From: energymarkets@mbie.govt.nz
To: Energy Markets
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Region
Wellington

Category
Generators/Retailers, Generators, Retailers and Associations

Do you accept these terms & conditions?
Yes

A1. Establish a consumer advisory council
Yes
Nova supports strengthening the customer voice. We recommend the council is given a clear mandate and scope; and that it works in close coordination with the industry. In particular, it needs to be made clear:
• What the Council is expected to achieve, and
• The resources it is expected to be able to use to achieve those objectives.
The council must be independent of commercial interests and vested lobby groups, i.e. it must be made clear in the mandate given to council members that their role is to represent the interests of all vulnerable consumers in possible energy hardship; and not just the interest groups that they may represent.
The initial focus of the council should be on identifying the various parameters defining those people in energy hardship, the multi-faceted issues they face, and the various agencies that may already be working with those groups. Further analysis may then identify gaps in the current arrangements, and additional processes that may be implemented by electricity retailers and social agencies working together to fill those gaps.
The output of the council should be based on well researched work and invite submissions on consultation papers as appropriate. The risk is otherwise that the council will place expectations on the electricity sector that superficially appear reasonable, but in fact have wide ramifications and costs.
(The Low Fixed Charge is an example of a regulation that was implemented without adequate examination of its full implications.)
The council should be funded by Government and provided with secretarial support by MBIE.

A2. Ensure regulators listen to consumers
The Electricity Authority ("EA") and Commerce Commission already act in the best long-term interests of all consumers. Adding an additional representative working group to either organisation is likely to just distract from the focus of their main body of work.

B1. Establish a cross-sector energy hardship group
Yes
Nova supports the Consumer Advisory Council, as proposed in A1, becoming a point of reference for social agencies to engage with in addressing the impacts of energy hardship. Engagement by those groups is likely to be provided on a voluntary basis, and therefore it should be the role of the Council, through direct action together with engagement from energy retailers (in the context of energy related matters) and other relevant agencies, to develop and introduce possible processes and solutions to recognised consumer issues.
Potential initiatives relevant to the energy sector include:
a) Improving targeting of energy efficiency investments,
b) Communications, e.g. identifying possible sources of assistance or advice,
c) Education, through channels such as school or social programmes, and
d) Training, particularly in the use of appliances such as heat pumps.
It is likely that much can be achieved simply through leveraging off existing resources and initiatives.

B2. Define energy hardship
Yes
Clear definitions are needed if organisations are to be held to account for achieving improved outcomes. Definition helps define the scope of the problem to be addressed and resources required, and ideally will enable quantification of different sub-groups within the broader concert of energy hardship, for instance, persons who are out of work for a short period represent a quite different problem to large families struggling on a low income and in poor housing in a cold region.
Definitions will help social agencies identify the combination of factors that result in people being at risk of energy hardship, and will assist in targeting the types of initiatives required and those agencies that are best placed to address each problem depending on the particular circumstances.

B3. Establish a network of community-level support services to help consumers in energy hardship
Yes
Nova supports taking a more coordinated approach to addressing energy hardship. There are a range of organisations already providing services to persons suffering energy hardship, but these are not always visible to retailers when they encounter customers who are struggling to pay their power bills.
Most electricity retailers, by virtue of their credit management practices, are accustomed to engaging with customers in hardship on a regular basis; and working with them to resolve outstanding balances on their power accounts. It would be useful

if there could be greater coordination between social agencies and an avenue for retailers to highlight those situations where there appears to be genuine hardship reasons for a poor payments history.
In the majority of cases Nova would prefer to work with the consumer and the support agencies referred to above rather than threaten disconnection. Disconnection costs add to the magnitude of the consumer's debt outstanding and reduces the chances that the consumer in hardship can afford to pay the outstanding bill.

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

Yes
Nova recognises the need for improved energy efficiency in much of the housing stock around New Zealand.
Any such funds should be managed by EECA which has the technical, commercial expertise and structures in place to ensure the maximum benefits are realised from funds deployed.

B5. Offer extra financial support for households in energy hardship

Yes
Nova supports this idea but recommends clear processes and qualification criteria are established, and support is well targeted to prevent the misallocation of funds.
Given the complex range of factors that can lead to any sort of deprivation, it is difficult to highlight energy hardship in isolation; and addressing that alone in any case may not lead to improved outcomes in every case.
Nova proposes that the above challenges could be addressed by establishing an electricity payment support scheme for 'at risk' families with low incomes and no capacity to cater for short term cash crises. It is expected this scheme could apply to families that are incurring late payment penalties, possibly disconnection costs, or are unable to switch to a supplier with a lower tariff due to a poor credit history.
The expectation is that organisations working with the family could assist in making an application for the family's electricity credit to be guaranteed by an agency under the Ministry for Social Development, i.e. an electricity payment support scheme.
The guarantee could be limited to selected supplier tariffs only, and there would be a process the electricity retailer would need to adhere to in order to recover unpaid debts from MSD in the event the family fails to pay their bills. This process would eliminate unnecessary disconnection costs and excessive overdue payment penalties for those families, and ensure they have access to the most competitive electricity tariff available.
MSD could potentially recover the amount it has paid to cover the unpaid electricity bills through a benefit deduction from the beneficiary if it felt that was appropriate in some circumstances.
In addition to the social benefits, there would be significant net economic benefit from this scheme from the savings in disconnection and reconnection costs. (While most AMI meters can be disconnected for an operator charge of around $15, in a great many cases it is necessary to have someone physically check the location in any case to ensure there are no persons with medical dependency or similar on-site.)
As we comment under B3; the costs associated with disconnection and reconnection make it harder for the party with payments overdue to afford the outstanding debt, thereby aggravating an already difficult financial situation.
(Nova's quarterly rate of disconnections for all its domestic consumers has been 0.1% or less since the start of 2015.)

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

Yes
Nova acknowledges the work that has been carried out by ERANZ in this area which has been accepted by the sector and agree that all retailers should comply with the current standards.
Nova therefore supports moving the guidelines into a regulated framework to ensure consistent approaches across all retailers servicing residential consumers.
Given the panel's wider focus on energy hardship, and the broader scope of potential initiatives being considered in addressing the impact of such hardship, the term "vulnerable consumers" needs to be more tightly defined in the context of the guidelines.

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

Nova understands the Panel's objective and agrees that consumers must be given improved product choices. To achieve the Panel's objectives, Nova proposes requiring all retailers to offer reasonably priced tariffs that do not include a prompt payment discount (PPD) (at a rate similar to any equivalent PPD tariff net of the discount) to all residential consumers as the default tariff. Nova still believes that there is still a place for offering products with a PPD discount as optional if the customer desires such product but supports capping any PPD to 10% of the sum due to be paid.
The advantage of this approach is that it retains diversity and reduces the risk of unintended consequences arising from a ban on all PPD tariffs.
The Panel could consider imposing a requirement that the consumer's invoice clearly states in respect of the amount owing on each invoice that any PPD offered is in effect a late payment penalty that will apply after the payment due date.
Nova offers tariffs exclusive of PPD discounts in some markets and will expand that across all its residential customer base. However, some customers prefer the current arrangements where they receive a discount for payment on time. Nova does not believe that option should be taken away if that is their preference.
For commercial customers, determining cost reflective late payment penalties is more complex because the pricing needs to factor in the increased credit risk associated with some entities, i.e. even a 10% penalty may not reflect the heightened risk of bad debts arising from some commercial operators that delay paying their bills.
Nova submits that its proposal is not inconsistent with the Panel's objective of improving outcomes for low income consumers.
As a reference point: Vodafone and Spark charge late payment penalties of $18.40 (GST incl.) for late payment.
Given the average residential electricity bill is around $170 per month, a 10% PPD (grossed up) would equal $18.88; which is virtually the same as the late payment penalty being charged by the two largest telecoms providers. We also note that an $18 charge represents somewhat more than 10% on telecoms accounts, which tend to be smaller than energy invoices. The bulk of residential electricity accounts must fall below the average of $170 per month. This also supports the case for a 10% cap.
It is important that poor or vulnerable consumers are not adversely impacted by unreasonable costs, but it is also important that:

- the overall cost of electricity to consumers on low incomes is not forced up by the need for retailers to recover excessive costs resulting from late payments and bad debts; and
- retailers do not become incentivised to apply overly strict credit criteria when choosing to supply customers, i.e. creating a new problem where consumers cannot get a supplier and making it necessary to regulate for a retailer of last resort.

The incentive aspect of any PPD, or late payment penalty, is important if retailers are to minimise their overall operating costs.
A regulated solution should be simple to implement and monitor. A fully cost reflective penalty will vary between retailers and require the regulator to monitor whether it accepts the charges being applied as cost reflective. On the other hand, a 10% cap applying to all retailers' PPD or late payment penalties is simple to monitor. It also makes it much easier for consumers to compare pricing plans than they can currently.

Other complexities arising from the proposed ban include:
• weekly payments – a late payment penalty applied weekly where the retailer insists on weekly direct debit payments would be excessive,
• combined product offerings – where the consumer is purchasing two or more services from the retailer, a cost reflective penalty could be significantly higher in terms of cost of capital and potential bad debt costs than those arising from a single electricity account.
As a secondary issue, we also note that consumers are not always aware that their payments record impacts on their credit rating; so, if they accumulate a record of late payment on their electricity account, that is likely to adversely impact their ability to purchase other products and services on credit.

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

There are a number of ways social housing agencies could support their tenant's energy needs. A key one is providing a backstop on overdue accounts as per Nova's suggestion in option B5.

C1. Make it easier for consumers to shop around

Yes
Nova's support is conditional upon:
a) The service being fully funded by the Electricity Authority;
i The selection of the provider should be administered by the Electricity Authority in the same way that it outsources services such as the registry, reconciliation, and clearing manager and be a contestable process.
ii the provider should not be involved in any form of advocacy for any particular category of electricity retailers, including new start-ups, niche providers or other differentiated providers.
iii The provider should not receive any ancillary revenue streams from providing the service that could result in any bias arising in the service provider's recommendations;
iv If, alternatively, the service does include a fee of any sort from retailers (e.g. for each customer that uses the site for a switch); then that fee should be:
• fully transparent to all users of the site;
• the same rate for every retailer; and
• refundable to the retailer if the consumer switches away again within two years
b) If the service provider includes any qualitative elements in its recommendations, then those elements must be weighted through totally independent and comprehensive surveys:
i The details of the survey and results should be publicly available;
ii It must be clear that any ratings applied to retailers' results from the survey must be applied only to the specific audiences measured in the survey;
• for example, if a provider receives an exceptionally high rating from high income groups, that should not be considered adequate evidence that it is an appropriate recommendation for small businesses, retirees, or low-income groups.
OFGEM has addressed these same issues by developing a Confidence Code that all price comparison websites are obliged to comply with. This can be found at:
https://www.ofgem.gov.uk/system/files/docs/2018/02/publication_of_the_revised_ofgem_confidence_code_december_2017.pdf

Variation:
Agree, Nova does not favour this idea.
Retailers must be able to customise their offers in a dynamic way and link their offers to affiliations, products or services that may not be appropriate to promote via the centralised public website.
For the website to work well, almost all consumers should be able to use the site and be able to sign up for the tariffs on offer. (There will always be some exceptions where the retailer must work through issues such as: the appropriateness of the tariff to the consumers situation, property access, problems with the metering or switchboard on the property, extended credit default issues etc.)

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

Yes
Nova favours consumers being well informed of their options, and accepts the bill is an obvious mechanism for achieving this. Nova currently presents the contact details for Utilities Disputes Limited (UDL) clearly on its statements and is comfortable with adding a reference to the Powerswitch website if that is operated in accordance with the terms it proposes under option C1. (Nova is happy to provide a sample of its invoice if requested.)
Nova is also comfortable with consulting with an external agency on how it presents this information, so long as the agreed design can fit with the overall design of the invoice and does not increase printing costs. Nova suggests the Consumer Advisory Panel (see Option A1) could be the primary contact for determining the acceptable forms of presenting the contact details for Powerswitch and UDL.
Retailers should be able to retain control over the design of their communications, while still being required to meet the Panel's expectations. Presentation of any sort of information requires expertise and experience if it is to be useful to the user, particularly when that information is being presented to such a wide distribution of consumers as is the case with electricity invoices. When invoices are also combined with other services, such as gas, LPG, or broadband, the issue becomes even more complex.
With the introduction of cost-based distribution pricing and 'time-of-day' type charges, the amount of information being supplied is already going to increase.
Retailers' need to be able to retain control over the final design because design elements, such as colour logos, or large blocks of information can result in significant increases in printing costs if they are not consistent with the rest of the invoice.

C3. Make it easier to access electricity usage data

Yes
Nova provides the consumers annual consumption data and a chart showing the comparison with the prior year's consumption on its invoices every month on its invoices.
There is scope to make this a requirement on all retailers' invoices.
It is more complex and expensive to store and make readily available half-hourly consumption data. Nova cannot provide this instantaneously but does respond promptly to the customer requests that it receives.
Setting up a facility to enable customers to log in and download their historical half-hour data on-demand is expensive to provide, and ultimately must come at an additional cost to consumers. Some retailers, including Nova, provide some consumption data via Apps but this does not lend itself to loading into a spreadsheet.

Consumers seeking these services are in most instances not the same consumers that are in energy hardship, but we acknowledge that it can be valuable for advisors working with these groups to be able to analyse the consumers consumption. Nova believes arrangements could be made to service the needs of agencies working with families undergoing energy hardship.
As the initial step, we propose mandating provision of the previous 12 or 24 months monthly usage data on the invoice (potentially supported in graphical form). This would be cost effective and likely sufficient detail to cater for a significant majority of consumers.

C4. Make distributors offer retailers standard terms for network access

Yes
The process of negotiating Use of Systems Agreements (UoSA) is frequently protracted and, in many cases, results in the retailer accepting terms that they are unhappy with but have no choice than to accept if they wish to trade on the network. By introducing the option of adopting a standard default agreement, retailers will have a fall-back position if the distributor refuses to amend terms in its UoSA that are potentially going to cause unreasonable costs or risks for the retailer.
We also note that under most existing UoSA, all retailers are given the right to adopt the latest version of any UoSA signed by the distributor with another retailer. This means that the introduction of a default agreement can be expected to improve the quality of UoSAs across all networks without requiring every retailer to engage in new contract discussions.
The standard terms should also apply to all embedded networks. This is important as there are now more embedded networks than EDB's, and many embedded networks have only a few retailers because of the relatively high fixed costs associated with each additional network compared to the small number of consumers on most embedded networks.

C5. Prohibit win-backs

Nova is not convinced that banning win-backs is in the best interests of consumers overall, but acknowledges the issue is complex.
Nova's view is that win-back calls enable retailers to ensure that competitor's agents are employing best practise sales interviews and offers made to customers are accurate and fully understood. If win-backs are banned there is a much greater risk of customers not fully understanding the offer they sign up to as well as rogue sales behaviour not being detected in a timely manner.
Allowance needs to be made for the losing retailer to confirm the switch and cover-off any contractual issues such as fixed term contracts, dual fuel or the terms of multiple service offers etc.
The current Code already provides retailers with some protection from win-backs should they opt-in to win-back protection. There is no evidence that Nova is aware of that shows that this has improved outcomes for consumers.

C6. Help non-switching consumers find better deals

No
Nova believes the Panel is not fully considering the level of competition and retailer customer communications ongoing in the market at present, which provides more than enough information to consumers about their various options.
In response to the Panel's case for supporting this option:
• 'Growing Up in New Zealand' a report on a longitudinal study published in 2014 advises that 'New Zealand families with children under two move house much more than previously thought and more often than families in other countries.' 'Between birth and two years of age, 45.3% of children had moved at least once'.
• The First Report quotes a UMR Survey found that 11.1% of consumers switched because they moved house. That is consistent with Nova's experience, i.e. roughly half of all switches occur due to consumers moving house.
• We understand that on average New Zealander's move home every 6-7 years.
• Retailers are required to contact their customers at least annually under the Low Fixed Charge regulations to confirm if they are on the appropriate plan for their needs.
Given these statistics, it seems most unlikely that over a quarter of New Zealand consumers have stayed with their existing retailer since 2002 without considering changing suppliers. (The statistics do not show where consumers have changed plan with the same supplier, such as occurs with win-backs.)
The UK market is likely to be quite different, with much more stable housing, particularly among the older age-groups. We note the UK over 75-year olds quoted in the Options Paper are also least likely to reference price comparison websites.
Figure 16 in the First Report shows the annual cost difference between the incumbent and lowest cost supplier, with the gap increasing over the long-term. (The highest cost has little relevance in the absence of ICP numbers.) However, from 2011 to 2014 the trend is in decline. The chart lacks data for the past five years, over which time there has been increased competition and introduction of new product offerings.
The issue is clearly somewhat more complex than it first appears. The data and communications processes involved with implementing this option are also significant.
Given these observations, the Panel should, at most, only go as far as suggesting the Consumer Advisory Council consider this option as part of its work, and to proceed if further analysis shows that it could be expected to show a net economic benefit to consumers.

C7. Introduce retail price caps

No
Retail price caps in various markets have a record of being introduced with the best of intentions, but invariably result in market distortions, consumer costs, and in some cases, market disruption.
The fundamental issues are that:
• There is no good way of determining what the right price should be, and
• Even if there was, the 'right price' is far more dynamic and volatile than a regulator can possibly keep up with.
If the price cap is set too high, consumers end up paying more than necessary as retailers will tend to price up to the cap, and if it is set to low, then pressure is placed on retailer and generator margins to the point where aging generation is not replaced, or there is a lack of investment in new generation, which inevitably leads to energy shortages in the long term.
This experiment was tried in California in the mid-2000's and badly failed. New Zealand should not follow what has been proven to fail.

D1. Toughen rules on disclosing wholesale market information

As time goes on generators and retailers are building up greater experience around managing information internally and meeting disclosure requirements. Particularly as precedents are established over time.
The work to be undertaken by the Gas Industry Company is the most appropriate area to be strengthened in the short term, and discussions relating to disclosure on generation fuel should follow from that.

D2. Introduce mandatory market-making obligations

No

Nova does not agree that improving the liquidity of the hedge market is simply a case of making market making mandatory for the largest gentailers. The costs and risks of market making need to be shared by all market participants, and the appropriate mechanism for that is for the market maker(s) to be remunerated for the costs and capital that they must commit to that role.

Given that all electricity retailers benefit from futures market liquidity to some extent, even if only as a benchmark for OTC hedges, then market making could be funded by a wholesale market levy. (There could be a case for using the Loss and Constraints Excess to help fund the market making costs.)

If that was to occur, it would also be incumbent on the ASX to be transparent on the terms on which the market maker is expected to operate and the fees it is extracting from the market. Otherwise, the New Zealand electricity market is simply giving an Australian domiciled commercial entity a free ride.

The Electricity Authority is best placed to address these issues and negotiate terms with prospective market makers and the ASX.

In response to the proposal that market making should be made compulsory:

a) Even under compulsory market making, market makers must be allowed to withdraw or quote outside the 5% range if they exceed their prudential exposure limits, hence there may be little to be gained from compulsion;

b) How should the market makers be reimbursed for the additional capital and resources they need to employ over and above their smaller competitors;

c) Requiring NZ entities to trade on an Australian domiciled market that has no obligations to New Zealand legislation or controls would seem to be inappropriate, particularly as financial organisations with vastly more capital resources than the largest NZ gentailers actively trade on that market;

d) The criteria for determining which parties should be included as market makers, and the potential exposure of each participant, needs to be carefully defined, i.e.

• Should this be defined by net generation capacity, and therefore include merchant generators?

• If merchant generators or net generators are included, then net retailers should also be required to participate as market makers.

• Purely imposing market making obligations on generators only penalises those that are invested in what is a highly capital intensive business, and effectively allows pure retailers to “free ride” on the back of that investment.

• If retail market share is to be taken into account, it should also include the major electricity consumers.

e) We also note that it should also be possible for the ASX to establish trading of NZ electricity futures under a New Zealand domiciled legal entity. The actual market operations and screens could still be operated in exactly the same way as currently given today’s communications networks etc.

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

No

Nova questions what the problem definition is here.

The suggestion is that such ‘disclosures would enhance transparency and improve market confidence’. But that is purely supposition and has little to do with fairness for consumers.

Meridian Energy, Genesis Energy and Mercury Energy have all vastly increased the level of disclosure of their trading activities and asset management since listing on the NZX. It is certainly true that this has reduced the valuation risks for investors in the energy sector, but it is not clear how this has helped electricity consumers except indirectly through reducing the expected cost of capital on new investments.

Analysts, employed by the share broking firms, already have very good information on generators operating costs and retail margins.

In reference to the Commerce Commission’s requirements on electricity distributors, those companies are monopolies, which means that without regulations applying to their allowable revenues they could cross-subsidise inefficient operations and make extraordinary profits. Despite (or because of?) those regulations, distribution costs have increased at a faster rate than the rest of the industry over the past ten years.

The New Zealand electricity market is a gross-pool market with all electricity sold and purchased on the wholesale spot market. The allocation of profits between generation and retail for a vertically integrated gentailer can depend entirely on the wholesale spot price or be based on an internally agreed transfer price between the two sides of the business. Given the somewhat arbitrary nature of such a figure, any disclosure seems somewhat pointless.

Gentailers may also allocate the profit or loss from trading risk management products to a third segment of the business.

Perhaps the detractor’s complaints could be satisfied by the gentailers lodging hedge contracts between the two side of their business under the Electricity Authorities hedge disclosure regime?

For Nova Energy, requiring disclosure of profits on its generation and retailing activities would significantly increase its compliance costs and be an unreasonable disclosure of the interests of Nova’s shareholders, given that it is a privately held company under NZ law. All for very little benefit to the market and out of proportion relative to the Nova’s market share (~4%) of the electricity market.

Nova believes that any perceived lack of information availability regarding profitability can be resolved through diligent analysis by a reputable agency (such as the Electricity Authority, MBIE or the Commerce Commission) of publicly available financial information relating to the listed gentailers that make up ~90% of the electricity market.

D4. Monitor contract prices and generation costs more closely

While there may be value is monitoring the long-term market drivers, Nova does not believe this is an appropriate role for the Electricity Authority. The Ministry of Business, Innovation and Employment is a more natural party to consider the long-term drivers of New Zealand’s various energy sectors, of which electricity forms just one part, i.e. this is a policy role rather than a market operational role.

D5. Prohibit vertically integrated companies

No

The retail electricity market is highly competitive already. Separating the vertically integrated companies would be highly disruptive and achieve very little. Nova expects that vertical separation would only result in:

• Generators and retailers entering large long-term OTC hedges; and

• Potential consolidation of the major generation and or retail businesses to as few as two or three large operators in order to better manage market risks and extract economies of scale.

Gentailers currently use their retail customer base as a natural hedge to support their generation portfolio, and importantly, as a source of flexibility to allow them to expand their generation fleet when the opportunity arises. An alternative to this is the type of underwrite that Tilt Renewables and Genesis Energy settled on to underwrite the Waverly Wind Farm. Such developments

still do not create an opportunity for small retailers to hedge their retail commitments.
Further, the need for both generators and retailers to successfully manage their long-term hedge books would require a significant ongoing investment in additional skills and resources, including engineers, financial analysts, lawyers and financial intermediaries. These additional costs would be reflected in the electricity price to consumers.

E1. Issue a government policy statement on transmission pricing

No
The determination of transmission pricing is highly complex. The delays have largely been due to the extensive process of design, evaluation and consultation that has taken place to date.
It is difficult to see why a politically determined option would be better for New Zealand consumers over the long run than one determined through the current process.

E2. Issue a government policy statement on distribution pricing

Yes
While Nova does not support introducing a government policy on transmission pricing, the complexity and number of distribution companies with connections that range from single telephone booths and pump houses through to major industrial loads does warrant some firm guidance.
However, Nova does not support spreading ‘the worst effects of price rises over a longer time’ is in the best interests of New Zealanders if it means that more households invest in PV generation to save on their power bills, only to find that later on those savings disappear under cost reflect distribution pricing.

E3. Regulate distribution cost allocation principles

Yes
Nova supports a fair split of charges between different customer types and believes that the current balance between commercial and residential consumers is unlikely (if it can be shown that the current balance is inefficient and unfair) to be corrected without regulatory controls.

E4. Limit price shocks from distribution price increases

No
While guidance and monitoring of price movements is appropriate, Nova agrees with the EPR panel that regulating change is more likely to delay the development of cost reflective pricing.

E5. Phase out low fixed charge tariff regulations

Yes
There has been more than enough evidence published to prove that the LFC does not achieve the initial intent, and is expensive to manage for distributors and retailers.
Dropping the LFC in its entirety from 2020 is more likely to save more from the pass through of lower costs in consumer prices than might be achieved by a gradual step up of the fixed charge over several years. In any case, both distributors and retailers prefer to pass cost increases through to consumers gradually rather than in large increments.
Any delays in dropping the LFC will result in more consumers installing PV generation which may well be uneconomic when distribution charges are aligned more closely with actual costs.

E6. Ensure access to smart meter data on reasonable terms

Yes
The industry is making progress in resolving the barriers to greater cooperation in the sharing of data.

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

Yes
The way in which distributors carry out their business can have a significant impact on retailers’ costs on top of their network access charges. The various operational interactions between retailers and distributors are generally determined by the Code, but there is still a wide scope of analysis that the Commerce Commission should be free to undertake to ensure the distributors are providing appropriate levels of service to all their stakeholders.

E8. Require smaller distributors to amalgamate

Yes
Figure 24 of the Panel’s First Report clearly illustrates the higher operating costs per consumer for the smaller distributors. The Panel notes that ‘greater collaboration is possible’, yet there is no initiative in the Panel’s Options Paper that is going to directly lead to reduced network costs.
Nova acknowledges that there are strong local interests that will resist merging the ownership interests of small networks. That should not however be a barrier to merging many of the operations of small networks. Wellington Electricity and Powerco are examples of large commercial operators that contract out their network’s maintenance. Yet we still have many small operators that continue to operate their own maintenance teams.
Centralines is a good example of a small community owned network that taps into the wider resources of Unison Networks.
The issue goes beyond network maintenance and into the commercial operations and planning. Many of the smaller networks simply don’t consult with retailers on pricing plans simply because they do not have the resources to do so. As the business becomes more complex, with growing numbers of domestic PV installations and electric vehicles, the challenges facing small networks are increasing and the need for economies of scale will become more pronounced.
Nova’s view is that the Commerce Commission must be given a mandate to increase the pricing pressures on small networks where they lag behind established benchmarks of efficiency and pricing, and create the incentive they need to make radical changes to their operating structures.

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

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

Yes
Nova welcomes this initiative. Given the development of a range of new technologies relevant to distributed energy services, not only in terms of the reducing costs of generation and storage, but also including real time communications networks and controls, it is important that the regulator has the tools to adapt to new and developing commercial models.
It is crucial that distributors are not able to use their monopoly position to capture a disproportionate share of any benefits accruing from the investment in such technologies.
In addition, there are potential synergies available from standardising certain administrative practices (metering, reconciliation, pricing structures, data transfer, invoicing, etc) that can reduce costs for both retailers and network companies that the current

framework does not adequately address.

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

No

There are benefits in the existing arrangements in that the two agencies address the transmission and distribution functions from a different perspective, which can help draw attention to possible systemic issues that need to be addressed through regulation. By giving all the powers to one agency, any regulatory developments will be subservient to that agency's priorities alone.

Nova believes that any benefits that could accrue from merging transmission and distribution-related regulatory functions to the Commerce Commission would be offset by the inevitable disruption and delays to processes in the short to medium term.

F3. Give regulators environmental and fairness goals

No

Nova agrees that it would be counter-productive to give the regulators environmental and social policy objectives. These are better dealt through the Government's other agencies and policies.

To the extent that there may be a need for additional protections for consumers in the electricity sector than are not already covered under the Fair Trading Act, this could form part of the Electricity Authority's role.

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

Yes

Nova supports merits review of the Electricity Authority's decisions. Merits review contributes to public and investor confidence in regulation in the long term. It will act as a discipline on the regulator to drive better quality processes and decisions ensuring robust regulatory outcomes.

We recognise that pursuing such appeals through the courts can be costly, cause delay and that courts are not always best equipped to deal with complex and technical expertise. We believe these matters can mostly be addressed by using existing court processes and rules to improve the efficiency and effectiveness of the review. For instance, by the courts conducting a more inquisitorial process to speed up the production of evidence. Or by appointing lay members as members of the High Court to overcome a lack of technical expertise in electrical engineering and economics [*footnote].

In any event, considerations of public confidence and natural justice for investors, outweigh considerations of cost and delay.

* Footnote - see MBIE - Part 4 of the Commerce Act 1986: Merits Review Regime Evaluation Summary Findings from Interviews with Stakeholders April 2016 and Productivity Commission - Regulatory institutions and practices - Final Report 16 July 2014, in which they recommend further work to explore a small number of areas to potentially improve the merits review regime.

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

Yes

F6. Establish an electricity and gas regulator

No

The electricity and gas sectors have fundamental differences in their technologies, operating arrangements and long-term planning challenges. The key risk from merging electricity and gas regulation is that the few high-level issues common to both sectors take priority over more critical sector specific challenges.

Overseas regulatory arrangements are not necessarily relevant to the New Zealand context. In energy markets such as Europe, UK and Australia, gas supply sources are large and diverse. As such, gas regulation is largely focussed on distribution and retailing. In New Zealand, gas production is a critical component of the overall energy mix and needs a high level of specialist knowledge by the regulator.

Another key difference with larger markets is that New Zealand's small size lends itself to different regulatory agencies being able to interact on a reasonably frequent and open basis. As such, the regulation of electricity and gas does not need to be merged into a single structure.

In terms of suggesting that a consolidated entity might have lower costs; Nova notes that as at 31 March 2015 OFGEM had a headcount of 853. This does not suggest there are efficiencies inherent in the combined regulatory model.

G1. Set up a fund to encourage more innovation

No

There are sufficient funding agencies, firms and universities already active in the field of innovation. Innovation funds also tend to benefit a specific company or group of organisations. For instance, Transpower's uses of drones and robots for lines and sub-station inspections, or possible innovations in a generation technology like geothermal.

In many cases dedicated innovation funds can attract a great deal of activity in terms of applications, contracting, compliance, and still suffer from poor quality investments. Overall there is a high risk of achieving very little effective expenditure on truly innovative and successful projects.

G2. Examine security and resilience of electricity supply

No

The electricity sector is just one component of New Zealand's reliance on a whole range of infrastructure, including gas production and transmission, water and wastewater distribution, ports, rail, roads, etc. It would seem to be MBIE's and Treasury's prime responsibility, with support from the likes of the Electricity Authority and Transpower, to see that resources are applied appropriately across the economy to ensure that New Zealand achieves maximum resilience with the resources available.

G3. Encourage more co-ordination among agencies

Yes

G4. Improve the energy efficiency of new and existing buildings

Yes

While this may result in more expensive building costs in the short term, New Zealand cannot afford to continue to pour energy into poorly insulated homes over the long term. However, Nova believes that this is an initiative that is better left for EECA and BRANZ to address in detail. The trade-offs between different elements of building design can be complex, and even allowing for future installation of solar panels or batteries may not be cost effective.