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

We have concerns that our network will be slow to adopt new technologies as it protects its profitability and is conflicted in supporting the executive's portfolio expansion into other investment ventures.

## **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.

We are very concerned with the high debt level of our network (borrowings of \$38m, total liabilities of \$66m) and the financing cost this imposes on its consumers. Because Eastland Network is only one utility asset managed by the Eastland Group there is clear evidence that the Group is leveraging debt against the Network assets to assist in funding its portfolio expansion program. The historical network profitability suggests the network should have no debt.

## 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?*

This is a good assessment.

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

We agree with this assessment.

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

The current high cost of electricity to consumers will have to reduce if the whole sector is to compete with the emerging technologies. Networks in particular will have to adopt new business models that may not be as profitable. The benefit to its consumer / community shareholders will have to take precedence over corporate profits if they are to play a positive role in serving their communities.

### Regulation

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

While the current electricity industry structure incentivizes profitability over social responsibility, regulating for sustainability and fairness is a mockery.

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

Why not just regulate a fair daily fixed charge (a network connection fee) that a network can charge?

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

There is clearly a need for a new approach, the Commerce Commission appears toothless in light of the massive increases in power charges that have been inflicted on consumers since the reforms.

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

Clearly the regulatory framework will need to be more flexible to allow for the innovation that peer to peer trading will initiate.

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.*

We are encouraged by the progressive nature, and the concerns for the consumer, demonstrated throughout this report.

Thankyou.