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To:	Energy Markets
Subject:	Electricity Price Review submission
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Name (full)
Distribution Group

Company (if applicable)
Alpine Energy, Buller Electricity, Counties Power, EA Networks, Eastland Network, Electra, Nelson Electricity, Network Tasman, Northpower, PowerNet (representing Electricity Invercargill, OtagoNet and The Power Company), Scanpower, Top Energy, Waipa Networks, Westpower (representing multiple regions)

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Region
Southland

Category
Distribution Companies and Associations, Trusts, Transpower

Do you accept these terms & conditions?
Yes

A1. Establish a consumer advisory council
Support
• This option should be established with reference to similar arrangements elsewhere including when defining the role, membership and processes of the council.
• The council should be independent of the industry and industry regulators.
• Support the proposal for enabling legislation, and possible extension to other sectors.
• Support the ENA assisting with establishing the council in the short term.

A2. Ensure regulators listen to consumers
Conditionally support
• The consumer advisory council (A1) could contribute valuable input to regulatory decision making.
• Regulators can require regulated businesses to demonstrate how consumer views are taken into account, for example in setting service standards, key investment decisions and consumer pricing strategies. This already occurs under the Commerce Act's information disclosure regime for EDBs.
• Accordingly, it may not be appropriate for regulators to establish their own independent processes in all cases, and to do so may add undue cost and complexity to regulatory decision making.

B1. Establish a cross-sector energy hardship group
Support
• Support a cross-sector focus on policy and project initiatives.
• Any stock take needs to be targeted and undertaken quickly.

• Membership will need to be managed to ensure the group is effective and responsive.

B2. Define energy hardship

Support in conjunction with B1

• Energy hardship is one component of the financial hardship which many households face. It reflects the consumption decisions that households must make when managing their household budgets. These decisions involve a wide range of goods and services, including electricity. Accordingly any consideration of energy hardship must include broader financial hardship.

• Defining hardship is a role for the cross sector group (B1).

• Suggest any definition should refer to international benchmark measures and be fit for purpose in contributing to the government's well-being reporting objectives.

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

Support in conjunction with A1 and B1

• Support services should be available to all consumers, while targeting the most vulnerable.

• Local networks could support the establishment of community support services where appropriate, although this needs to be a central government initiative.

• Some networks currently provide energy education and advisory services to the community.

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

Support

• This option should be funded by central government and managed by EECA, consistent with existing EECA programmes.

• This is consistent with the government's wider welfare, environmental and housing policy objectives.

• To include programmes for those in tenanted homes, including Housing NZ tenants.

B5. Offer extra financial support for households in energy hardship

Support in conjunction with B3 and B4

• This option should be funded by central government, using targeted assistance such as winter energy payments.

• Complements B3 and B4.

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

No comment.

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

Support

• This option will result in more cost reflective prices, and therefore improve equity between consumers.

• It is reasonable to recover reasonable costs for late payment.

• The transition will need to be managed to ensure the new arrangements are reflected in supply contracts.

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

No comment.

C1. Make it easier for consumers to shop around

Support (making it easier for consumers to shop around)

• Continuing to improve the information available to consumers about alternative retail offerings is a no regrets option.

• Support a single pricing comparison site, with enhanced functionality and better quality pricing information.

• Improving the quality of the pricing information available, will ensure the pricing/plan recommendations are as accurate as possible.

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

Support

• A no regrets action that can help more consumers access the benefits available from switching, and improve trust and understanding of the sector.

C3. Make it easier to access electricity usage data

Support

• This is consistent with improving the ability of consumers to respond to pricing signals, to make good investment decisions and to evaluate alternative retail plans.

• This consumption data is also important for distributors, being a subset of a wider dataset becoming increasingly essential to efficiently manage networks and optimise investment.

C4. Make distributors offer retailers standard terms for network access

Do not support

• Distributors have not supported regulated terms to date, as the proposals put forward have not provided for sufficient operating flexibility and have included unnecessary and unlawful overlap with the Commerce Commission's regulatory jurisdiction. Combining price, quality and access regulatory responsibilities under the Commission would prevent this.

• Regulated terms will also hinder innovation, unless they are sufficiently flexible to adapt to new business and operating models.

• Favour an industry-led approach to determining standard terms, allowing for network specific operational terms, offered on an equivalence basis. Periodic industry-led reviews of standard terms are also required to ensure terms remain relevant.

• Acknowledge the Electricity Authority is about to re-consult on default terms. Will contribute to that consultation in good faith.

C5. Prohibit win-backs

No comment.

C6. Help non-switching consumers find better deals

Support

• This option is a targeted response to the issue that many customers are not accessing the price benefits available from retail market competition.

• This should be addressed with urgency and, as identified in the First Report, has the potential to deliver significant financial benefits to consumers who have not switched to date.

• Support opt-in trials, similar to the UK trial.

C7. Introduce retail price caps

No comment.

D1. Toughen rules on disclosing wholesale market information

No comment.

D2. Introduce mandatory market-making obligations

No comment.

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

No comment.

D4. Monitor contract prices and generation costs more closely

No comment.

D5. Prohibit vertically integrated companies

No comment.

E1. Issue a government policy statement on transmission pricing

Support

• Agree that policy direction will be valuable for addressing the transmission pricing debate.

• Suggest the GPS should explicitly refer to the Authority's statutory objective and the Authority must have regard to any such direction, and demonstrate how it has taken this into account in any transmission pricing recommendations.

• Where relevant a GPS on distribution pricing should be consistent with a GPS on transmission pricing, but acknowledge there are important differences in assets and cost drivers to be considered.

• The GPS should focus on principles to guide the Authority, not rules, as these will be for the Authority to develop in conjunction with Transpower and the industry.

• Refer to our response to E2 for further comment on a pricing GPS.

E2. Issue a government policy statement on distribution pricing

Support

• Where relevant a GPS on distribution pricing should be consistent with a GPS on transmission pricing, but acknowledge there are important differences in assets and cost drivers to be considered.

• Suggest that the policy could include the government's expectations for:

- Equitable cost allocation (between generators/consumers, regions, user groups)
- Economically efficient cost recovery (eg: peak charging, recovery of sunk costs)
- Future direction (investment signals, transition to low-carbon future, enabling new technologies)
- Transitional arrangements (to manage price shocks for consumers and regions)
- Implementation (such as simplicity, durability, acceptance, predictability, stability)
- Support from other industry stakeholders (retailers, regulators)
- Support from government (including for those consumers in energy hardship).

• In addition to the topics suggested above a GPS could address the government's expectations for distribution pricing in respect of:

- The transition from the LFC regulations, by both distributors and retailers
- The Authority's distribution pricing principles and any associated guidance
- The Commerce Commission's regulation of distribution pricing methodologies
- Energy efficiency, demand side management and losses.

• In the first instance a GPS on distribution pricing may be targeted at the short to medium term transition required for distributors to move to more cost-reflective

pricing.
• The GPS should recognise the differences that exist between networks which may influence the pricing approaches adopted, such as network cost drivers, consumer and load characteristics and access to smart metering capability.

E3. Regulate distribution cost allocation principles

Do not support
• Principle based guidance is appropriate and sufficient, combined with regulatory monitoring (via pricing methodology disclosures and explanations).
• The Electricity Authority's pricing principles and guidance have not been reviewed since 2010, and this is now underway.
• As distributors move to introduce more cost reflective pricing, cost allocations will be revisited, and industry guidance will have a role to play.
• The distribution pricing GPS can also provide policy direction for cost allocation (refer E2).
• Given divergence in load, customer base, network cost drivers, and network operating structures 'rule-based' regulation is not supported.
• We note the ENA's support for industry-led cost allocation guidelines.

E4. Limit price shocks from distribution price increases

Do not support
• The proposal is complex, and any such process would be costly and, as suggested, possibly deter pricing reform.
• A preferred approach is for distributors to continue to manage price shocks, as they already do, and report on their transition plans to regulators, as they already do.
• The expectation that distributors will manage price shocks to consumers could be reinforced in a GPS on distribution pricing (refer E2).
• A phased approach to removing the low fixed charge regulations also addresses price shock concerns (refer E5).

E5. Phase out low fixed charge tariff regulations

Support
• The transitions necessary to implement this option are supported by option B5 (additional funding to support those in energy hardship), and option E2 (a distribution pricing GPS).
• Starting the transition from 1 April 2020 appears challenging, as pricing is determined well in advance of the pricing year. Regulatory amendments would be required asap to enable this change for next year.
• Support some flexibility for transitional options and timings for distributors to reflect different network circumstances, pricing structures and pricing strategies.
• It is important to recognise that some consumers in energy hardship are currently disadvantaged by the LFC regulations (eg: low income high use households), and that a prolonged transition will restrict the ability of distributors to address this anomaly through pricing.

E6. Ensure access to smart meter data on reasonable terms

Support
• Resolving this is critical to supporting innovation and competition in the sector.
• Support industry-led solutions if possible. Distributors have a role in defining technical requirements for advanced metering by MEPs. This is necessary to ensure that the full functionality of meters can be realised.
• Acknowledge the joint work to date by the ENA and ERANZ, with support from the Authority.
• Acknowledge that a Code amendment may be required if the industry is unable to

resolve the issue in a timely and cost effective way.

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

Do not support

• It is premature to regulate to strengthen the Commission's regulatory powers for electricity distributors. It may also introduce undue uncertainty and consequences for other regulated sectors.

• The regulatory provisions for electricity distributors introduced via the 2008 Commerce Amendment Act, came into effect in 2013. This was when the price-quality paths were first set, and the new information disclosure requirements introduced. Prior to this date, the previous regulations had been rolled over to allow the new regime to be developed and implemented.

• The current regime is still maturing and there is more to be done. The Commission has not yet fully explored its monitoring powers, and has indicated in its open letter on priorities for the electricity distribution sector (November 2017), that it intends to do so.

• We support the Commission continuing to develop its regulatory monitoring approach within its existing powers, including, as suggested in the Options Paper, by considering:

- Good practice standards for AMPs
- Forward looking quality standards to identify risks of poor asset management
- Monitoring collaboration for consumer benefit.

We respond to each of the proposed options for strengthening regulation below.

Ability to remove exempt status following investigation

• The EPR has not identified a problem which the proposed option is attempting to resolve.

• As demonstrated in our submission on the First Report (refer our response to Q20), there is no clear evidence of differences in performance of exempt and non-exempt distributors under Part 4 regulation, in terms of cost and network reliability.

Ability to move a distributor from DPP to CPP

• Again the EPR has not identified a problem which the proposed option is attempting to resolve.

• The CPP process is highly complex and costly, and it would be extremely heavy handed for distributors to be forced into this process. The Commission has appropriate remedies for breaches of DPPs, supported by its information disclosure monitoring powers, backed up by the option of CPPs.

Increase maximum penalties for breaches

• The regime is still too young to change these regulatory settings – there has been very little enforcement action taken to date, and accordingly no evidence to suggest that the maximum penalties are inadequate.

• The consequence of increasing penalties is that distributors may be incentivised to avoid breaches at all cost, which may not be in the long term interests of consumers (for example by deferring planned works to avoid quality standard breaches).

Use benchmarking (with caution) when setting price-quality paths

• Do not support for the reasons set out in our submission on the First Report (refer our response to Q20 and supporting evidence).

• It is concerning that this option is being considered just a decade after there was agreement to explicitly exclude benchmarking from the Commission's toolkit for price-quality regulation. The reasons for that decision are well documented in the consultations on the Commerce Amendment Act 2008. The 2008 amendments reflected issues with the threshold regime which derived price paths using benchmarking (which we described in our earlier submission). These led to

extremely poor outcomes for many EDBs, some of which are still being corrected through transitional arrangements under the current DPP.
• We are not aware that the Commission has demonstrated a need for benchmarking when setting price-quality paths for EDBs.
• The Commission has significant benchmarking powers through information disclosure regulation. The Commission is yet to fully implement these powers through its disclosure monitoring and summary and analysis work. More focus in this area has been signaled in the Commission's open letter on its priorities for electricity distributors (November 2017).
• It seems improbable that a legislated mandate could be imposed 'with caution'. Once legislated, the tool becomes available, and may be applied - with or without caution.

E8. Require smaller distributors to amalgamate

Do not support
• Distributor links to local communities deliver benefits for consumers and community, and local ownership is strongly supported by consumers.
• Imposed amalgamations would be extremely heavy handed and contrary to consumer interests.
• Collaboration is occurring, and distributors are working together to develop capability and to innovate. Industry work groups, including those led by the ENA, help distributors to find common solutions and approaches to network challenges. The level of collaboration is increasing as the pace of change picks up.
• Forced amalgamations would be an unnecessary distraction at a time when the sector is transitioning to adapt to new technologies, regulatory requirements and pricing models.
• For the reasons outlined above, the energy trust commission variation is not supported.

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

Do not support
• Current methods and values are the outcome of significant regulatory processes, supported by expert evidence and testing in the High Court via Merits Review.
• The Input Methodology process, which is a core part of Part 4 regulation, has been established to provide regulatory and investor certainty, for the long term benefit of consumers. To disrupt those processes now would undermine the objectives of the 2008 amendments, which included establishing a regulatory framework that provided more certainty, and hence better outcomes for consumers.

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

Do not support
• The option to increase regulation of network access is not supported as the EPR has not identified a problem that needs to be resolved.
• Industry-led solutions to any network access issues are preferred, and work is underway.
• Regulation of distributor involvement in DER is not supported, as distributors can contribute to making the benefits of low-carbon technologies available to consumers.
• We note the work of the ENA's Transformation Roadmap project in progressing the distribution sector's response to DER.
• Consistent with the response to F2, co-ordination between the Commission and the Authority can be improved and made more transparent.

F2. Transfer the Electricity Authority's transmission and distribution-related

regulatory functions to the Commerce Commission

Conditional support

• Acknowledge that this process could disrupt current work streams and there are more pressing priorities identified in the Options Paper.

• However longer term benefits may justify revisiting this option at a later date. Some members strongly support a change to move all aspects of monopoly regulation from the Authority to the Commission (including pricing methodologies and network access terms). This would avoid unnecessary complexity, such as that addressed in the recent Court of Appeal judgement Vector v EA.

• In principle there is no reason that market and economic regulation must be combined. However this is dependent on clear and transparent processes regarding the interface between the regulators.

• Recommend strengthening these processes by making them more transparent.

• Also recommend more alignment of the Electricity Authority's consultation processes with the Commerce Commission's processes.

F3. Give regulators environmental and fairness goals

Do not support

• Adding environmental and fairness objectives to the Commerce Commission and Electricity Authority introduces significant trade-offs, that may be better dealt with through GPS.

• Consumer protection is currently provided for through existing economy wide legislation (such as the Fair Trading Act and Consumer Guarantees Act), supported by Utilities Disputes Limited services for energy consumers.

• Support broadening the Authority's mandate to include increased focus on consumers, as a way of balancing its existing focus on the economic efficiency, and efficient and reliable market operation objectives.

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

Support

• Provides appropriate incentives for evidence based decisions and full consideration of options, which leads to higher quality regulatory decisions that all industry participants benefit from, not just the appealing party.

• Does not necessarily lead to merits appeals (eg: the Commission's 2016 Input Methodology Determinations were not appealed, in any sector).

• Improves balance between regulators.

• Improves confidence in the regulatory framework.

F5. Update the Electricity Authority's compliance framework and strengthen its information-gathering powers

Conditional support

• Support the separation of rule-making from monitoring and enforcement to increase the independence of the monitoring and enforcement function. We believe this may improve confidence in and ultimately compliance and performance of the electricity market.

• Support an increase in the information gathering powers of the Authority, but only where required to support Ministerial inquiries into the sector. It makes sense for the Authority to undertake any such investigations which may be requested by Ministers. This complements the Commerce Commission's market inquiry powers.

F6. Establish an electricity and gas regulator

No comment.

G1. Set up a fund to encourage more innovation

No comment.

G2. Examine security and resilience of electricity supply

No comment.

G3. Encourage more co-ordination among agencies

No comment.

G4. Improve the energy efficiency of new and existing buildings

No comment.