



ELECTRICITY PRICE REVIEW

**The Power Company
Limited Submission**

23 October 2018

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Electricity Price Review

Secretariat, Ministry of Business, Innovation and Employment

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By email: energymarkets@mbie.govt.nz

The Power Company Limited Background

The Power Company Limited (TPCL) is an exempt electricity distributor that supplies up to 37,000 customers in the Southland and West Otago region. It is owned by the Southland Electric Power Supply Consumer Trust that has five Trustees that are publicly elected.

TPCL since 2002 is a part owner in the non-exempt OtagoNet network and alongside Electricity Invercargill Limited (EIL) established PowerNet Limited a network management company in 1994. TPCL has a board of six directors and no employees, all functions are contracted to PowerNet Limited.

TPCL in 2014 invested alongside EIL and Pioneer Energy Limited via the Southern Generation Limited Partnership (SGLP) in distributed generation, by 2019 SGLP will own five sites throughout New Zealand.

TPCL supports the submission of the Distribution Group comprising of small and medium sized distributors, including regulatory exempt and non-exempt businesses, and those owned by consumer or community trusts or local bodies. Together this group supplies approximately 520,000 customer connections (25% of all connections).

TPCL also supports the submission prepared by the Electricity Networks Association

We appreciate the opportunity to comment of the First Report in this submission and in particular note:

- The need to abolish the low fixed charge tariff options, with a grandfathering option.
- The reasons to continue with the exempt status for TPCL

- The reasons to continue to allow TPCL to invest in new technology options
- Regional concerns regarding the inefficiency of the current TPM
- Note the consumer option to petition exempt businesses under section 152 of the Electricity Industry Act 2010.

Contact details

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Summary of questions

Part three: Consumers and prices

Consumer interests

1.	<i>What are your views on the assessment of consumers' priorities?</i>
	Not answered
2.	<i>What are your views on whether consumers have an effective voice in the electricity sector?</i>
	<p>The Power Company Limited (TPCL) is owned by the Southland Electric Power Supply Consumer Trust (SEPSCT). The five Trustees of SEPSCT are publicly elected every two years for a period of four years on a rotating basis.</p> <p>The consumers through the elections and annual SEPSCT public meetings have the have the opportunity to effectively make themselves heard and discuss matters at these meetings, stand as a Trustee in the elections and to exercise their vote for similarly aligned Trustees.</p> <p>We specifically not the concerns of the Trustees at the time when TPCL was placed under threshold regulation in the early 2000's. The Trust spoke of their role to monitor the performance of TPCL as custodians elected by the consumers as being significantly diluted by the Commerce Act change.</p> <p>Trustees consider they have considerable influence over the performance of TPCL and the prices consumers pay for electricity distribution services.</p> <p>We note the Distribution Group submission comment regarding exempt status....</p> <p>This issue was raised in the context of the Commerce Amendment Act (2008) and supported by research including into the US co-operative model. (<i>Refer: Castalia, Regulation of Consumer Owned Utility Businesses, Submission to the Ministry of Economic Development, June 2007</i>).</p>
3.	<i>What are your views on whether consumers trust the electricity sector to look after their interests?</i>
	Not answered

Prices

4.	<i>What are your views on the assessment of the make-up of recent price changes?</i>
	Not answered

5.	<i>What are your views on the assessment of how electricity prices compare internationally?</i>
	Not answered
6.	<i>What are your views on the outlook for electricity prices?</i>
	Not answered

Affordability

7.	<i>What are your views on the assessment of the size of the affordability problem?</i>
	Not answered
8.	<i>What are your views of the assessment of the causes of the affordability problem?</i>
	<p>Low fixed charge tariff plans</p> <p>TPCL agrees that the low fixed charge regulations are likely to be contributing to energy hardship for some households and with the continual shift of consumers onto this tariff option the remaining customers are likely to be subsidising this group.</p> <p>The low fixed charge regulations are no longer fit for purpose for this reason.</p> <p>They are a barrier to TPCL implementing more cost reflective distribution pricing.</p> <p>Energy poverty is a social problem and should not be addressed by cross subsidies within commercial businesses. Targeted welfare payments, while not ideal are a better mechanism to target those households facing energy hardship.</p>
9	<i>What are your views of the assessment of the outlook for the affordability problem?</i>
	Not answered

Summary of feedback on Part three

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

- a) SEPSCT as the owner of TPCL regards itself as effective in contributing to the consumer voice in the electricity sector.
- b) Consider the reasons for the decision in 2008 to exempt Trust owned businesses and note consumers still have the ability under section 152 of the Electricity Industry Act 2010 to petition for their business to be placed back into price quality regulation.
- c) The low fixed charge regulations are not fit for purpose, and are contributing to energy hardship, particularly for low income, high use households.

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.*

- a) Note section 152 of the Electricity Industry Act 2010 gives consumers the opportunity to place business under default price-quality regulation
- b) Abolish the low fixed charge tariff regulations
- c) Failing abolition grandfather the tariff and phase in the change by progressively reducing the cross over threshold by a 1,000 units per year (noting the lower South Island crossover is 9,000 units and it is 8,000 units elsewhere in the country).

Part four: Industry

Generation

11.	<i>What are your views on the assessment of generation sector performance?</i>
	Not answered
12.	<i>What are your views of the assessment of barriers to competition in the generation sector?</i>
	Not answered
13.	<i>What are your views on whether current arrangements will ensure sufficient new generation to meet demand?</i>
	Not answered

Retailing

14.	<i>What are your views on the assessment of retail sector performance?</i>
	<p>TPCL is a part owner in the OtagoNet Joint Venture electricity network which is a price-quality controlled business. TPCL anticipates a material reduction in the allowable revenue for OtagoNet at the 1 April 2020 reset.</p> <p>TPCL anticipates consumers will benefit from this reset when retailers pass through line charge price reductions.</p>
15.	<i>What are your views on the assessment of barriers to competition in retailing?</i>
	Not answered

Vertical integration

16.	<i>What are your views on the assessment of vertical integration and the contract market?</i>
	Not answered
17.	<i>What are your views on the assessment of generators' and retailers' profits?</i>
	Not answered

Transmission

18.	<i>What are your views on the process, timing and fairness aspects of the transmission pricing methodology?</i>
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TPCL has previously been involved with various submissions on the TPM review and is of the view that businesses in our part of the country are subsidising the cost of investments made in other areas.

The current inefficient TPM runs the risk of inefficient investment decisions being made for start-ups or closures that would not be in the interest of our region or NZ Inc.

TPCL recognises that efficient cost allocation is a difficult area but suggest that a simplified approach would be to adopt a regional postage stamp approach.

Distribution

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

Not answered

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

We refer to the Distribution Group submission

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

Not answered

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

Not answered

Summary of feedback on Part four

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

- a) Consider a regional postage stamp approach to the TPM that is more efficient than the current national postage stamp approach.

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.*

Consider a regional postage stamp approach to the TPM that is more efficient than the current national postage stamp approach

Part five: Technology and regulation

Technology

25. <i>What are your views on the assessment of the impact of technology on consumers and the electricity industry?</i>	<p>As noted in the Distribution Group submission TPCL agrees with the analysis presented in this section of the report, and acknowledge the opportunities and challenges for distributors in accommodating more decentralised power flow models. In the long term, access to small scale generation, combined with storage and peer to peer trading will reduce network investment in capacity and distribution costs for consumers.</p> <p>TPCL and OtagoNet are the two remotest networks in NZ (customers per kilometre of line) face real issues with remote connections which new technology is likely to provide cost effective solutions.</p> <p>One situation involves a four kilometre line in an area being threatened by coastal erosion with only two low consumption customers attached. Another a large subdivision (up to 700 titles) on a very remote section of the network is well over 100 kilometres from the nearest grid exit point.</p> <p>Significant network upgrades are needed to supply both areas at costs well in excess of \$20,000 per connection. TPCL is best placed to consider effective options for these situations which may include remote area power schemes, small scale generation, combined with storage batteries at substations.</p> <p>TPCL should not be precluded from investing in new technologies which benefits its consumers.</p>
26. <i>What are your views on the assessment of the impact of technology on pricing mechanisms and the fairness of prices?</i>	Not answered
27. <i>What are your views on how emerging technology will affect security of supply, resilience and prices?</i>	Not answered

Regulation

28. <i>What are your views on the assessment of the place of environmental sustainability and fairness in the regulatory system?</i>	Not answered
29. <i>What are your views on the assessment of low fixed charge tariff regulations?</i>	TPCL agrees that the low fixed charge regulations are likely to be contributing to energy hardship for some households and with the continual shift of consumers onto this tariff option the remaining customers are likely to be subsidising this group.

The low fixed charge regulations are no longer fit for purpose for this reason. They are a barrier to TPCL implementing more cost reflective distribution pricing. Energy poverty is a social problem and should not be addressed by cross subsidies within commercial businesses. Targeted welfare payments, while not ideal are a better mechanism to target those households facing energy hardship. The regulations cause pricing complexity with a doubling of domestic tariff options. Accordingly the regulations should be abolished. Transitional arrangements will be helpful to avoid price shock to consumers, as the impact of the regulations on prices is phased out. A grandfathered tariff could be introduced and a reduction in the crossover level by 1,000 units per year implemented.

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

Not answered

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 in the Distributor Group submission TPCL is confident that the regulatory frameworks will consider and adapt where necessary to accommodate new technologies and business models. There is considerable focus on this issue at present, and a watching brief on international developments. Our existing market arrangements, with a clear focus on contestability, security of supply, and incentive regulation for monopoly providers provides us with a good platform for this next phase of industry development.

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

Not answered

Summary of feedback on Part five

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

- a) The low fixed charge regulations are not fit for purpose, and are contributing to energy hardship, particularly for low income, high use households.
- b) TPCL is well placed to consider new technology options that will help manage its network with better and lower costs in the long run.
- c) The low fixed charge regulations hinder the introduction of more cost reflective pricing for distributors.
- d) Commerce Act Part 4 exemption is important to TPCL and its owner SEPSCT as it significantly reduces their regulatory compliance functions that SEPSCT in its role believes it responsible for. The reasons for the exemption option, added to the legislation in 2008, remain valid today. Consumer have the option under section 152 of the Electricity Industry Act 2010 to petition for price quality regulation. This is a regional solution, it therefore does not need to be a national decision.
- e) TPCL through PowerNet is actively collaborating with two other non-exempt businesses (OtagoNet and Electricity Invercargill Limited) about the impacts of emerging technology and the appropriate distribution sector response to this additional complexity. This is independent of regulatory exemption status.

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.*

- a) Note section 152 of the Electricity Industry Act 2010 gives consumers the opportunity to petition for the business to be placed under default price-quality regulation
- b) Abolish the low fixed charge tariff regulations
- c) Failing abolition grandfather the tariff and phase in the change by progressively reducing the cross over threshold by a 1,000 units per year (noting the lower South Island crossover is 9,000 units and it is 8,000 units elsewhere in the country). Abolish the low fixed charge tariff regulations
- d) Give distributors and other businesses the same opportunities to manage new technology options and note distributors are sometimes best placed to provide these solutions.