
Submission

Electricity Price Review: Options Paper for
discussion

22 March 2019



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1 Introduction

- 1.1 Aurora Energy welcomes the opportunity to respond to the Electricity Price Review – Options Paper for discussion, released on 18 February 2019 (Paper).
- 1.2 Aurora Energy is New Zealand's seventh largest electricity network by customer connections, supplying electricity to close to 90,000 homes, farms and businesses in Dunedin, Central Otago and Queenstown Lakes.
- 1.3 No part of our submission is confidential, and we are happy for it to be publicly released.
- 1.4 If the review panel has any queries regarding this submission, please do not hesitate to contact:

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2 Submission

- 2.1 Please refer to the table set out in Appendix A for our responses to each individual option outlined in the Paper.

ATTACHMENT A – AURORA ENERGY'S RESPONSE TO EACH INDIVIDUAL OPTION

OPTION	EPR'S POSITION	AURORA ENERGY'S POSITION	REASON FOR AURORA ENERGY'S POSITION
A: STRENGTHENING THE CONSUMER VOICE			
A1 Establish a consumer advisory council	Favours	Agrees	As stated in our initial submission to the Panel, the distribution sector acknowledges that consumer engagement is an area that requires development and that it is important for consumers to be provided with opportunities to voice their views, and for their preferences to be heard. ¹ We therefore support the establishment of a consumer advisory council as another medium for consumers being able to effectively and meaningfully engage with the industry.
A2 Ensure regulators listen to consumers	Undecided	Qualified agreement	We support this option in principle as it continues to support the strengthening of the consumer voice within the industry. However, we would like to understand how the regulatory framework would be amended to accommodate this option and the impacts that it may have, before we fully commit our support.
B: REDUCING ENERGY HARDSHIP			
B1 Establish a cross-sector energy hardship group	Favours	Qualified agreement	While we consider it positive that the Panel has agreed that a cross-representative group is needed to consider energy hardship, we remain of the view that issues such as energy hardship are social in nature, which will necessitate the engagement of social welfare agencies. The role of distributors should be limited to ensuring that the costs of utilising distribution networks remain fairly allocated.
B2 Define energy hardship	Favours	Agrees	We support energy hardship being defined to provide clarity and certainty for stakeholders.

¹ Aurora Energy. Electricity Price Review – First Report for Discussion, Submission Form, 23 October 2018, question 2,

B3	Establish a network of community-level support services to help consumers in energy hardship	Favours	Agrees	We support the principle of establishing a network of community-level support services to help consumers in energy hardship, subject to understanding the proposed funding arrangements.
B4	Set up a fund to help households in energy hardship become more energy efficient	Favours	Qualified agreement	We support, in principle, setting up a fund to help households in energy hardship become more energy efficient. However, we would like to understand where the funding would come from for such a scheme before we fully support this option.
B5	Offer extra financial support for households in energy hardship	Favours	Qualified agreement	We support the option of offering extra financial support for households in energy hardship, on the basis that the funding for the scheme does in fact come from the Government as indicated by the Panel.
B6	Set mandatory minimum standards to protect vulnerable and medically dependent consumers	Favours	Agrees	We support the setting of mandatory minimum standards to protect vulnerable and medically dependent consumers.
B7	Prohibit prompt payment discounts but allow reasonable late payment fees	Favours	Neutral	As a distributor, we do not wish to make specific comment on this option.
B8	Explore bulk deals for social housing and/or Work and Income clients	Favours	Neutral	As a distributor, we do not have any specific views on this option.
C: INCREASING RETAIL COMPETITION				
C1	Make it easier for consumers to shop around	Favours	Neutral	As a distributor, we do not have any specific views on this option, however, we support initiatives that result in better consumer outcomes.
C2	Include information on power bills to help consumers switch retailer or resolve billing disputes	Favours	Neutral	As a distributor, we do not wish to make specific comment on retailer switching. With regard to assisting consumers resolve billing disputes, this assistance exists, free of charge, through the industry disputes resolution scheme (Utilities Disputes Ltd).
C3	Make it easier to access electricity usage data	Favours	Agrees	We support options which make it easier to access electricity usage data. Please refer to our comments below at option E6 in relation to smart data.
C4	Make distributors offer retailers standard terms for network access	Favours	Disagrees	In our view, this issue is already being sufficiently addressed within the industry by the Electricity's Authority's Default Distribution Agreement work stream and by the Innovation

			and Participation Advisory Group. It is, therefore, not necessary for the Panel to implement this option.	
C5	Prohibit win-backs	Favours	Neutral	As a distributor, we do not wish to make specific comment on this option.
C6	Help non-switching consumers find better deals	Favours	Neutral	As a distributor, we do not have any specific views on this option, however, we support initiatives that promote better outcomes for consumers.
C7	Introduce retail price caps	Does not favour	Neutral	As a distributor, we do not wish to make specific comment on this option.
D: REINFORCING WHOLESALE MARKET COMPETITION				
D1	Toughen rules on disclosing wholesale market information	Favours	Neutral	As a distributor, we do not wish to make specific comment on this option.
D2	Introduce mandatory market-making obligations	Favours	Neutral	As a distributor, we do not wish to make specific comment on this option.
D3	Make generator-retailers release information about the profitability of their retailing activities	Favours	Neutral	While we do not have any specific views on this option, we do consider it to be a better option than the prohibition outlined in option D5.
D4	Monitor contract prices and generation costs more closely	Favours	Neutral	As a distributor, we do not have any specific views on this option, however, we support initiatives that promote better outcomes for consumers.
D5	Prohibit vertically integrated companies	Does not favour	Neutral	Please refer to our comments at option D3.
E: IMPROVING TRANSMISSION AND DISTRIBUTION				
E1	Issue a government policy statement on transmission pricing	Favours	Agrees	We support a government policy statement on transmission pricing that would provide better clarity around, and a timely resolution of, the transmission pricing methodology review that the Electricity Authority is currently undertaking.

E2	Issue a government policy statement on distribution pricing	Favours	Agrees	<p>We have recently confirmed to the Electricity Authority as a part of its consultation on distribution pricing reform, that we support review and reform of distribution pricing².</p> <p>We support a government policy statement on distribution pricing that would help eliminate unrealistic expectations around distribution pricing. However, there is a greater diversity of circumstances among distributors compared to Transpower, which in our view, means that there would need to be flexibility and discretion applied because a one-size-fits-all approach may not work or may create suboptimal outcomes for distributors.</p>
E3	Regulate distribution cost allocation principles	Undecided	Disagrees	<p>We highlighted in our first submission to the Panel, that disparity in costs between residential and business consumers reflects the different ways in which these two types of consumers use the distribution system.³</p> <p>We disagree with regulating cost allocation, especially regulation which would be based on a notion of “fairness”. What is fair for residential consumers may not be fair for business consumers and vice-versa. Fairness may also take a different form for different distributors given each distributor’s unique network characteristics.</p> <p>There are a number of ways in which cost allocation can occur. The Panel, in its First Report for Discussion, used evidence for residential/commercial cost allocation based on energy consumption, which is not a robust basis for considering whether cost allocations are fair.</p> <p>While we support the adoption of more cost-reflective pricing, our view is that distributors are best placed to review and assess the cost allocations on their individual networks, an exercise which will likely be undertaken by most distributors during their distribution pricing reform journey. It should then be up to distributors to demonstrate, within their pricing methodologies, how they carry out that allocation and that their method is equitable across all consumer groups.</p>
E4	Limit price shocks from distribution price increases	Undecided	Disagrees	<p>We do not believe that regulating in this area would be beneficial.</p> <p>Distributors are embarking on pricing reform and as a part of that journey will be engaging with consumers on the potential impacts of that reform, which for some will likely be significant. Distributors are cognisant of this fact and are conscious that careful consideration and thought needs to be given to the development and implementation of distribution pricing reform. As the Panel has noted, regulating in this space may simply present another barrier or deterrent to distribution pricing reform.</p> <p>Ultimately, distributors are not in control of the way in which their prices are then passed through to the consumer due to retailers being able to repackage distribution prices.</p>

² Aurora Energy. (2019). Submission, Electricity Authority: More efficient distribution prices, 19 February 2019, para 2.1.

³ Ibid at 1, question 22.

			Therefore the desired effect of any regulation to limit price shocks from distributors may be diluted.
E5	Phase out low fixed charge tariff regulations	Favours	Agrees
			<p>We fully support the phasing out and ultimate removal of the low fixed charge tariff regulations.</p> <p>While we acknowledge the Panel's hesitancy to phase-out the regulations too quickly, we are concerned that a prolonged phase-out period would impede the reform of distribution pricing given that the low fixed charge tariff regulations have been cited by distributors as a barrier to distribution pricing reform.</p> <p>We urge the Panel to consider a timely resolution to the removal of the regulations. The phase-out period should, in our view, not exceed three years. We also prefer that the phase-out is based on increasing the fixed charge as opposed to lowering the kWh eligibility thresholds that defines an 'average consumer' in the regulations.</p>
E6	Ensure access to smart meter data on reasonable terms	Favours	Agrees
			<p>We fully support an open-access regime for meter data on reasonable commercial terms. Developing a central repository system for the data would provide opportunities for a variety of participants to access that data.</p>
E7	Strengthen the Commerce Commission's powers to regulate distributors' performance	Favours	Partial agreement
			<p>In our view, the Commerce Commission's powers to regulate distributors' performance do not require strengthening.</p> <p>The Panel has recognised that the Commerce Commission has wide-ranging powers to investigate problems but is of the view that it has limited powers to make them fix any problems.</p> <p>While the Commerce Commission may use the wide range of investigative and monitoring tools currently available to it to identify issues, it is not, in our view, best placed to determine how a distributor should fix those issues. That is an operational matter that lies best with the distributor themselves.</p> <p>The Panel has suggested that the Commerce Commission be armed with the following additional powers:</p> <ul style="list-style-type: none"> • <i>advise the Minister to remove a distributor's exempt status if an investigation found this would be better for consumers:</i> While we support this additional power, we remain of the view that a unified regulatory framework, which would see all distributors being subject to the same default price-quality path (DPP) framework, could be in the better interests of consumers; • <i>require distributors to move from a default price-quality path to a customised price-quality path if an investigation found this would be better for consumers:</i> We support this additional power, which may result in better outcomes for consumers;

			<ul style="list-style-type: none"> • <i>apply higher maximum penalties to deter big distributors from breaching price-quality regulations:</i> We disagree with higher maximum penalties being applied. Higher maximum penalties are, in our view, not the correct approach to deterring breaches of price-quality regulations. The Commerce Commission is currently looking at the quality standard framework as a part of the 2020 DPP reset, of which the incentive scheme is just one factor when ensuring the best outcomes for consumers; and • <i>compare distributors' performance when setting price-quality regulations:</i> We do not support benchmarking of distributors when setting price-quality regulations and agree with Unison's opposition to the use of benchmarking⁴. The diversity amongst distributors' individual network characteristics (for example consumer demographics and topographical factors), together with the fact that not all distributors have a robust peer group within which to benchmark, are such that benchmarking would be difficult and the benefit to consumers would be minimal. We do not believe that it is appropriate to incorporate benchmarking into the light-touch DPP regulatory framework. <p>The Panel has also suggested that the Commerce Commission could make greater use of its following existing powers:</p> <ul style="list-style-type: none"> • <i>apply a "minimum practice" or "good practice" standard to distributors' asset management plans:</i> We do not support the application of a "minimum practice" or "good practice" standard to distributors' asset management plans, unless the relevant standard is robustly defined. While we recognise that there is a need for distributors' asset management practices to mature over time, we have concerns that there is a tendency to apply a "best practice" lens over distributors' performance, coupled with a failure to recognise that distributors' asset management maturity varies; • <i>develop forward-looking quality standards under price-quality regulation:</i> While we would support the development of forward-looking quality standards, we would like to understand further what this framework would entail; and • <i>assess and publish details of collaboration between distributors:</i> we support this suggestion. 	
E8	Require small distributors to amalgamate	Does not favour	Agrees	We agree that legislatively imposed amalgamations would be heavy-handed and are of the view that collaboration is instead a better option for the industry. We agree that legislatively imposed amalgamations would trample on existing property rights and do not support any approach that would result in those rights being impeded.
E9	Lower Transpower and distributors' asset values and rates of return	Does not favour	Agrees	We support the Panel's view that distribution assets should not be revalued. We strongly oppose revaluation for the reasons set out by the Panel.

⁴ Unison Networks Limited. Unison Submission on the Electricity Price Review First Report, 23 October 2018, para 18.

F: IMPROVING THE REGULATORY SYSTEM

<p>F1 Give the Electricity Authority clearer, more flexible powers to regulate network access for distributed energy services</p>	<p>Favours</p>	<p>Disagrees</p>	<p>We do not support the Electricity Authority being granted more flexible powers to regulate network access for distributed energy services. We are not confident that the Electricity Authority is best placed to allocate the risks associated with a distributor relying on third-party network solutions. Distributor's, when relying on emerging third-party network solutions, need to be confident and assured that the use of any third-party network solution will not compromise the regulatory limits within which the distributor must operate, mainly (but not exclusively) in relation to supply reliability under default and customised price-quality path regulation. Allowances in the regulatory framework for a distributor's liability when relying on third party network solutions, over which they have little to no operational control (only contractual recourse), could be a better solution to this challenge.</p>
<p>F2 Transfer the Electricity Authority's transmission and distribution-related regulatory functions to the Commerce Commission</p>	<p>Does not favour</p>	<p>Disagrees</p>	<p>Despite the Panel indicating that it does not favour this option as it would delay important work regarding transmission and distribution pricing, we maintain the view that the regulation of the contestable market should lie with the Electricity Authority and that the regulation of the monopoly markets should lie with the Commerce Commission.</p>
<p>F3 Give regulators environmental and fairness goals</p>	<p>Does not favour</p>	<p>Agrees</p>	<p>We agree with the Panel that environmental and social policy objectives are better directed through other regulatory and policy means for the reason that we do not believe that the environmental impact of the distribution sector warrants regulation and that fairness is a subjective concept that needs to be adopted in a cautious manner.</p>
<p>F4 Allow Electricity Authority decisions to be appealed on their merits</p>	<p>Does not favour</p>	<p>Disagrees</p>	<p>As we submitted to the Panel previously, while we agree that appeals can be costly, we disagree that that should form the basis of determining whether an appeals process is established.</p> <p>The ability to appeal a decision provides necessary checks and balances, and ultimately creates greater certainty for stakeholders.</p> <p>The decision to pursue an appeal is a decision made by the affected party, for whom the cost of the appeal may not be the only determining factor in deciding whether or not to appeal. The legislator's purpose is not to determine whether an appeal should be made, but to instead make the process available so that the affected parties can make that decision for themselves.</p> <p>Therefore, we disagree with the Panel's decision not to favour the abilities for parties to appeal the Electricity Authority's decisions on their merits.</p>

F5	Update the Electricity Authority's compliance framework and strengthen its information-gathering powers	Favours	Partial agreement	<p>We support a review of the Electricity Authority's compliance framework in order to consider ways in which rule-making functions can be separated from monitoring and enforcement functions.</p> <p>However, we do not agree with the Electricity Authority's information-gathering powers being increased so that it could undertake any review, study or inquiry regardless of whether it related to the Electricity Authority's statutory objectives. The statutory objectives of the Authority are an important check for the ambit of the Electricity Authority's powers and we disagree with them being considered effectively redundant for this purpose. Disregarding the statutory objectives could also see the lines between regulators, and the areas for which they are responsible, becoming further blurred.</p>
F6	Establish an electricity and gas regulator	Undecided	Disagrees	We do not support the establishment of an electricity and gas regulator. The functions should remain separate so that each regulator can concentrate on their individual regulated industries, which while might appear similar, are in our view sufficiently dissimilar to warrant separate regulators.
G: PREPARING FOR A LOW-CARBON FUTURE				
G1	Set up a fund to encourage more innovation	Undecided	Agrees	We would support the establishment of a fund to encourage more innovation as this may help to centrally co-ordinate activities. However, our view is that any such fund would need to be accompanied by requirements to share and disseminate the learnings and information acquired by the fund, and that such learnings and information become non-proprietary.
G2	Examine security and resilience of electricity supply	Favours	Agrees	We support the examination of the security and resilience of electricity supply.
G3	Encourage more co-ordination among agencies	Favours	Agrees	We support greater co-ordination among agencies. As a distributor, we particularly welcome greater co-ordination between the Ministry of Business, Innovation and Employment, the Electricity Authority and the Commerce Commission, so that inefficiencies are not created by those agencies pursuing similar matters.
G4	Improve the energy efficiency of new and existing buildings	Favours	Neutral	As a distributor, we do not have any specific views on this option.