

From: energymarkets@mbie.govt.nz
To: [Energy Markets](#)
Subject: Electricity Price Review submission
Date: Thursday, 21 February 2019 3:00:46 p.m.

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Region

Wellington

Category

Individuals, Researchers and Academics

Do you accept these terms & conditions?

Yes

A1. Establish a consumer advisory council

Should be subjected to a cost benefit analysis -

Inherent difficulty in representing the views of thousands of different viewpoints.

Previous efforts in this direction resulted in widely representative groups who could not agree on anything, or whose recommendations were so bland they were useless.

Other recommendations in the report giving financial incentives to consumers are likely to be more useful.

A2. Ensure regulators listen to consumers

Agree -

Commerce Act focuses on benefit to consumers. In practice, the Commission and the Authority do consult.

Making it a statutory requirement would go some way to ensuring that it happens.

B1. Establish a cross-sector energy hardship group

Agree with Recommendation -

Many efforts in this direction are underway and a hardship group will allow the comparison of relatively successful options and cross fertilisation of ideas: learning what works and what does not.

B2. Define energy hardship

Agree with Recommendation -

B3. Establish a network of community-level support services to help consumers in

energy hardship

Agree with Recommendation -

This would be the community level manifestation of the cross sector group

B4. Set up a fund to help households in energy hardship become more energy efficient

Agree with Recommendation -

A number of initiatives are underway and a comprehensive audit of what exists already should be the first step

B5. Offer extra financial support for households in energy hardship

Agree with Recommendation -

The focus should be on permanent ongoing solutions, such as insulation, solar panels and LED lighting.

B6. Set mandatory minimum standards to protect vulnerable and medically dependent consumers

Agree with Recommendation -

While regulations may be a useful backstop, ongoing training of company staff to consider the needs of the vulnerable as a matter of course would be more effective. It should be part of the company regulatory, compliance policy.

B7. Prohibit prompt payment discounts but allow reasonable late payment fees

Agree with Recommendation -

When the government moved from income tax deductions to rebates in 1973 many taxpayers thought they were being ripped off and that their rebate was worth less than the previous deduction. In fact, rebates were of far more benefit to those on low incomes.

Therefore, it is important that the financial implications for the poor be explained VERY CAREFULLY with examples of why the change is being made.

B8. Seek bulk deals for social housing and/or Work and Income clients

Agree with Recommendation -

Excellent idea. Not one I had thought of, but has the advantage of tying consumers into the market as a mechanism of getting lower total charges for electric power.

C1. Make it easier for consumers to shop around

Agree with Recommendation -

My home is one example of a consumer that has not changed supplier although we have investigated some other options.

Because benefits of switching were tiny, inertia ruled.

C2. Include information on power bills to help consumers switch retailer or resolve billing disputes

Agree with Recommendation -

Both information on bills and more widely available information on switching and disputes would be helpful.

A video available on Youtube and Facebook etc would also be a good way to go and that too could be advertised on power bills.

C3. Make it easier to access electricity usage data

Agree with Recommendation -

My supplier (Genesis) goes further than providing usage data. It also gives forecasts of future usage and probable billing.

C4. Make distributors offer retailers standard terms for network access

Agree with Recommendation -

Standard terms and conditions do reduce costs, but should also allow parties to agree to something different.

Negotiations would be mostly for large users, capable of negotiating satisfactory outcomes.

C5. Prohibit win-backs

Agree with Recommendation - but more consideration required

However, consumers should be aware they can negotiate reductions. Personally, I asked a telephone company to explain why I should not switch to a competitor for internet services and ever since have benefitted from a \$20 a month discount. Not the same as electricity, but power companies have a discretion.

If the consumer asks for a discount, is that a win-back? Would that discriminate against the diffident consumer?

C6. Help non-switching consumers find better deals

Agree with Recommendation -

Inertia is the biggest obstacle to consumer empowerment.

Once people receive benefits from arguing, negotiating and asking for discounts they will continue to do so. Overcoming the inertia is the big step.

C7. Introduce retail price caps

Agree with Recommendation -

Price caps would undermine the efficient operation of the market. Thus far all recommendations have aimed to improve its efficiency, the suggestion would be a big step backwards.

D1. Toughen rules on disclosing wholesale market information

Agree with Recommendation -

Disclosure is of itself a very efficient regulator as each company will scrutinise the data of its competitors and use that as a management tool.

I support the eventual move to an incentive based scheme as if there incentives to comply with

D2. Introduce mandatory market-making obligations

Agree with Recommendation -

As with other aspects of regulation disclosure its a very efficient regulator as each company will scrutinise the data of its copetitors and use that as a management tool.

I support the eventual move to an incentive based scheme as if there incentives to comply with regulations beome largely self policing.

D3. Make generator-retailers release information about the profitability of their retailing activities

Agree with Recommendation -

As with other aspects of regulation disclosure of profit information is useful contribution to efficient regulation as each company will scrutinise the data of its copetitors and use that as a management tool.

I support the eventual move to an incentive based scheme for reasons outlined above.

D4. Monitor contract prices and generation costs more closely

Agree with Recommendation -

Prices have two functions in a market: they provide information to market players and provide incentives to change behaviour.

Targetting long-run marginal costs as a regulatory tool is appropriate, but regular reviews are appropriate in a situation of falling costs.

D5. Prohibit vertically integrated companies

Agree with Recommendation -

Basing the valuations of today's electricity companies on the valuation of companies when formed, is a futile task. Valuations were based on guesses. The board of ECNZ offered to buy the assets of the NZED for \$2.5 billion. The NZ Treasury was asking for \$10 billion. After more than a year of negotiations, ministers agreed a valuation of \$6.4 billion. The change of management resulted in greatly enhanced profitability of the system making the original valuations redundant. The changes to company structures in 1968 and subsequently (prior to part privatisation) would have made any valuation based on original values hypotheical at best.

E1. Issue a government policy statement on transmission pricing

Agree with Recommendation -

"Should transmission pricing factor in when and where grid assets are used" or Who should pay transmission costs: generators or distributors.

In every other sector the producer (generator) pays to get its output to the retailer. The retailer then pays for transport to the consumer and the cost is passed on the the consumer. Either way the final consumer pays.

Resolving the issue by whatever means is urgent

E2. Issue a government policy statement on distribution pricing

Agree with Recommendation -

The Law provides for the Commerce Commission to take note of Government policy statements.

A policy statement would be based on first principles (i.e. analysis of how pricing operates in other markets) and analysis of how the issue is handled elsewhere, advantages and disadvantages, factoring in unique aspects of the New Zealand network.

E3. Regulate distribution cost allocation principles

E4. Limit price shocks from distribution price increases

E4: Agree with Recommendation -

Businesses can cope with most situations, but do far better when they have plenty of notice.

More research may be required on how advanced warning of long or short term price increases can be signalled early.

E5. Phase out low fixed charge tariff regulations

E5: Agree with Recommendation -

While in principle the "low fixed-charge tariff" for low-use residential users was a good idea the report points out that usage is not a good indicator of poverty. A low usage consumer could be a holiday home etc. However, the development of alternative plans should go hand in hand with the phase out or the government will have to wear accusations it is putting an extra burden on low income communities. Requiring companies to lead a comprehensive approach to household energy audits, plan reviews and the various measures suggested above in section B including insulation, double glazing and LED lighting assistance. This should be a package of measures.

E6. Ensure access to smart meter data on reasonable terms

E6: Agree with Recommendation - The problems identified could be addressed by the data being supplied to the Commerce Commission or the Electricity Authority and supplied to companies on a consolidated basis that will provide analytical data but not identify individual properties or consumers.

Good data is an essential underpinning to good policy and I agree with the priority to be accorded to the issue.

E7. Strengthen the Commerce Commission's powers to regulate distributors' performance

E7: Agree with Recommendation -

It would be better to explore with the Commission the proposed better use of existing powers before gazetting any new regulations. However, the thrust of the proposals is supported.

E8. Require smaller distributors to amalgamate

E8: Support the Recommendation

In 1987, when I became Minister there were approximately 60 electrical supply

authorities (Power Boards and ESAs). The withdrawal of franchise areas achieved many "voluntary" amalgamations. There remain many costs savings from shared facilities and standardisation as noted.

However, if particular communities prefer to carry the additional costs of independence they should publish their costs in comparison with others.

E9. Lower Transpower and distributors' asset values and rates of return

Agree with Recommendation -

This idea was canvassed extensively in 2014 and at the expense of major disruption to all existing generators would have resulted in a maximum saving by each residential consumer of \$300 a year.

2 political parties promoted the idea, which arose from a paper by Geoff Bertram. It was almost unanimously opposed by the sector and found to have many pitfalls, not the least being the calculation of appropriate valuations as explained above.

F1. Give the Electricity Authority clearer, more flexible powers to regulate network access for distributed energy services

Agree with Recommendation -

The big issue in the sector will be coping with distributed generation. Regulations should be as flexible and technology neutral as possible.

F2. Transfer the Electricity Authority's transmission and distribution-related regulatory functions to the Commerce Commission

Support the Recommendation:

The strength of the current system is that the Electricity Authority is responsible for sector technology and sector specific regulation, health and safety of the sector etc.

The Commerce Commission is focused mainly on price control, competition and technology neutrality.

F3. Give regulators environmental and fairness goals

Support the Recommendation:

It should be noted that "fairness" also implies that as a general rule people cover their own costs, that users pay and that markets are not asked to do what they cannot do.

To achieve policy goals of caring for the poor, disabled, permanently disabled, separate measures are put in place to ensure that all citizens have access to the necessities of life.

I have no problem with giving the Authority oversight on the need for environmental and fairness measures. However, the Authority should not be the supplier of environmental and fairness measures for which there are already suppliers.

F4. Allow Electricity Authority decisions to be appealed on their merits

Agree with Recommendation -

F5. Update the Electricity Authority's compliance framework and strengthen its

information-gathering powers

Agree with Recommendation -

Regulation is enhanced by access to information.

Regulators are always at a disadvantage compared with service providers. The regulated party will always have an advantage over the regulator. Competition is the prime regulator of economic activity and best if that can be used where possible.

F6. Establish an electricity and gas regulator

Agree with Recommendation -

In principle if the gas and electricity regulators have similar functions in terms of industry regulation it may make sense to bring them together to make best use of regulatory skills.

However, keeping their sector specific roles separate from the competition and price control functions of the Commerce Commission is an essential part of the institutional architecture in New Zealand and avoids the trap of "multiple functions allow for multiple excuses".

The decision should rest on which configuration is most cost effective and makes best use of the human and physical resources available.

G1. Set up a fund to encourage more innovation

G1. There are existing agencies that specialise in innovation. Rather than duplicating effort it may be best to:

- (1) Devote any innovation funds to contracting with existing agencies;
- (2) That they coordinate with universities and other bodies interested in power sector innovation.

G2. Examine security and resilience of electricity supply

Support the Recommendation

Neither security nor resilience should be taken for granted as we discovered in Central Auckland in 1992.

G3. Encourage more co-ordination among agencies

Support the Recommendation:

In 2005, I addressed a conference of Asian energy regulators in Beijing. This was a valuable gather for the participants, sharing experience and knowledge. Such interchanges would do no harm in NZ and may assist with consistency of decision making

G4. Improve the energy efficiency of new and existing buildings

Support the Recommendation

Improved energy efficiency of buildings is a major, relatively cheap source of electricity. ECCA is working on this issue and should be the lead agency.

Companies with supply problems should be encouraged look to added efficiency

among their users, enabling reselling electricity currently lost from energy inefficiency