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Electricity Price Review

Submission to the MBIE

22/03/2019

1. Introduction

Buller Electricity (BEL) appreciate the Electricity Panel Reviews (EPR) Options paper, the majority of which we fully endorse. BEL is a member of the Electricity Networks Association (ENA) and are fully supportive of all points raised in their submission on the Options paper.

However, as BEL is also a substantial shareholder in an energy retail business (Pulse Energy), we see a slightly different level of priority and opportunity to improve the fairness and affordability of electricity pricing for consumers. We would like to take this opportunity to highlight some of the key points we see arising from the EPR Options paper, so we do not make detailed comments on each option raised in the paper, but rather just focus on the priority issues from our perspective.

This is a joint submission made on behalf of Buller Electricity and the Buller Electric Power Trust.

2. Submission Points

We believe that reforms with regards to increasing retail competition and reinforcing wholesale market competition are amongst the highest priority issues to address. Our comments on the key points are as follow;

Option B “Reducing Energy Hardship”. We support all of these options but in particular B7 “Prohibit prompt payment discounts but allow reasonable late payment fees”. In our view prompt payment discounts have always been a disguise for what is essentially a late payment penalty and their removal will bring more integrity and transparency to the billing process.

Option C5 “Prohibit win-backs”. This is one of the key issues to address, and we agree with the Panels position on this point. Win-backs clearly result in a two-tier market, whereby large legacy retailers can sacrifice margin on acquiring new or retaining departing customers with their “sticky” long term customers who do not change effectively subsidizing the win-back customers. Furthermore, a lack of transparency and consistent reporting standards by Generation-retailers means their retail customers can be effectively subsidized by their upstream generation business components – which also gives room for funding more aggressive win-back approaches. As the option paper notes, the experience and approach to win-backs adopted by the telecommunications sector is directly relevant to the retail electricity business in New Zealand, and we fully support the Panels view that the adoption of this approach will dramatically improve the fairness of retail offerings in the market and lead to the best options and overall outcomes for consumers.

Win-backs produce a negative consumer climate as trust and confidence is impacted by reversals and cancellations of successful sales. If Retailers are forced to compete transparently competition will be fairer and consumer confidence will increase over time.

Option C7 “Introduce retail price caps”. We agree with the Panel that such caps have significant risks of being set too high or too low due to the complexity of both wholesale energy costs and

network distribution costs varying by region, in addition to the sheer volume of information that would be required to form and operate such a regime. We believe the Panel also correctly notes that innovation can be stifled over the longer term with such caps in place.

Option D1 “Toughen rules on disclosing wholesale market information”. We agree with the Panel that the Electricity Authority should identify any gaps in its power to require disclosure of further information, such as contract fuel supplies.

Option D2 “Introduce mandatory market-making obligations”. We agree with the Panel, and believe that along with win-backs, this is one of the key priority issues to address, as it will have an immediate and substantial impact on creating a fair and affordable electricity environment for consumers. The ENA submission highlights a suggested criteria for measuring and tracking the success of this mechanism through the spread and volume traded. We agree this approach of tracking liquidity would be effective. The depth and resilience of the wholesale market must be improved as a matter of urgency if truly competitive retail operations are to succeed over the longer term.

Mandatory separation of generation from retail, whether by reporting or structural separation, will ensure the benefits of greater liquidity are passed through to consumers. Currently over 90% of the Retail market share is spread among the five major generators and separation of the generation and retail activities is the key component to creating a fairer and more competitive retail market.

Option D3 “Make generator-retailers release information about the profitability of their retailing activities”. We agree with the Panels view on this option. As the EN submissions have already highlighted, the electricity distribution companies already follow a comprehensive disclosure reporting regime. The same level of transparency should be applied to the generator-retailers given their overwhelming market power and ability to effectively cross-subsidize their retail business from upstream generation activity. This lack of an arms-length transfer pricing approach combined with the generator-retailers dominant market position makes it extremely difficult for smaller new entrant retailers to compete on what is essentially an un-even playing field.

Option E8 “Require small distributors to amalgamate”. We agree with the Panels view that this is not an option that should be pursued. The August 2018 TDB report “Estimated Efficiency Gains from Amalgamation of Electricity Distribution Businesses” found that cost differences between distribution companies was primarily driven by consumer density within the different geographies. They concluded that any small savings that might be available in management or procurement could equally be derived from closer collaboration between EDB’s. BEL actively collaborates with other EDB’s, especially in the South Island. Sharing contracting resources is one example, and BEL has worked for four other EDB’s in the last year alone to undertake fibre installation projects, line builds, asset inspections, and pole replacement programs. This is in addition to the usual collaboration that can result from any natural disaster or weather events. This sharing of resource helps our colleagues deal with temporary work load issues, but the revenue also helps BEL offset line charges for our consumers. As such, cooperating with other EDB’s is an important part of our strategy.

The opposition to amalgamation is also evident from our consumer survey work, and our Board of Trustees also vigorously oppose any such move. The retention and application of local knowledge on our network, and the reality that we have a proven and extremely well appreciated local responsiveness to both emergency and longer-term network issues are clear factors why we oppose this option.

3. Conclusion

BEL is proud of the role it has played in pioneering retail competition to date, but the market place has always posted so many obstacles and the reforms recommended by the Options Paper are long overdue.

The options commented on above represent the key priorities which BEL want to make submissions on. We feel the retail competition and wholesale market reforms are important priorities.

We are aligned with all points raised in the ENA submission on the Options paper. While they are all important, from a BEL distribution business perspective and considering our local economic and environmental circumstances, we would put the most priority on Option E5 “Phase out low fixed charge tariff regulations”, and Option E6 “Ensure access to smart meter data on reasonable terms”. These are especially important steps to allow us to introduce more cost reflective pricing on our network.

In addition, an earlier input from ENA to the Panel to consider a recommendation on tree regulations was unfortunately not included, but the influence of this on the costs to our consumers is considerable and the faster consideration and implementation of meaningful reform of the regulations would be a very positive step forward to lowering costs for our consumers.

We would like to thank the Panel for the opportunity to submit and look forward to the next stage of the Panel review process.