

# SUBMISSION

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To: Electricity Price Review

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Submission on: Electricity Price Review Options Paper

From: Federated Farmers of New Zealand

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## **SUBMISSION TO THE ELECTRICITY PRICE REVIEW ON ELECTRICITY PRICE REVIEW OPTIONS PAPER**

### **INTRODUCTION**

Federated Farmers appreciates the opportunity to provide this submission to the Electricity Authority on the More Efficient Distribution Prices consultation paper.

Electricity is a significant and vital input into the farm business with networked electricity supply one of a few sources of energy available to rural households.

Farms and rural households play a multi-purpose role in the electricity sector.

At its most simple, farms and rural households are consumers of electricity in much the same way as other businesses and residences. Farms generally have residential plans for the household and commercial plans for the farm business. Farm consumption of electricity is also generally on a scale between that of a residential consumer and a commercial consumer, depending on the farm type.

Farms rely on a reliable and affordable supply of electricity to undertake many of the functions required to support the farm business:

- For dairy farms, this means reliable supply during milking and consistent supply throughout the day for milk vats to maintain a safe temperature for milk awaiting collection.
- For irrigated farms, this means reliable supply to maintain pivot and other irrigation systems during dry periods that risk pasture and crop health and production.
- For sheep and beef farms this means reliable supply for animal water supply and during shearing.

This situation is further complicated by many farms also hosting the infrastructure necessary for electricity to be both transmitted and distributed across the country. This was initially pursued on an agenda of bringing electricity to various parts of the country on the basis of goodwill and necessity.

Farms also host, or have given way to, electricity generation projects over the years. Wind farms generally reside on farms. Hydro canals run through farms with dams taking over once-productive farmland.

All this occurs on a basis where the role, importance and needs of the rural consumer as host and enabler of the electricity sector goes largely unrecognised and underaddressed in public policy processes.

This submission is provided for the purpose of bringing a needed rural perspective to the work of the Electricity Price Review.

## **SECTION A : STRENGTHENING THE CONSUMER VOICE**

### *A1 : Establish a consumer advisory council (favoured by the review)*

FFNZ does not oppose establishing a consumer advisory council, but would have to understand how this would be a more successful mechanism for consumer engagement than previous iterations of consumer advisory groups.

An essential barrier to consumer engagement remains one of capability with highly-complex technical knowledge required of the electricity industry. Appointing experienced proxies for consumer groups overcomes the technical difficulty barrier to engagement, but still maintains the disconnect between regulators and consumers. 'Plain English' helped the legal profession become more accessible. There is merit in pursuing a similar approach that better enables consumer engagement.

### *A2 : Ensure regulators listen to consumers (favoured by the review)*

FFNZ supports reinforcing consumer consultation requirements of regulators to seek consumer views and for regulators to explain how consumer views are taken into account. That said, FFNZ is undecided on the best means for achieving this.

## **SECTION B : REDUCING ENERGY HARDSHIP**

### *B1 : Establish a cross-sector energy hardship group (favoured by the review)*

FFNZ has no opinion on establishing a cross-sector energy hardship group as farmers are unlikely to qualify for energy hardship support. That said, it makes sense for a cross-sector group to be established as a platform for pursuing initiatives that address energy hardship.

### *B2 : Define energy hardship (favoured by the review)*

FFNZ has no opinion on determining the definition of energy hardship as farmers are unlikely to qualify. That said, it would help to have a clear definition of those consumers eligible for support on energy hardship grounds.

### *B3 : Establish a network of community-level support services to help consumers in energy hardship (favoured by the review)*

FFNZ has no opinion on establishing a network of community-level support services as farmers are unlikely to qualify. That said, it makes sense to better target support through such programmes than interfere in the operation of the electricity market.

### *B4 : Set up a fund to help households in energy hardship become more energy efficient (favoured by the review)*

FFNZ has no opinion on establishing a fund to support energy efficiency of households in energy hardship as farmers are unlikely to qualify. That said, it makes sense to better target support through funding programmes directed at factors that give rise to energy hardship instead of interfering in the operation of the electricity market.

### *B5 : Offer extra financial support for households in energy hardship (favoured by the review)*

FFNZ has no opinion on offering extra financial support for households in energy hardship as farmers are unlikely to qualify. That said, it makes sense to better target support for those consumers suffering under energy hardship than interfere in the operation of the electricity market.

### *B6 : Set mandatory minimum standards to protect vulnerable and medically dependent consumers (favoured by the review)*

FFNZ does not oppose setting mandatory minimum standards to protect vulnerable and medically-dependent consumers, as it makes sense to standardise an approach across the electricity industry for ease of ensuring compliance and delivery on social objectives.

### *B7 : Prohibit prompt payment discounts but allow for reasonable late payment fees (favoured by the review)*

FFNZ supports prohibiting prompt payment discounts as it helps ensure consumers have a clearer understanding of their cost of the electricity.

### *B8 : Explore bulk deals for social housing and/or Work and Income clients (favoured by the review)*

FFNZ has no opinion on bulk deals for social housing / Work and Income clients as farmers are unlikely to be covered under this arrangement.

## **SECTION C : INCREASING RETAIL COMPETITION**

### *C1 : Make it easier for consumers to shop around (favoured by the review)*

FFNZ supports providing a one-stop shop for comparing pricing and plans, for both residential and commercial consumers. Electricity is a significant farm input and farmers struggle to compare pricing and plans to secure the best deals.

Opening up real-time access to usage data would help make the process of comparison much easier for consumers, but this presumably relies on smart meters being in place to recover the necessary data.

### *C2 : Include information on power bills to help consumers switch retailer or resolve billing disputes (favoured by the review)*

FFNZ support increasing awareness of the disputes resolution services provided by Utilities Disputes Ltd.

It is our experience that our farmer members come to us in the first instance for advice and assistance in issues they have with electricity retailers and lines companies. While we do make members aware of the disputes resolution services of Utilities Disputes Ltd, this happens on a case-by-case basis and where referral of the dispute to Utilities Disputes Ltd would be the best approach to secure the best result for our members.

### *C3 : Make it easier to access electricity usage data (favoured by the review)*

FFNZ supports making electricity usage data more easily accessible. Easier access to such information would assist farmers in their efforts to ensure they are not overpaying for their electricity supply.

### *C4 : Make distributors offer retailers standard terms for network access (favoured by the review)*

FFNZ has no opinion as making distributors offer standard terms for network access is unlikely in itself to deliver material benefit to individual farmers. That said, there is merit in standardising terms for network access where doing so would reduce the barriers for competition in the retailing of electricity.

### *C5 : Prohibit win-backs (favoured by the review)*

FFNZ supports measures that improve competition and understand how prohibiting win-backs would level the playing field among competing retailers.

### *C6 : Help non-switching consumers find better deals (favoured by the review)*

FFNZ supports helping non-switching consumers find better deals, but see limited value for rural consumers from introducing a bulk deal approach given the unique nature of rural electricity consumption as straddling both residential and commercial. Even a regionally-based scheme would struggle to accommodate the varying electricity consumption patterns of different farm types.

### *C7 : Introduce retail price caps (not favoured by the review)*

FFNZ opposes the introduction of retail price caps. Introducing retail price caps would mean bringing an unwieldy measure into an electricity market that is already far too complicated. Further, recent price increases can generally be more clearly attributed to increases in transmission and distribution pricing than the retail component of the monthly bill.

## **SECTION D : REINFORCING WHOLESALE MARKET COMPETITION**

*D1 : Toughen rules on disclosing wholesale market information (favoured by the review)*

FFNZ supports improving transparency in the wholesale market so that farmers might be aware of foreseen impacts on electricity pricing and have the opportunity to potentially adjust their consumption accordingly. There are limits to the extent that a farmer could adjust their electricity consumption to minimise the impact of sudden and significant increases in electricity pricing, but foreseen causes of price increases should be more transparently reported and understood.

*D2 : Introduce mandatory market-making obligations (favoured by the review)*

FFNZ has no opinion on the introduction of market-making obligations.

*D3 : Make generator-retailers release information about the profitability of their retailing activities (favoured by the review)*

FFNZ has no opinion on increasing transparency around profitability of retailing activities undertaken by generator-retailers.

*D4 : Monitor contract prices and generation costs more closely (favoured by the review)*

FFNZ has no opinion on the closer monitoring of contract prices and generation costs.

*D5 : Prohibit vertically integrated companies (not favoured by the review)*

FFNZ has no opinion on prohibiting vertically-integrated companies in the electricity sector, or the review panel's reasons for not favouring this option.



## **SECTION E : IMPROVING TRANSMISSION AND DISTRIBUTION**

### *E1 : Issue a GPS on transmission pricing (favoured by the review)*

FFNZ supports the issuing of a Government Policy Statement on transmission pricing that forecasts expectations of subsequent work on transmission pricing methodologies. Recent work on the transmission pricing methodology has proven particularly divisive and not entirely easily-understood as to the merits of the proposed changes and their impacts.

That recent work placed FFNZ in the difficult position of representing the interests of rural consumers that faced significant increases and many who faced smaller reductions in transmission pricing. This was complicated by seemingly opaque reasoning for the changes proposed and impacts arising from those proposed changes.

The issuing of a GPS on transmission pricing would help ensure the process for determining a transmission pricing methodology occurred in a manner that was better forecast, more transparent in the reasoning for the impacts arising from proposed changes, and ultimately reduce the likelihood of significant price shocks to consumers.

### *E2 : Issue a GPS on distribution pricing (favoured by the review)*

FFNZ supports the issuing of a Government Policy Statement on distribution pricing. It has been our experience in recent efforts on distribution pricing that there has been a focus on the purity of public policy principles. This approach has appeared to override the practical reality of consumers, like those in rural areas, who do not easily conform to the circumstances of residential or commercial consumers.

The issuing of a GPS on distribution pricing would ideally ensure that social considerations like those already enshrined in the Electricity Industry Act 2010 that ensure continuance of electricity supply along uneconomic lines are more clearly factored into distribution pricing.

### *E3 : Regulate distribution cost allocation principles (undecided by the review)*

FFNZ would oppose regulating distribution cost allocation principles, principally on the basis of current efforts on distribution pricing principles clearly failing to have regard for non-typical consumer types (as in, those that do not easily fit the model of a residential or non-residential consumer).

### *E4 : Limit price shocks from distribution price increases (undecided by the review)*

FFNZ supports limiting price shocks to consumers from distribution price increases. As electricity distribution businesses operate geographical monopolies, the opportunities for consumers to minimise their exposure to price shocks are somewhat limited.

Further, it has been our experience over many years that significant price increases have been communicated to rural consumers uncomfortably close to the 1 April changeover date. This has often been poorly-communicated to rural consumers leading to confusion as to the cause of the price increase.

### *E5 : Phase out low fixed charge tariff regulations (favoured by the review)*

FFNZ supports the phase out of low fixed charge tariff regulations. FFNZ members in particular parts of the country have found themselves carrying a greater proportion of the burden of funding the distribution line network than would otherwise be the case if baches and summer homes were required to pay their fair share of distribution costs.

*E6 : Ensure access to smart meter data on reasonable terms (favoured by the review)*

FFNZ supports making electricity usage data more easily accessible on reasonable terms. We would be especially interested in smart meter data assisting with identifying and fixing faults and outages more quickly. The extent to which this would be possible in rural areas would depend on the extent to which smart meters were in place on rural properties.

*E7 : Strengthen the Commerce Commission's powers to regulate distributors' performance (favoured by the review)*

FFNZ supports strengthening Commerce Commission powers to regulate distributors' performance. Rural consumers have long experienced less reliable electricity supply and over-reliance on generally ageing line network infrastructure, all while distribution costs have increased. The broadening of Commerce Commission powers would ideally address these and other concerns with the performance of distributors, especially as regards value-for-money.

*E8 : Require small distributors to amalgamate (not favoured by the review)*

FFNZ opposes imposing amalgamation on small distributors.

It is our experience that while lack of scale by some lines companies has been a factor in their performance and subsequent pricing, poor performance is not a factor limited to small distribution companies. Further, the behaviour of some larger distributors has become problematic for our members as they have suffered under more particularly litigious approaches taken by such companies.

*E9 : Lower Transpower and distributors' asset values and rates of return (not favoured by the review)*

FFNZ supports ensuring Transpower and distributor asset values and rates of return are entirely appropriate and avoid excessive profits. That said, we lack sufficient understanding to offer an opinion on whether this is indeed the case currently for both Transpower and distributors. It is our experience that different valuation methodologies are used for valuing Transpower's assets whether for determining book value or for rating valuation purposes. We would appreciate greater transparency around asset valuations and rates of return of both Transpower and distributors.

Further, we note the risks of reducing asset values and rates of return set out in the options paper (for example the imposition of unexpected loss on investors who have bought distribution assets on current rules and how that could impact New Zealand's investment reputation, increase infrastructure investment costs, and ultimately hurt consumers).

## **SECTION F : IMPROVING THE REGULATORY SYSTEM**

*F1 : Give the Electricity Authority clearer, more flexible powers to regulate network access for distributed energy services (favoured by the review)*

FFNZ supports providing greater flexibility to the Electricity Authority to deal with unforeseen developments. Recent work on distribution pricing has revealed a marked lack of prior attention to emerging technologies and the impacts of increasing uptake of such technologies on consumers more broadly.

*F2 : Transfer the Electricity Authority's transmission and distribution-related regulatory functions to the Commerce Commission (not favoured by the review)*

FFNZ has no opinion on the option to transfer regulatory functions from the Electricity Authority to the Commerce Commission.

*F3 : Give regulators environmental and fairness goals (not favoured by the review / favoured by the review)*

FFNZ opposes the introduction of environmental goals among the statutory objectives of both the Commerce Commission and Electricity Authority. Overseeing operation of the electricity market is complicated enough without the introduction of ever-changing environmental goals (ever-changing in the sense of incremental improvements in scientific understanding over time).

FFNZ supports the introduction of fairness goals among the statutory objectives of both the Commerce Commission and Electricity Authority. The situation is different for that of environmental goals in that the circumstances of household and small business consumers is unlikely to change with the frequency and significance as scientific understanding of environmental considerations. Further, greater consideration of the unique needs of consumers, such as those in rural areas, is required in regulatory oversight of the electricity market.

*F4 : Allow Electricity Authority decisions to be appealed on their merits (not favoured by the review)*

FFNZ has no opinion on the option of allowing Electricity Authority decisions to be appealed on merit.

*F5 : Update the Electricity Authority's compliance framework and strengthen its information-gathering powers (favoured by the review)*

FFNZ supports better enabling the Electricity Authority to undertake reviews or studies of the electricity market.

*F6 : Establish an electricity and gas regulator (undecided by the review)*

FFNZ has no opinion on the option of establishing an electricity and gas regulator. That said, we would support preliminary exploration of the costs and benefits of establishing such a body.

## **SECTION G : PREPARING FOR A LOW-CARBON FUTURE**

*G1 : Set up a fund to encourage more innovation (undecided by the review)*

FFNZ opposes the establishment of a fund to encourage more innovation in the electricity sector through consumer levy. This would be better addressed through existing R&D funding initiatives.

*G2 : Examine security and resilience of electricity supply (favoured by the review)*

FFNZ supports identifying opportunities for increasing the security and resilience of electricity supply.

While we understand this would be outside the scope of such work, some effort would be appreciated that builds on the work of the Commerce Commission that examines the state of distribution line networks as part of broader work that benchmarks distributor performance.

*G3 : Encourage more co-ordination among agencies (favoured by the review)*

FFNZ has no opinion on increasing co-ordination among agencies.

*G4 : Improve the energy efficiency of new and existing buildings (favoured by the review)*

FFNZ has no opinion on amending the building code for energy efficiency, affordability and energy hardship reasons.

## **ABOUT FEDERATED FARMERS**

Federated Farmers of New Zealand is a member-based organisation representing farming and other rural businesses. Federated Farmers has a long and proud history of representing the needs and interests of New Zealand farmers.

The Federation aims to add value to its members' farming business. Our key strategic outcomes include the need for New Zealand to provide an economic and social environment within which:

- Our members may operate their business in a fair and flexible commercial environment;
- Our members' families and their staff have access to services essential to the needs of the rural community; and
- Our members adopt responsible management and environmental practices.