

22 March 2019

Electricity Pricing Review Panel  
Secretariat, Ministry of Business, Innovation and Employment  
15 Stout Street  
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**Electricity Pricing Review Options Paper –Top Energy and Northpower response**

Thank you for the opportunity to comment on the options considered by the Panel as part of a package of delivering fairer outcomes for energy consumers. We support the strong focus on improving outcomes for consumers and addressing energy hardship and are in broad agreement with the majority of the recommendations. If well targeted many of the options in section A and B should improve the wellbeing of vulnerable customers.

In general, we support a measured and evidence based approach to regulation and proportional intervention to the extent necessary to address a specific issue. We therefore are advocates of a flexible regulatory regime that keeps customers at the centre and does not prejudge what market models may emerge. Our responses have been framed with those principles in mind.

This joint submission should be read in conjunction with the submission of the Transmission Pricing Group, which we are a member of and contains our primary submission on the issue of a transmission and distribution pricing Government Policy Statement.

In addition, we are a party to submission from the Electricity Networks Association, PWC distributor group and The Northern Energy Consumer Group. This submission takes precedence where there may be a difference in positions.

We acknowledge the Panel is seeking succinct responses and have therefore kept our commentary brief. However, we are very happy to provide further information to assist the Panel on any of the issues or solutions discussed in our response.

Yours faithfully,






Russell Shaw  
Chief Executive  
Top Energy Limited





Andrew McLeod  
Chief Executive  
Northpower Limited









**At a glance – Northpower and Top Energy Views on Options**

 We favour	 We have no view or are undecided	 We do not favour
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**A STRENGTHENING THE CONSUMER VOICE**

- A1  Establish a consumer advisory council.
- A2  Ensure regulators listen to consumers (\*Given effect to through A1)






**B REDUCING ENERGY HARDSHIP**

- B1  Establish a cross-sector energy hardship group.
- B2  Define energy hardship.
- B3  Establish network of community-level support services to help consumers in hardship.
- B4  Set up a fund to help households in energy hardship become more energy efficient.
- B5  Offer extra financial support for households in energy hardship.
- B6  Mandatory minimum standards to protect vulnerable, medically dependent consumers.
- B7  Prohibit prompt payment discounts but allow reasonable late payment fees.
- B8  Explore bulk deals for social housing and/or Work and Income clients.







**C INCREASING RETAIL COMPETITION**

- C1  Make it easier for consumers to shop around.
- C2  Include information on bills to help consumers switch retailer or resolve billing disputes.
- C3  Make it easier to access electricity usage data.
- C4  Make distributors offer retailers standard terms for network access.
- C5  Prohibit win-backs.
- C6  Help non-switching consumers find better deals (\* Opt in only).
- C7  Introduce retail price caps

**D REINFORCING WHOLESALE MARKET COMPETITION**

- D1  Toughen rules on disclosing wholesale market information.
- D2  Introduce mandatory market-making obligations.
- D3  Make generator-retailers release information about profitability of retailing activities.
- D4  Monitor contract prices and generation costs more closely.
- D5  Prohibit vertically integrated companies.

**E IMPROVING TRANSMISSION AND DISTRIBUTION**

- E1  Issue a government policy statement on transmission pricing.
- E2  Issue a government policy statement on distribution pricing.
- E3  Regulate distribution cost allocation principles.
- E4  Limit price shocks from distribution price increases.
- E5  Phase out low fixed charge tariff regulations.
- E6  Ensure access to smart meter data on reasonable terms.

- E7 ■ Strengthen ComCom's powers to regulate distributors' performance (\* Support for some recommendations)
- E8 ■ Require small distributors to amalgamate.
- E9 ■ Lower Transpower and distributors' asset values and rates of return.

#### F IMPROVING THE REGULATORY SYSTEM

- F1 ■ Give the EA clearer, more flexible powers to regulate network access for DER.
- F2 ■ Transfer the EA's transmission and distribution regulatory functions to the ComCom.
- F3 ■ Give regulators environmental and fairness goals. (\* Support a broader consumer focus)
- F4 ■ Allow Electricity Authority decisions to be appealed on their merits.
- F5 ■ Update EA's compliance framework and strengthen its information-gathering powers (\*Partial support)
- F6 ■ Establish an electricity and gas regulator.

#### G PREPARING FOR A LOW-CARBON FUTURE

- G1 ■ Set up a fund to encourage more innovation.
- G2 ■ Examine security and resilience of electricity supply.
- G3 ■ Encourage more co-ordination among agencies.
- G4 ■ Improve the energy efficiency of new and existing buildings.

**ELECTRICITY PRICE REVIEW OPTIONS PAPER - SUBMISSION BY TOP ENERGY & NORTHPOWER**

Option	TE/NP Position	Commentary
<b>A. Customer Voice</b>		
A1. Establish a consumer advisory council	Support	<p>We support this option to enhance consumer perspectives in the development of policy and the exercise of regulatory decision making.</p> <p>In our view it is essential that the consumer council is independent of regulators and industry, particularly to avoid the risk or perception of capture.</p> <p>This council would complement existing consumer representation (e.g. EDB &amp; trust representation), provide a body that regulators could consult with and provide informed and well researched consumer perspectives.</p>
A2. Ensure regulators listen to customers	Conditionally support, given effect to through A1.	<p>Important that regulators consider the impacts on consumers of regulatory decisions and that such decisions are informed by real world experience, rather than just economic theory.</p> <p>The establishment of a consumer advisory council (A1) addresses this and would provide a useful input into regulatory processes and ensure that regulators had an informed and independent perspective.</p>
<b>B. Reducing Energy Hardship</b>		
B1. Establish a cross sector energy hardship group.	Support	<p>We support this proposal and that it is a matter of priority, as it recognises that the causes of energy hardship extend beyond the energy sector and that solutions will be multi-agency and cross sector.</p> <p>Taking a cross sector approach will ensure initiatives are well targeted, cohesive and cost-effective.</p>
B2. Define energy hardship	Support	<p>This is an important step, to ensure that all stakeholders are aligned on the issue to be solved. This could be a task for the consumer council established under A1.</p>

B3: Establish a network of community-level support services to help consumers in energy hardship	Support	We are highly supportive of this option and that it is matter of priority, and the targeted nature of the initiatives. Centrally, this could be co-ordinated and overseen by EECA, with delivery at a local level through existing community organisations as well as community/consumer owned EDBs (who in many cases already work in this space with local organisations).
B4: Set up a fund to help households in energy hardship become more energy efficient	Support	We support this option as an extension to the Warmer Kiwi Homes Fund, and again support a Government funded and centrally organised programme (managed for example through EECA) with regional delivery utilising existing community-based organisations with trusted relationships with vulnerable consumers.
B5: Offer extra financial support for households in energy hardship	Support	We support targeted welfare payments to address those consumers in energy hardship and expect that the cross-sector group established under B1 would provide key inputs into policy development, to ensure such support is well targeted and delivers maximum impact. This could be combined with E5 (low fixed charges removal) to assist in the transition.
B6: Set mandatory minimum standards to protect vulnerable and medically dependent consumers.	Support in principle	<p>We support in principle minimum standards to provide clarity and consistency of approach across NZ. However, careful consideration is required around the obligations of EDBs, given we do not hold the contractual relationship, and are dependent on the retailer for the provision of information on the status/specific circumstances of a consumer.</p> <p>These minimum standard should include clear definitions of vulnerable and medical dependent customers, and the consumer council (A1) could have a role in developing these definitions.</p>
B7: Prohibit prompt payment discounts but allow reasonable late payment fees	Support	In principle we support this proposal, as it is more cost reflective and fairer on consumers. Costs for late payment should reflect the actual costs incurred by the retailer, and not act as a penalty.
B8: Explore bulk deals with social housing and/or WINZ clients.	Support	We support the continuation of existing initiatives and / or new initiatives to lower energy bills for consumers.
<b>Section C: Increasing retail competition</b>		
C1: Make it easier for consumers to shop	Support	We support initiatives that make it easier for consumers to understand their options and compare between pricing plans. A single comparison site with

around		greater performance/analysis, including real time access to customer specific data would go a long way to enhancing greater consumer understanding and engagement.
C2: Include information on power bills to help consumers switch retailer or resolve billing disputes	Support	We support providing more information to our consumers on their rights and options.
C3: Make it easier to access electricity usage data	Support	<p>We support changes that would assist customers to make more informed and timely decisions including giving them greater access to their data to compare retailer plans or monitor their usage patterns. This is becoming increasingly important with new technologies.</p> <p>There is merit in exploring a central data repository for all metering data (consumption and technical) with standard terms and conditions for access. This could allow customers (and their agents) access to meaningful information (e.g. via an interface with a price comparison website), and also interface with other key stakeholders (e.g. network companies) for purposes related to the supply of electricity services to consumers (e.g. network pricing, network management).</p>
C4: Make distributors offer retailers standard terms for network access	Do not support but favour an industry led approach to provide alignment of network access terms.	<p>We agree that it would be desirable for there to be alignment across the industry in relation to standard connection terms, however this process should be industry led and with consideration of individual EDBs' network requirements and retailer requirements, and subject to regular review (e.g. every 5 years) to consider changes and emerging issues.</p> <p>For example, we would support a process run through the ENA and ERANZ, to develop commercial suitable terms, with sufficient flexibility for retailers and networks to meet emerging issues. Arbitration could be a backstop for any disputes.</p>
C5: Prohibit win-backs	Support	We support this option if it increases competition and is in the customers' best interest. This would also align the electricity industry with the telecommunications industry.
C6: Help non-switching consumers find better deals	Do not support opt out; support opt in	We support improving the availability of insightful information to consumers, allowing them to make informed decisions and therefore support initiatives that are "opt in" (like the UK trial) . However, we are concerned about the unintended consequences of unilaterally moving consumers to alternative pricing plan (regardless of opt out provisions). Vulnerable customers (including elderly

		<p>consumers) could experience negative impacts, including:</p> <ul style="list-style-type: none"> <li>• Being moved from a pricing plan with certainty, to one that exposes them to pricing volatility through spot market risk.</li> <li>• Being moved to a retailer that doesn't offer the support (e.g. personalised call centre) or paper based billing, disadvantaging those who are not digitally minded or have access to online services.</li> </ul>
C7: Introduce retail price caps	No comment	
<b>Section D: Reinforcing wholesale market completion</b>		
D1: Toughen rules on disclosing wholesale market information.	Support	<p>Top Energy, as a participant in the Wholesale market, supports options that would improve transparency and information disclosure and/or result in more diligent enforcement of the present rules.</p> <p>Northpower: no comment.</p>
D2: Introduce mandatory market-making obligations	Support	<p>Top Energy supports in principle the introduction of mandatory market making obligations for large vertically integrated firms, with stress provisions, that increase the liquidity of the Wholesale market and efficiency of the market.</p> <p>Mandatory market obligations should only apply to businesses which can manage the risk e.g. Generators with greater than 10% of the transmission-connected generation market. Top Energy also support the provision to investigate moving to an incentive-based scheme.</p> <p>Northpower: no comment.</p>
D3: Make generator-retailers release information about the profitability of their retailing activities	Support	<p>Top Energy, as a participant in the Wholesale market, supports any option that would improve transparency and information disclosure. A consistent template approach is preferred.</p> <p>Northpower: no comment.</p>
D4: Monitor contract prices and generation costs more closely.	No comment	
D5: Prohibit vertically integrated companies	No comment	

## Section E: Improving Transmission and Distribution

<p>E1: Issue a government policy statement on transmission pricing</p>	<p>Support, including the variation</p>	<p>We are both members of the Northern Transmission Pricing Group, which contains our primary response in respect of this option.</p> <p>In summary, we strongly support a Government policy statement on transmission pricing, which addresses the contentious issue of socialising or personalising transmission costs across regions. We support either ‘posted stamp’ or ‘tilted postage stamp’ allocation of costs, on the basis that it provides greater certainty, less volatility in pricing, does not penalise regions for the timing of transmission investments and upgrades, and is less arbitrary in defining the beneficiaries of power flows that may change over the life of the assets.</p> <p>We endorse the draft Government Policy Statement included with the Northern Transmission Pricing Group response.</p> <p>The variation to amend the Electricity Industry Act 2010 should also be implemented to ensure that the regulator is required to “give effect to”, rather than “have regard” to the GPS, providing clarity and confidence to stakeholders that the GPS will be implemented by the Electricity Authority.</p>
<p>E2: Issue a government policy statement on distribution pricing</p>	<p>Support</p>	<p>We support a GPS on distribution pricing, which sets out at high level key principles to inform distribution pricing reform to ensure a well-managed transition. This should align with GPS for transmission and be focused on the long-term interests of consumers.</p> <p>A GPS should cover:</p> <ul style="list-style-type: none"><li>• Informing the public on why reform is needed and the impact at a customer level e.g. there will be winners and losers</li><li>• Reform will be industry lead, with wide consultation with all stakeholders</li><li>• The expectation that distribution pricing will move to be more cost reflective in conjunction with the removal of the price cap in the LFC regulations</li><li>• That to manage the transition the price changes will be phased in over a period of time</li><li>• That fairness is to be a consideration based on consultation with network consumers e.g. rural / urban socialisation and acknowledge that different networks may have different approaches.</li><li>• Physical network characteristics and interests of consumers will vary across regions therefore optimal pricing structures will vary</li></ul>



		<ul style="list-style-type: none"> <li>Ability of distribution pricing to adapt over time to innovation and emerging markets.</li> </ul> <p>We support the GPS on distribution pricing provided with the ENA's submission, as well as the TPM Group draft GPS.</p>
E3: Regulate distribution cost allocation principles	Not supported	<p>We do not support a regulation of cost allocation principles but prefer an industry led approach to develop guidelines on cost allocation principles.</p> <p>We support the ENA who have offered to lead a review of cost allocation methodology.</p>
E4: Limited price shocks from distribution price increases	Not supported	<p>As a consumer owned organisation, managing and mitigating impacts on consumers from pricing reform is at the forefront of our concerns. However, regulatory oversight of pricing changes is unnecessary, as EDBs are motivated to ensure a well-managed transition and avoid issues which have arisen in other networks. This is best left to individual EDBs to manage with their consumers.</p> <p>However, we support a Government policy statement outlining as a principle that pricing changes should ensure that transitions manage price shocks where practicable (as discussed under E2).</p> <p>The option mooted by the Panel of having the Electricity Authority approve pricing plans is a significant change from the current situation, would slow down progress towards cost reflective pricing, discourage changes and increase compliance costs. For this reason, it is not supported.</p>
E5: Phase out low fixed charge tariff regulations	Support	<p>We strongly support this option and suggest these changes are included in the GPS (E2) and combined with B5 and are progressed with urgency in 2019 to enable the process of phasing out to start from 1 April 2020, with 3 to 4 years to phase out the price cap.</p> <p>This would enable the benefits of the change to start from 2020, given that distribution pricing is changed once a year, with planning and consultation with retailers and consumers taking place in the second half of the calendar year.</p>
E6: Ensure access to smart meter data on reasonable terms	Support	<p>We strongly support this option and that it is a matter of priority. Smart meters can provide data that goes beyond traditional uses by retailers and it is efficient that there is no infrastructure duplication.</p> <p>There is merit in considering wider provisions around:</p> <ul style="list-style-type: none"> <li>Providing for a central repository for meter data (accessible by retailers,</li> </ul>

		<p>consumers and networks). See answer at C3.</p> <ul style="list-style-type: none"> <li>• Specifying outputs that metering data must provide (including voltage and power quality) to meet requirements of consumers, retailers and networks.</li> <li>• Requiring open access terms and conditions for this metering data.</li> </ul>
<p><b>E7: Strengthen the Commerce Commission's powers to regulate distributor performance</b></p>	<p>Partial support for some recommendations</p>	<p><b>(a) New powers</b></p> <p><b>Exempt status:</b> We are not opposed in principle to a change in the test for exempt EDBs to be bought within price/quality regulation, provided it is clear the criteria for removal of the exempt status and that this would only be used in clear cases of sustained non-performance.</p> <p><b>DPP to CPP:</b> No comment</p> <p><b>Higher penalties:</b> Do not support higher penalties given the size of our networks and ownership structure.</p> <p><b>Benchmarking:</b> We do not support the use of benchmarking (given network differences/difficulty in comparing). The performance dashboards and comparative analysis provided by the Commission provides useful benchmarking information for stakeholders.</p> <p><b>(b) Existing powers</b></p> <p><b>Asset Management:</b> We are open to enhanced scrutiny of asset management practices as an assurance tool for the Commission and stakeholders that EDBs are managing their assets prudently.</p> <p>We would caution against an approach that required obtaining ISO55000 certification, given the compliance costs involved for even sizeable NZ organisations.</p> <p><b>Quality standards:</b> We support forward looking quality standards., that are developed in conjunction with industry, that measure quality standards that consumers value and take into account changing conditions.</p> <p><b>Collaboration:</b> This is already done by the ENA and further duplication would seem to be unnecessary. However, reporting could be enhanced to a standard format agreed with the Commission that more clearly shows the value being created.</p>
<p><b>E8: Require small distributors to amalgamate</b></p>	<p>Not supported</p>	<p>We agree with the Panel's views that forced amalgamations would be heavy handed and at odds with community support in many regions. The momentum</p>

		for collaboration is growing with EDBs and we expect that over the next 5 years more examples of collaboration, JVs and shared services models will emerge, as EDBs look for the most cost-effective way of delivering services.
E9: Lower Transpower and distributor's asset values and rates of return	Do not support	Agree that these issues have been well considered by the Commission and changes would have negative impacts on investor confidence.
<b>F: Improving the regulatory system</b>		
F1: Give the Electricity Authority clearer, more flexible powers to regulate network access for distributed energy services.	Not supported	<p>We agree - that the network should be an open access platform for a range of participants and support contestable market models. However, we do not support regulation of distributor involved in distributed energy resources, unless there is evidence of a clear problem and then regulation only to the extent necessary to remedy the issue.</p> <p>In our view, EDBs must be able to have the ability to use the full suite of tools to solve network problems (e.g. deferring capacity upgrades through battery storage, microgrids or contracting with customers or third parties for demand response). For regional networks like ours the only party willing to provide these solutions may be the network itself.</p> <p>Care needs to be taken to ensure we do not implement rules that see expensive and cumbersome solutions to problems that may not exist and are not in the customers' best interests.</p>
F2: Transfer the Electricity Authority's transmission and distribution related regulatory functions to the Commerce Commission.	Support	<p>We support a transfer of the Electricity Authority's regulation of monopoly networks to the Commerce Commission as this is likely to lead to more consistent and joined up thinking around how network services are provided and priced.</p> <p>As outlined in the draft Transmission Government Policy statement supported by Top Energy and Northpower, a single regulator would ensure a consistent and cohesive approach to regulatory decisions about each network company's:</p> <ol style="list-style-type: none"> <li>a. regulated revenue requirements and how those revenue requirements are turned into prices for its customers,</li> <li>b. network investment including its efficient deployment of alternative technologies,</li> <li>c. desired network reliability, quality and service levels; and</li> <li>d. network access arrangements including the obligations imposed on its customers.</li> </ol> <p>This approach has strong parallels with telecommunications regulation, where</p>

		price and non-price terms, and network access is all regulated by the Commerce Commission.
<b>F3: Give regulators environment and fairness goals</b>	Support a broader statutory objective for the EA	We support a change in the Electricity Authority's statutory objective to broaden its focus from economic efficiency (regardless of consumer impacts) to a more balanced, consumer focussed approach, including having regard to distributional effects on consumers.
<b>F4: Allow Electricity Authority decisions to be appealed on their merits.</b>	Support appeal rights	We support appeal rights from EA decisions on the basis that: <ul style="list-style-type: none"> <li>• Achieves regulatory consistency between Commerce Commission and Electricity Authority.</li> <li>• Supports increased accountability of decision makers, where the decisions of the Electricity Authority can also have significant impacts on industry participants.</li> <li>• Merits appeals improve decision making, which has a positive impact for all industry participants.</li> </ul>
<b>F5. Update the Electricity Authority's compliance framework and strengthen its information gathering powers.</b>	Partial support	In principle, we support the separation of rule-making functions from monitoring and enforcement.  We are not opposed to enhanced powers if there is a clear case and provided the powers are limited to solving a specific issue (e.g. provision of information to support Ministerial inquiries).
<b>F6. Establish an electricity and gas regulator</b>	Undecided	We support consistency of regulatory approach and consider there could be efficiencies to be gained from a single regulator of market operations.
<b>G. Preparing for a low carbon future</b>		
<b>G1. Set up a fund to encourage more innovation</b>	Support	Support initiatives that lead to better customer outcomes
<b>G2. Examine security and resilience of electricity supply.</b>	Support	We support a review of the security and resilience of electricity supply by an independent body. This could occur periodically.
<b>G3. Encourage more co-ordination among agencies</b>	Support	

G4. Improve the energy efficiency of new and existing buildings

Support

We support initiatives that lead to better customer outcomes.