

## Submission to the MBIE Electricity Price Review – Options Paper for discussion date 18 February 2019

This submission is presented by:

Don Wills

Pleckville Rural Water Supply Scheme (PRWSS) Inc. Chairman

521 Tawataia Rd

RD4

Eketahuna 4993

Phone: 9(2)(a)

Email: 9(2)(a)

Date: Thursday 21 March 2019

### 1. References (attached):

- a. Meridian letter date 27 Feb 2019; your network charges are changing on 1 April 2019
- b. Second complaint concerning the Powerco Network Charges Increasing 1 April 2019
- c. AMP era ends, impacting hundreds of thousands of Kiwis- Rob Stock, Stuff - 27 Oct 2018

### 2. PRWSS Inc. Submission:

Our submission uses the Options Paper Contents but only refers to the Sections and Clauses relevant to our recent experience with the Powerco Lines Distribution Company.

#### Section A: Strengthening the Consumer Voice

**Clause A1:** Establish a consumer advisory council

We favour this option because we need an advocate to assist us against price shocks and gouging; see my references.

**Clause A2:** Ensure regulators listen to consumers

We favour this option for the reasons also given above in Clause A1. In Ref 1b above, I talk about the History of stock water schemes and their contribution to the agricultural productivity. The regulators should be aware of the history.

#### Section E: Improving Transmission and Distribution

**Clause E2:** Issue a government policy statement on distribution pricing

We favour this option because Powerco and it's Board must be made accountable for their actions.

**Clause E3:** Regulate distribution cost allocation principles

We favour this option for the reason stated above for Clause E2. The policy and principles go together.

**Clause E4:** Limit price shocks from distribution price increases

We favour this option for the reasons given above in Clause A1.

Price shocks create uncertainty. We don't know when the next price shock will occur. We have stopped spending on improvements in our Society because we may need the money for these price shocks. The night rate network charges will increase by 530% and the overall power bill will increase by 31% compared to the movement in the Consumer Price Index for the year ending 31 December 2018 of 1.89%.

**Clause E7:** Strengthen the Commerce Commission's powers to regulate distributors' performance

We favour this option for the well written reasons stated in the electricity price review.

**Clause E8:** Require small distributors to amalgamate

We do not favour this option. The reason is because they are less likely to be taken over by Corporates with huge salaries and lots of middle managers.

Recent examples; we did not accept the super city formula for the Wellington Region. We did not accept the merger of the 3 District Councils in the Wairarapa region. The people were not convinced that savings would accrue, or any improvement in services from amalgamation.

**Clause E9:** Lower Transpower and distributors asset values and rates of return

We favour this option.

The consumers paid for those assets via their power bills. Then they were revalued by a mechanism not fully disclosed. Then some distributors were sold multiple times. I have yet to determine who got the money.

According to the Powerco 2018 Financial Report, Queensland Investment Corporation own 58% of Powerco. AMP own 42%. Powerco's Board of Directors mostly represent QIC and AMP. Of the 9 Directors only the Chairman is not specifically related to QIC and AMP.

In order to pay for their contribution of Powerco, the Directors are looking after their interests ahead of others. The QIC website states their objectives and says we focus on our clients, first, last and only. What about the Powerco consumer? It sounds like a rort.

## Section F: Improving the regulatory system

**Clause F5:** Update the EA's compliance framework and strengthen its information gathering powers

We favour this option because EA could audit the reasons for the 1 April 2019 network charge increase and find out the justification or not.

The EA could also look at the AMP sale to Bermuda based investor Resolution. What was the price? How does the price compare to the original book value? Who from Resolution is now on The Powerco Board? Are they responsible for the price shock? What do they care about the Powerco consumers?

9(2)(a)

Date: 27/02/2019



meridian

PLECKVILLE RURAL WATER SUPPLY INC  
C/- Don Wills

9(2)(a)

9(2)

9(2)(a)

Meridian Energy Limited  
PO Box 2128  
Christchurch 8140  
New Zealand

Phone 0800 496 777  
business@meridianenergy.co.nz  
meridianenergy.co.nz



Hi there,

## Your network charges are changing on 1 April 2019.

A recent review by your local network company, Powerco (ex CentralPower), means there will be a change in charges for the services they and Transpower provide.

We've set out your new electricity rates on the following page.

### We're here to help.

If you're keen to find out more, or you're worried about this change, here are some ways we can help:

- Visit [meridianenergy.co.nz/pricing](http://meridianenergy.co.nz/pricing)
- Email us at [business@meridianenergy.co.nz](mailto:business@meridianenergy.co.nz)
- Call our Business Team on **0800 496 777** between 7.30am and 5.30pm (excluding public holidays)

We're about creating a better future for New Zealand, so thanks for choosing us.

Kind regards,

**Julian Smith**  
Chief Customer Officer



## What's changing?

Here's a breakdown of your price change from **1 April 2019**:

**Network area:** Powerco (ex CentralPower)

**Load group:** Small Commercial

**Meter type:** Anytime, Night

**Physical address:** 9(2)(a)

**ICP number:** 9(2)(a)

RATE DESCRIPTION	CURRENT RATES (incl GST)			NEW RATES (incl GST) <i>from 1 April 2019</i>			UNIT OF MEASURE
	Network charge*	Meridian charge	Total electricity rate**	Network charge*	Meridian charge	Total electricity rate**	
9(2)	█	█	█	█	█	█	█
1(a)	█	█	█	█	█	█	█
█	█	█	█	█	█	█	█

**Network area:** Powerco (ex CentralPower)

**Load group:** Small Commercial

**Meter type:** DayNight Day, DayNight Night

**Physical address:** Pleckville Water Supply, 1 Cullen Street

**ICP number:** 9(2)(a)

RATE DESCRIPTION	CURRENT RATES (incl GST)			NEW RATES (incl GST) <i>from 1 April 2019</i>			UNIT OF MEASURE
	Network charge*	Meridian charge	Total electricity rate**	Network charge*	Meridian charge	Total electricity rate**	
9(2)	█	█	█	█	█	█	█
1(a)	█	█	█	█	█	█	█
█	█	█	█	█	█	█	█

\* Network charges are based on the charges to us by your network company but also include Meridian pricing elements.

\*\* On your bill, you'll only see the "Total Electricity Rate".

### Let us know if there's anything else you need.

If you have a concern or complaint, please let us know straight away. We'll work with you to resolve problems quickly and fairly. Contact us on either:

- 0800 496 444
- [customer.relations@meridian.co.nz](mailto:customer.relations@meridian.co.nz)

If we can't resolve your complaint, you can contact the Electricity and Gas Complaints Commissioner for a free and independent complaints service on **0800 22 33 40** or at [utilitiesdisputes.co.nz](http://utilitiesdisputes.co.nz).

Date: Monday 18 March 2019

To: Mr Nigel Barbour

The Chief Executive Officer

Powerco Ltd

2<sup>nd</sup> Floor Council Building, 84 Liardet Street, Private Bag 2061, New Plymouth 4342

Email: [customerservices@powerco.co.nz](mailto:customerservices@powerco.co.nz); paper copy also in the mail.

Dear Sir,

**Second Complaint concerning the Powerco Network Charges Increasing 1 April @019**

Reference: Meridian letter date 27 February 2019 (attached)

**Copies to interested parties:**

1. Email copied to The Commerce Commission, 44 The Terrace, Wellington

Ref: 523551; Email: [contact@comcom.govt.nz](mailto:contact@comcom.govt.nz). Please review this complaint to see if Powerco is not complying with any law that you enforce; in particular the exorbitant level of the Network Charge increase, and the frequency of increases given the last increase was 15 October 2018. Powerco is a monopoly and I believe is engaging in anti-competitive behaviour.

2. Email copied to The Electricity Authority, Level 7, Harbour Tower, 2 Hunter Street, Wellington; Email: [info@ea.govt.nz](mailto:info@ea.govt.nz). Please review this complaint to see if there is any breach of the Electricity Industry Participation Code 2010.

3. Email copied to Alastair Scott; Wairarapa Electorate MP, Parliament

Email: [alastair.scott@parliament.govt.nz](mailto:alastair.scott@parliament.govt.nz)

**Immediate response to the Meridian Letter**

The attached Meridian letter date 27 February 2019 details Network current night rates of 2.4c/kWh and new rates (from 1 April 2019) of 12.73c/kWh.

The change of night rates is  $12.73/2.4 = 530\%$ .

The Meridian letter says “we’re here to help”. This must be considered a monumental lie because the person I phoned on 0800 496 777 did not care nor was prepared to investigate.

The next person I phoned at the Electricity & Gas Complaints Commission on 0800 22 33 40 said it wasn't their role to be concerned about financial matters.

Therefore, I wrote my first Complaint to [customerservices@powerco.co.nz](mailto:customerservices@powerco.co.nz) with the following detail.

A. Complaint details:

Name: Don Wills, Pleckville Rural Water Supply Scheme Inc, Chairman

Address: 9(2)(a)

Phone: 9(2)(a)

ICP ref1: 9(2)(a)

ICP ref2: 9(2)(a)

B. Reason for Complaint:

The change of night rates is 530%. Where we can and depending on the season, we pump at night for stock water. During hot summers we also pump in the day time.

The Reserve Bank will probably say that the current inflation rate is about 2.5%.

We have never seen such a letter of this type with such a heavy increased demand previously, nor has there been any prior discussion.

Would you like to justify the difference between 2.5% and 530%?

If we can find competition from another Network Company, that would be great but unfortunately you have the monopoly in this region.

We cannot pay this exorbitant night rate increase.

C. Next stage:

This first complaint date is 8 March 2019. You say you will respond in 20 days; ie by 28 March 2019.

Should this complaint dispute be unresolved, it is unethical for Powerco to increase the charges as detailed above.

You also refer me to the Utilities Disputes but they won't discuss financial matters, as mentioned above. So you are stuck with me.

Don Wills  
PRWSS Inc Chairman

**I've had no response or acknowledgement to the first complaint; so here is my second complaint addressed to the Powerco CEO, with copies to the Regulators and to the Wairarapa Electorate MP.**

**I've had an interim response from the Commerce Commission in which they will assess but not necessarily investigate. This is unacceptable.**

**Second Complaint details**

1. Consequences to the Network Charge increase

Our business model incorporates a water fee to pay for the major operating cost which is power for the pumps. Recent replacement of one of the intake pumps cost \$16k, and a new pump at the staging site cost \$7k. Significant major maintenance costs include fixing aging pipe leaks. Work is

underway to replace some of the 1980s under-rated PVC pipes because of leak failures due to high head pressure.

For the financial year ending 30 June 2018 year, the power costs totalled \$20,154 plus GST, which is almost half of the water fee.

An analysis of the previous 6 months power bills comparing the new rates with the current rates shows that the overall cost increase is **31%**. This translates to a loss in our annual income of **\$7,182**. The consequence will be an inability to fund the replacement of heavy plant or aging PVC pipes.

Replacement pipe costs range from \$10,000 to \$30,000 per km installed depending on their diameter. The lengths of pipe that need replacement exceed 5 km. The total pipe replacement cost is greater than \$100,000. If we do not have the funds to progressively pay for these activities, the further consequence is that we are heading towards bankruptcy. In this case, Powerco will lose too.

The water users will not accept an increase in fees to compensate for the extra network charges. Their response to any fee increase is to decrease the quantity of water taken, resulting in a spiralling down-hill reduced income.

## 2. Day and night loading principles

Traditional practice is to reduce the peak load. This was done by tariffs that incentivised the consumers to use the night rate; eg for pumping to tank storage. The peak load determines the ratings of the lines and transformers.

Reduction of the peak load incentivises the Lines Company to keep within Regulatory KPIs to:

- a. avoid overloading and/or upgrading resulting in efficient use of assets.
- b. reduce the I squared R (heat) losses.

Powerco's demanded Network Charge increase from 1 April 2019 ignores these principles & practices.

## 3. History of stock water schemes

Pleckville Rural Water Supply Scheme (PRWSS) Inc was one of many built during the 1980s under Rob Muldoon's National Government with Duncan McIntyre as Minister of Agriculture and Deputy PM. The local Wairarapa MP at that time was John Falloon.

The aim was to provide clean stock water to areas where springs were non-existent and where creeks dried up in summer. The further aim was to increase agricultural productivity.

Since 2000, PRWSS Inc has supplied the Alfredton School. We provide them with a cheap service of clean water, a point of principle that Powerco and its Board of Directors have obviously failed to provide to its consumers.

## 4. History of Mergers of Power Boards and City Council Electricity Departments

Before the Max Bradford (Energy Minister) reforms of the late 1990s, the Boards and Departments were run by engineers, and owned by the electricity consumers.

Subsequent to the reforms, the Lines Companies are mainly run by Accountants and Lawyers and owned by global shareholders.



It remains a puzzle how the book value of the original assets suddenly became revalued during multiple ownership takeovers. It also remains a puzzle who got away with the revalued money.

#### 5. Powerco 2018 Financial Report

Founded 1999 following mergers with many boards and departments.

Total equity \$571.5m

Equity/total assets 25.1%

Net profit after tax \$86.7m

Return on equity  $86.7/571.5 = 15.2\%$

Summary of results (Ed. comment): Pretty good; why the need to gouge the Pleckville sheep and beef farmers?

Ownership:

1. Queensland Investment Corporation (58%); created by the Queensland government; see their website for their financial reports and objectives; the latter says we focus on our clients first, last and only. There is obviously nothing left for the sheep and beef farmers at Pleckville.
2. AMP Ltd (42%); has done business in NZ for 160 years. According to a Stuff.co.nz report on 27 October 2018, some or all of AMP is being sold to a Bermuda based Insurer. What price did they pay? That's gives us a lot of confidence. What can we expect in the future with our Network Charges?

#### 6. Summary

Questions for Powerco to answer:

- a. Justification for a **530%** increase in the Network rate charge with a consequential **31%** increase in the power charges. I can supply the spreadsheet proving the 31% increase. The movement (increase) in the Consumer Price Index for the year ending 31 December 2018 is **1.89%**. Why not 1.89% for the Network price increase?
- b. Justification for the frequency of power charges given the previous increase was 15 October 2018. As a Corporate citizen you are required to provide certainty, NOT uncertainty.
- c. Why is Powerco damaging the NZ agricultural economy at the behest of the greedy global shareholders by making these exorbitant increases in Network Charges? What price did the Bermuda Insurer pay to AMP and when?
- d. Prove to us and the Regulators that Powerco, as a monopoly, is not behaving anti-competitively. Please provide us with your internal submission for the Network Charge Increase that was approved by your Executive Team and the Board of Directors.
- e. Why the inefficiency of assets and resistance heat loss by not reducing the peak load via an incentivised night rate?

Don Wills

PRWSS Inc. Chairman

# AMP era ends, impacting hundreds of thousands of Kiwis

Rob Stock • 11:08, Oct 27 2018

31



STUFF

AMP in Australia charged life insurance premiums to thousands of its superannuation members it knew were dead, the country's banking royal commission has heard.

**ANALYSIS:** AMP has a finger in the financial pies of a great many Kiwi households.

It's been doing business in New Zealand for over 160 years, and today boasts roughly 230,000 KiwiSaver accounts, 200,000 insurance policies, and more around 79,000 Kiwi shareholders.

But the end of the road is in sight for AMP in New Zealand after a deal to sell off its life insurance business to Bermuda-based "zombie fund" investor [Resolution](#).

Zombie fund is the pejorative term used in Britain for the "closed books" of insurance business backed by large funds of financial assets, which Resolution specialises in buying

## money

- 
- \* [AMP charged thousands of dead Australians insurance](#)
  - \* [Nine-figure payday beckons for Aussies planning to close](#)



The term 'zombie funds' has been used repeatedly by British media about insurance funds which are closed to new investors.

The deal, expected to complete next year, will see AMP stop issuing new policies at the end of the year, and Resolution will buy AMP's closed book.

This is the [AMP Life](#) business, which has a staggering \$5.87 billion of assets, subject to approval by regulators.

It will then manage, and profit from, the AMP closed book as it slowly winds down over the coming years, with some policyholders dying, some cashing out, and some giving up their policies.

## Our team



**Clive Cowdery**

Founder and Executive Chairman of Resolution Life Group



**Jon Hack**

Managing Partner



**Robyn Wyatt**

Chief Financial Officer

SCREENSHOT

Resolution is a Bermuda-based insurer that specialises in buying 'closed books' of insurance. Its founder is Sir Clive Cowdery.

What should the hundreds of thousands of Kiwi shareholders, KiwiSavers and and policyholders make of the plan to wind down AMP in New Zealand?

Many will seek professional advice, including from AMP's own advisers.

### **WHAT IT MEANS FOR AMP KIWISAVERS**

AMP is the fourth largest KiwiSaver provider, with around 230,000 KiwiSavers and around \$5.2 billion of KiwiSaver money under management.

But it's no longer interested in wealth management in New Zealand.

## Managing your AMP KiwiSaver Scheme savings

Find out how to manage your savings



Now that you're a member of the AMP KiwiSaver Scheme it helps to know how to manage your account and stay up-to-date with your investments progress.

My AMP and My AMP app give you access to manage and monitor your accounts 24 hours a day, seven days a week.

SCREENSHOT

AMP is one of the big four KiwiSaver managers.

It plans to spin out its wealth management arm into a new company with shares listed on the NZX sharemarket in 2019.

It's even possible the vast AMP KiwiSaver scheme, which has not been a top performer, will be sold, and merged with another scheme.

That's happened before, for example, when Tower sold its scheme to Fisher Funds.

KiwiSavers enjoy a lot of legal protection. Their accounts are ring-fenced and protected. Should savers not like the direction AMP is taking, they can shift their account to another scheme.

"Nothing changes for members of the AMP KiwiSaver Scheme or customers who hold another AMP investment product," AMP advisers have been briefed to tell customers.

### WHAT IT MEANS FOR AMP POLICYHOLDERS

Around 200,000 people have an AMP insurance policy.

Many took out their policies back when AMP was a "mutual" owned by its policyholders, not by shareholders.

But in 1998, AMP demutualised, and the company's newly issued shares were listed on the NZX and ASX sharemarkets.

**money**

---

a stake in Resolution as part of the deal).

The official line here is that the switch from AMP to Resolution will make no difference to policyholders.

"Customers will retain all terms and conditions of existing life insurance policies, so there's nothing they need to do," AMP advisers have been briefed to tell customers.

Tower Life policyholders were told something similar when it was sold to Aussie-funded Foundation Life.

Now, Foundation Life wants to wind the business up, and is preparing an offer to policyholders.

Only time will tell what Resolution chooses to do.

There are broadly two kinds of AMP policies.

First, there are ordinary life insurance policies, on which the premiums rise every year.

The big question for policyholders is what kind of premiums will a company that's no longer selling new policies, and isn't trying to win new customers, choose to charge?

The other type of policy is a complex mix of life insurance and investment, including what were called "whole of life" policies.

Should a policyholder die, they pay out, but they also have an investment value, and policies get allocated investment return "bonuses" each year.

In the United Kingdom, closed books of business out of the public eye stand accused of providing poor value, high fees, and low returns.

The Financial Conduct Authority is conducting a review of them, concerned policyholders aren't getting a fair deal.

Here in New Zealand, while the Financial Markets Authority (FMA) "follows the activities of other regulators around the world", it's not planning anything similar.

Actually, New Zealand has a regulatory gap. The Reserve Bank regulates insurers for financial strength, but nobody, FMA included, regulates life insurers for "conduct", meaning how they treat their policyholders.

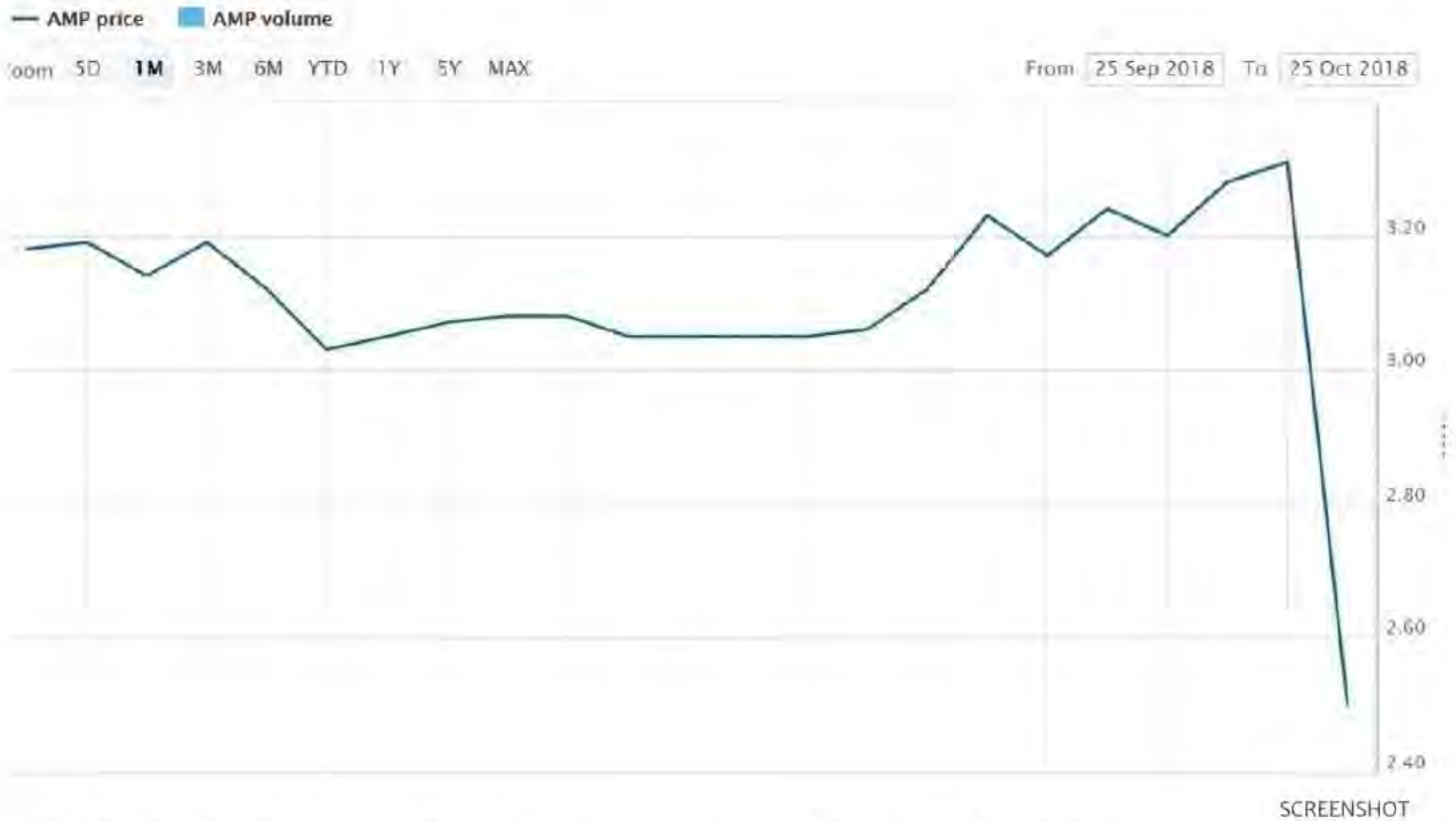
The Government's review of [insurance law](#) could change that.

business

Log in

money

AMP has around 79,000 Kiwis with small shareholdings.



The AMP share price plunged after the announcement of the deal with Resolution.

In April 19, 2015, AMP shares were worth A\$6.60. By the end of Thursday, they had plunged to A\$2.50.

Around A\$2.4b of shareholder value vanished in the day of the deal alone, as investors dumped holdings in shock at the price of the A\$3.3b deal, but also anticipating lower dividends in the future.

The plunge does not show market confidence in the future of AMP as a "simpler, more focused group... well positioned to compete in our core markets", as acting chief executive Mike Wilkins said on Thursday.

Wilkins was appointed after his predecessor Craig Meller resigned over an Australian fees scandal earlier this year.

business

Log in

money



SUPPLIED

AMP chief executive Craig Meller had to resign following scandals at the insurer and wealth manager in Australia.

AMP's core markets are Australian wealth management and Australian banking.

In a letter to [shareholders](#) sent out on Friday, AMP chairman David Murray said: "Insurance has been a proud part of AMP's heritage since inception. However, given the structural shifts experienced in the industry in recent times, we firmly believe this is the right outcome for our customers and our shareholders."

AMP would continue paying dividends.

Stuff

COMMENTS 31

more from stuff