

Energy Markets
Ministry of Business, Innovation & Employment
PO Box 1473
Wellington 6140
New Zealand

Submitted by email to: energymarkets@mbie.govt.nz

22 March 2019

EMANZ Submission on:

Electricity Price Review Options Paper, February 2019

INTRODUCTION

EMANZ welcomes the publication of the Electricity Price Review Options Paper and the opportunity to submit comments on it. Electricity prices are a critical feature of modern day life and impact the wellbeing of individuals and businesses alike.

It is essential that households and businesses in New Zealand have ready access to reliable electricity supplies. Of course, accessibility is only one issue, another important aspect is affordability and it is good to see MBIE investigating this issue. There is a recognised problem of energy poverty in New Zealand. Energy hardships arises when households struggle to pay their energy bills. Of course, there are two key components to a bill, being price and consumption. Just as much can be achieved by addressing consumption as can be achieved by investigating price and the significance of consumption in addressing energy hardship should not be undervalued. Nevertheless, a formal review of prices presents an excellent starting point to commence addressing the issue of energy hardship.

Price is only one of several material factors that contribute towards energy hardship and overly focusing on price misses additional, effective opportunities for the betterment of New Zealand in general and the energy poor specifically.

An environment of enforced, artificially low prices would be sub-optimal economically and be detrimental to New Zealand as a whole. Price levels should not be so low as to encourage wastage of valuable resources or be so high as to induce energy poverty in households or a lack of competitiveness in businesses. We need to acknowledge that ensuring security of supply and adopting a low carbon strategy for generation carry costs. A fine balance is, therefore, required to allow competitive markets to operate effectively under appropriate regulation with complementary support to attack the issue of energy hardship.

EMANZ is a not-for-profit association representing the energy managers of New Zealand. We enjoy a strong membership and a key role in delivering energy management training and accreditation. EMANZ believes that while an effective and fair pricing framework is, obviously, an essential component of a sustainable electricity system, the output of that framework – the price paid by consumers – is also dependent on the structure and efficiency of the industry and the markets in which it operates. Improved energy efficiency will reduce aggregate demand and the equilibrium price, *ceteris paribus*. Similarly, improved energy efficiency will improve living standards and reduce overall costs at the household level through reduced consumption, thereby delivering improved welfare even under constant

prices. Through reduced demand, it will also accelerate progress towards renewables targets. Overly focusing on price risks undervaluing the direct and co-benefits of improved efficiency. While acknowledging that efficiency improvements are mentioned in a small number of the options presented, mainly in relation to a low carbon future, we feel much more can be achieved by recognising the role energy efficiency can play in helping keep prices, as well as overall electricity costs, down.

Artificially low prices could be damaging as they encourage direct wastage and discourage energy efficiency investments. If prices are too low, usage will be wasteful and the transition to lower carbon generation hampered.

The Option Paper proffers 41 options for discussion. Many of these lie outside the areas of expertise of EMANZ members and our comments, therefore, are restricted to the options where we feel we can make a valuable contribution to the discussion.

Following the structure of the Options Paper, we reference these comments under the numbering system of the Paper.

SECTION A: STRENGTHENING THE CONSUMER VOICE

A1: Establish a consumer advisory council

Having appropriate consideration of user needs under the regulatory framework of the electricity industry is a desirable outcome.

Arguably, this already exists under the Electricity Authority's current mandate and complementary authorities such as the Commerce Commission. If a new representative body were to be established, it is important that activities are not duplicated and that the application of levy funding already in place is reviewed and, where appropriate, redirected to the new body.

EMANZ is concerned that the introduction of an additional body will incur additional costs to the electricity system that will ultimately prove counterproductive to consumers.

It is important, therefore, that any new body has a clear remit, does not duplicate existing functions and that its establishment should be subject to a robust cost benefit analysis to evaluate its incremental merit.

A2: Ensure regulators listen to consumers

As mentioned in the Options Paper, the Electricity Authority already has broad consultation and consumer protection obligations. Adding a statutory obligation to consult a specific group across the vast majority of its activities will only add costs to EA processes.

On balance, EMANZ believes a statutory obligation to consult consumers, rather than the current broad obligation will carry little national benefit.

SECTION B: REDUCING ENERGY HARDSHIP

B1: Establish a cross-sector energy hardship group

As the options paper states, energy hardship is hardly, if ever, isolated from other aspects of poverty and these extend beyond the electricity sector. Understanding how and why previous initiatives have worked, failed or had limited success should lead to better allocation of resources in fighting energy hardship. Whether this requires a dedicated energy hardship group or is better served by a more holistic approach across health and welfare disciplines, such as through the Welfare Expert Advisory Group, is questionable. EMANZ believes a better understanding of how to combat energy hardship effectively is welcome and supports the activities proposed in this Option. Whether this requires a dedicated, energy focused group is less clear cut.

B2: Define Energy Hardship

An effective measure of energy hardship would be a useful step in assessing the effectiveness of policies to address hardship. Therefore, a clear definition of energy hardship is required.

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

Community level support services in energy already exist, they are just woefully underfunded. Organisations such as The Sustainability Trust (Wellington) and Sustainability Options (Tauranga) already provide valuable services to local communities. These organisations don't necessarily need to be part of a national network, rather they require support to improve access to their services. Extending the reach and accessibility of these services would be beneficial and if this is best achieved by supporting them through a national programme, then this is to be welcomed.

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

EMANZ supports the extension of the Warmer Kiwi Homes Fund to embrace additional energy efficiency opportunities. This should include free energy audits for beneficiaries and community service card holders and support to enact improvements, subject to appropriate qualification criteria.

B5: Offer extra financial support for households in energy hardship

Financial hardship is rarely isolated to the area of energy and additional financial support for those in energy hardship should be considered holistically with other areas of welfare support. Inevitably with financial payments, there is a risk that recipients will reallocate financial assistance to other needs. Therefore, EMANZ believes better resourcing of Options B3 and B4 to amend behaviours and improve efficiency will deliver direct health and welfare improvements to those in need and stronger national benefit than either a payment or rebate system. Supporting efficiency will improve living standards and reduce household bills while also helping achieve national renewables and emissions targets, thus delivering stronger micro and macro benefits.

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

EMANZ supports the introduction of mandatory minimum standards to protect vulnerable and medically dependent consumers.

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

Prompt payment discounts are a marketing tool used to present tariffs to consumers and help manage the cash flows of retailers. In that sense, they are no different to other discounts offered such as paperless transactions or direct debiting.

The important issue is that consumers understand the terms and conditions of their agreements, rather than the merits of particular packages that may be offered. This should be achieved through transparency of terms and conditions and education among household decision makers.

Of more risk to household consumers is the purchase of packages that carry significant price risk that is not understood up front, for example that of exposure to spot market prices. Several retailers actively promote packages based on spot market prices as being significantly cheaper than fixed tariffs. While this is commonly the case over the longer term, these packages also carry significant risk exposure that is often not understood by households. Having these risks carried at the household level should not be prohibited either but consumers need to understand their terms and conditions and this can best be achieved through education (see Additional Measures below) and transparency.

So long as contract terms and conditions are clear and contract risks understood, retailers should be free to offer discounts or packages that they believe will be market competitive.

B8: Explore bulk deals for social housing and/or Work and Income clients

EMANZ has no comment on Option B8.

Additional Measures

While we have commented on the options presented, EMANZ believes there are additional opportunities to reduce energy hardship.

A further contributor to energy hardship is a lack of general education around energy, its use and its cost. A school based education programme that includes basic understanding of power bills and consumption rates will help educate the population in basic efficiency measures. In some cases, this may be as simple as not filling a kettle when only one cup of boiling water is required, or the importance of switching off appliances at the wall. While modest in themselves, these practices will help households control electricity bills. Such a programme should also include content on understanding power bills, tariff options and switching opportunities.

SECTION C: INCREASING RETAIL COMPETITION

Generally, EMANZ supports competition in the retail sector, although has no specific comments related to Options C1 and C2.

C3: Make it easier to access electricity usage data

Access to data is a critical element of effective energy management and EMANZ supports measures to increase the accessibility of usage data.

Accordingly, EMANZ supports Option C3.

EMENZ has no comment on Options C4 to C6.

C7: Introduce retail price caps

EMANZ opposes the introduction of retail price caps. Price can often be a driver for efficiency and falsely constraining prices in what is, for the most part, a competitive environment will only lead to market and technical inefficiencies. Such regulatory risk would also be negatively received by capital markets and lead to an increased cost of capital for the sector, with consequent implications for investment and innovation.

EMANZ does not support Option C7.

SECTION D: REINFORCING WHOLESALE MARKET COMPETITION

EMANZ has no comments on the Options in this section.

SECTION E: IMPROVING TRANSMISSION AND DISTRIBUTION

EMANZ has no comments regarding Options E3, E4, E7, E8 or E9.

E1: Issue a government policy statement on transmission pricing; and

E2: Issue a government policy statement on distribution pricing

EMANZ supports clarity in transmission pricing and stability and certainty over future pricing and supports measures for strong Government guidance on this.

E5: Phase out low fixed charge tariff regulations

EMANZ supports Option E5.

E6: Ensure access to smart meter data on reasonable terms

Data access is an essential component of effective energy management. Ready access should be available to individual consumers and recognised energy professionals, for example EECA programme partners or EMANZ accredited practitioners, to facilitate easier, quicker and more effective energy efficiency projects and innovations.

EMANZ supports Option E6.

SECTION F: IMPROVING THE REGULATORY SYSTEM

EMANZ has no comments regarding Options F1, F2, F4 and F5

F3: Give regulators environmental and fairness goals

EMANZ strongly supports efforts towards environmental sustainability and, especially, efforts to combat climate change. However, we believe the framework and monitoring of greenhouse gas emissions should fall under the auspices of the anticipated Climate Change Commission, rather than the Electricity Authority.

F6: Establish an electricity and gas regulator

EMANZ sees merit in incorporating gas markets under the auspices of a revised Electricity Authority, although does not hold strong views on such a move.

SECTION G: PREPARING FOR A LOW-CARBON FUTURE

G1: Set up a fund to encourage more innovation

Several funds already exist that directly or indirectly support innovation in the energy sector. These include Callaghan Innovation and the new Green Investment Fund. although the effectiveness of these funds requires regular review. Another fund is not required, rather it is the resources awarded to and the effectiveness of the current organisations that warrant review.

G2: Examine security and resilience of electricity supply

The issues of security and resilience of supply are critical and their importance is commonly overshadowed by discussions around pricing.

EMANZ supports a review of security and resilience of supply.

G3: Encourage more co-ordination among agencies

Improved co-ordination among agencies is rarely retrograde.

EMANZ supports this option.

G4: Improve the energy efficiency of new and existing buildings

EMANZ notes the wording of this Option is dominated by consideration of residential housing. EMANZ supports this Option, although believes its coverage should be extended to include commercial and industrial buildings explicitly. There are several ways efficiency improvements could be achieved, for example revised building code, the mandating of NABERSNZ to buildings meeting specified criteria and the introduction of efficiency ratings for houses. Any or all of these could be employed to improve the energy performance of New Zealand's buildings with consequent improvements in energy productivity, living standards and reduced carbon emissions.

SUMMARY

Improved energy efficiency can lead to better living and working environments, higher living standards, lower health costs, reduced energy demand, reduced energy costs and reduced greenhouse gas emissions. While price, equity, fairness and the combatting of energy hardship, quite rightly, are of core importance to Government, the solutions that will best address key issues such as energy hardship don't necessarily lie in price control, financial rebates or market regulation.

Historically, aggregate energy demand increases as living standards increase and this linkage will continue, exacerbated by trends in electrification, especially in transport with the planned uptake of electric vehicles. With a background of increasing demand, a stated Government intent to increase further the proportion of our electricity generated by renewables and anticipated increases in carbon prices in the medium term, the expectation must be of upward pressure on electricity prices. Improving efficiency is a credible alternative, or complement, to market regulation and one that will deliver micro and macro benefits.

Other things being equal, improved energy efficiency at the household level will reduce household demand and household bills. At the aggregate level, improved energy efficiency will reduce aggregate demand and the market equilibrium price.

Improved efficiency will help achieve improved energy productivity, renewable energy targets (2035), carbon emissions targets (2050) and is a downward influence on prices. Supporting energy efficiency programmes will deliver broad and deep goals. Paradoxically, higher prices encourage energy efficiency and so price controls could be counterproductive to aggregate improvement. The preferred approach to addressing hardship, therefore, would focus on improvements to efficiency and education, rather than price.



Dr M Hopkins
CEO, EMANZ
22nd March 2019