

From: energymarkets@mbie.govt.nz
To: [Energy Markets](#)
Subject: Electricity Price Review submission
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Region

Taranaki

Category

Distribution Companies and Associations, Trusts, Transpower

Do you accept these terms & conditions?

Yes

A1. Establish a consumer advisory council

Support

A2. Ensure regulators listen to consumers

Neutral.

Assess this after deciding on the other proposals. For example A1 and F3.

B1. Establish a cross-sector energy hardship group

Support

B2. Define energy hardship

Support.

For example, Powerco considers vulnerable customers from a “loss of power” perspective – this is broader than financial hardship and includes businesses.

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

Support

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

Support

B5. Offer extra financial support for households in energy hardship

Support.

This Government-funded welfare assistance will complement the removal of the low fixed charge tariff regulations and network pricing reform generally. It should also align with the approach Government takes to address the impact of climate change policy settings.

B6. Set mandatory minimum standards to protect vulnerable and medically

dependent consumers

Support.

This may overlap with the regulatory treatment of customer service lines (because of the large cost impact faced by consumers if their lines require maintenance)

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

No view

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

Support.

If the agencies can strike deals that manage credit and reduce late payment and disconnection costs, the extent of financial support for households in energy hardship will be reduced.

C1. Make it easier for consumers to shop around

Support.

This could include information/education to support transmission and distribution pricing reform.

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

Support.

This should be trialed to test if this form of engagement affects consumer behaviour as intended.

C3. Make it easier to access electricity usage data

Support.

Consider education and implementation carefully given potential misuse by 3rd parties. Involve Privacy Commissioner in any discussion of solutions.

C4. Make distributors offer retailers standard terms for network access

Support, if the DDA is reasonable and workable.

We expect the EA to initiate consultation shortly, so this option has progressed during the time of the Electricity Price Review. We are reviewing the current draft of the EA's revised DDA proposal, and there are likely to be some material issues to resolve. Some of these reflect the degree of ease that a rogue retailer has to enter/exit – the costs of which are faced by all consumers.

The problem stated in the paper is that “fewer retailers are operating on smaller networks”. The proposed solution affects all networks, not just the smaller ones. We support a DDA in principle because we intend to operate our network to open-access principles. This includes offering maximum flexibility to customers for them to innovate, connect to, and transact over our network.

C5. Prohibit win-backs

No view

C6. Help non-switching consumers find better deals

Support.

C7. Introduce retail price caps

Do not support.

Network pricing reform and decarbonisation policy settings will affect electricity prices across the supply chain. The impact on consumers will depend on their location and consumption, and inform their response. The options in section B address concerns about the level of price changes for consumers.

D1. Toughen rules on disclosing wholesale market information

Support.

Any initiatives need to align with the consultation issued by the GIC.

D2. Introduce mandatory market-making obligations

No view.

Decarbonisation is expected to require more generation. It is worth considering the impact/incentives of market making decisions on providers of new generation and whether it is a level playing field for all parties. This includes existing/new generators and buyers/sellers of contracts.

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

Neutral.

Prior to a regulatory approach, the voluntary arrangements could be tested for wider applicability first. This could address the specific “suspicion” about business activities. There may be a range of disclosure options which address the concerns, so a standardised approach shouldn’t be a goal in and of itself. We suggest a similar approach be adopted for addressing concerns about some facets of distribution pricing eg E3.

D4. Monitor contract prices and generation costs more closely

Support. Difficult to see any unintended consequences from this activity.

D5. Prohibit vertically integrated companies

Don’t support.

It translates to heavy handed regulation which would need substantive evidence to support it.

E1. Issue a government policy statement on transmission pricing

Support, if it sets an appropriate direction of travel for the sector and helps to resolve the critical issues that have stalled the TPM process.

The impacts of decarbonisation (more generation and demand) will exacerbate this particularly where changes are concentrated. For example, for one region on our network, transmission and distribution upgrades from electrifying process heat would increase load by a factor of 10 (from ~13MW to ~130-150MW). The existing transmission and distribution network can not accommodate this.

Consideration of who pays, on what basis, and any transition mechanisms should be considered when drafting the transmission pricing GPS.

E2. Issue a government policy statement on distribution pricing

Support, for the same reasons in E1 and also providing government support for the removal of the low fixed charge tariff regulations and pricing reform generally. If adopted, a GPS needs to be consistent with the applicable rules and clarifies their application, rather than acting to introduce new considerations and tensions.

E3. Regulate distribution cost allocation principles

Don’t support regulation, though we do support further analysis on the issue and/or standardising aspects or content of disclosures that would be beneficial. This could be done via guidelines rather than regulation, to allow an adaptive approach.

Powerco’s pricing methodology categorises customers by their connected capacity and does not differentiate between household and business consumers.

If regulation is pursued, we suggest guidelines be adopted first. The principles need to be founded on extensive industry engagement and broadly defined. Prescription is to be avoided so EDBs have enough flexibility to address the particular

challenges they face. Prescribing specific approaches to, or the outcomes that must arise from, the allocation of residual costs would be unlikely to promote efficient outcomes (refer 2014 AEMC Rule Determination on network pricing arrangements).

E4. Limit price shocks from distribution price increases

Don't support for the same reasons we don't support a retail price cap (C7). Network pricing reform and decarbonisation policy settings will affect electricity prices across the supply chain. The impact on consumers will depend on their location and use of the network along with the other drivers of electricity costs. The options in section B address concerns about the level of these costs to households facing energy hardship.

The development of a tariff structure statement is an extensive, time consuming and costly process eg, initial customer engagement commences up to two years before submission of the final TSS. A TSS is not a prerequisite to EDBs developing pricing reforms that avoid customer price shocks. Any requirement to avoid unacceptable price shocks for consumers must be underpinned by industry consultation on what constitutes a customer bill impact, and for whom. Even then, it would likely be inappropriate to mandate a maximum price shock for any customer cohort, and not guaranteed given it's an input to retail prices. This is particularly important since the provision of financial incentives is the principal means by which more efficient prices provide benefits to customers. Protecting from price shocks those customers that impose high costs on the network could delay the benefits of more efficient network prices. It may not be considered a fair approach for those consumers who aren't imposing those costs and are missing out on a price reduction.

E5. Phase out low fixed charge tariff regulations

Support.

Phasing out of the low fixed charge regulations would support a transition to more efficient network prices. EDBs should be afforded flexibility in how they achieve that transition. For distributors on a revenue cap (like Powerco) we have no incentive to rebalance prices to make more revenue due to changes to the electricity demand on their networks.

E6. Ensure access to smart meter data on reasonable terms

Support, although access and use must be considered together.

On this topic, the devil is in the detail: what information should distributors have access to, when, how, for what purpose and on what conditions. We think distributors should be able to access and use data to support provision of any aspect of delivering and complying with the regulated network service. Functionally, this covers asset management, pricing, disclosures, and network operations (eg outages). The EA is intending to progress this through consultation on the DDA. Some industry participants, including Powerco, are looking at the viability of an alternative set of voluntary arrangements as well.

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

Support in part.

Bullet point 1 (removal of exempt status). Support this in principle given the Commission must demonstrate it is better for consumers.

Bullet point 2 (require move from a DPP to a CPP). Don't support. More clarity about the gap in the existing powers is required before adopting this. The incentives on EDBs on a DPP need to be worked through. Rather than a CPP 'stick', we prefer an individualised price path 'carrot'. If further confidence and transparency

is needed from EDBs, the merit of an individualised price/quality path regime could be examined. If this was applied to the 7 largest EDBs, a degree of rigor and transparency would be provided for over 70% of customers and line revenue. This outcome would come at a cost - additional resource from the Commission and from the affected EDBs.

Bullet point 3 (apply higher penalties to deter big distributors from breaching price/quality regulations). Don't support in the absence of clear guidance ahead of time because of the scale of penalties and scope of factors affecting the level and variability of quality standards. If consistency is a driver, the expectations and approach for the quality standards for unregulated distributors should be considered at the same time.

Bullet point 4 (benchmarking). Don't support, for the same reasons that led to its prohibition in the first instance. We support benchmarking studies of EDB costs to demonstrate and explore reasons for cost variations, including quality, customer service, and governance. Benchmarking would not be required for EDBs on a CPP or IPP because the process would involve explaining the validity of costs for the EDBs individual circumstance.

The suggestions on p 27 reflect existing work in progress by the Commission. We will continue to engage with the Commission on the development of the regulatory framework.

E8. Require smaller distributors to amalgamate

Don't support, on the basis that it is heavy handed approach.

The 2018 TDB study on scale efficiencies suggested that no material gains based on historic data. Looking forward, though, technological change and demand/generation growth may provide fertile ground for scale efficiencies eg software platforms for managing assets.

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

Don't support.

Investment across generation, distribution and transmission sector will be needed as we transition to a low carbon economy. In relation to rates of return, this matter is squarely reserved to the Commerce Commission and has been the subject of extensive litigation. Instead, the focus should be on the nature and scale of investments, which is better handled by the regulatory settings and structure eg efficiency and scale of EDBs. This is why we support an individualised price/quality path approach: stakeholders can have confidence that networks planning and investing appropriately and investors have the confidence to provide capital to underwrite it.

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

Partly support.

We understand the need to ensure arm's length dealings between regulated entities (Transpower, EDBs) and non-regulated entities.

The Panel proposes three legislative amendments.

[1] Now unnecessary – the Court of Appeal has recently confirmed that the EA already has the power to set standard terms in distribution agreements.

[2] Support (improving coordination between the EA and the Commerce Commission). A practical example of coordination would be for the Commerce Commission's expenditure objective to accommodate the nature of expenditure driven by EA/market requirements. This expenditure may increase the cost to serve and provide benefits to third parties eg aggregators or providers of distributed energy services.

[3] Support, because assessment of changes to market rules will consider the impacts of all participants (not only EDBs) and have a robust process.

We agree that affording the industry flexibility to deal with unforeseen future developments is important and that EDBs should be prevented from leveraging information advantages in and subsidising the provision of services in downstream competitive markets. The relative merits of addressing these matters by means of legislative requirements or market rules ultimately depends on:

- the flexibility to respond to changing market dynamics under both approaches; and

- the process underpinning the development of any changes, namely the scope for input from all industry participants, and the recourse available to parties.

In principle, we would expect the development of rules to involve a more collaborative, industry focused approach and be more flexible in that future amendments or refinements can be more easily implemented, ie, without requiring legislative changes.

In terms of the problems noted in the options paper on page 30, the concern about use of household consumption data should be addressed separately to competition issues eg via C4 and E6. EDBs cannot cross-subsidise contestable services using regulated prices. The Commission closely scrutinises cost allocation and is actively managing this risk. It is not clear to us that there is a gap to be filled right now.

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

No comment

F3. Give regulators environmental and fairness goals

Partly support.

We support the Panel's suggestion of a consumer protection function, if

- a) The consumer protection objective doesn't detract from the EA's other statutory objectives;

- b) The EA's role in relation to consumer protection can be defined in such a way that it is not just duplicating responsibilities of other agencies; and

- c) The EA isn't required to address issues that could be more appropriately dealt with through welfare policies.

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

Neutral at this stage. The trade-off is between allowing genuine appeals and or expensive delay from parties on the wrong side of a decision. Where markets are involved (as regulated by the EA) there will always be parties in the latter camp. These appeals are very expensive and time consuming, which is hard to align with being in consumer interest, especially households in hardship. And not having a merit review does not prevent an appeal on questions of law. If there is no ability for a merits review, Government must be confident that the legislation clearly defines the EA's objectives and powers, and that the EA's processes and performance is acceptable and subject to appropriate accountability mechanisms.

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

Support

F6. Establish an electricity and gas regulator

Neutral. We support the study to assess potential benefits. There doesn't appear to be a pressing need.

G1. Set up a fund to encourage more innovation

Support a contestable fund.

Not all innovation will 'pay off', so transparency about the approach and intent of proposals will be essential. By being an energy sector fund, projects that are multi-party might get more traction. Right now, some of these projects are subject to non-disclosure agreements because of their commercial sensitivity to one of the parties.

G2. Examine security and resilience of electricity supply

Support. There will be overlap with other agencies eg ICCC on security of supply, ComCom on how EDBs are managing resilience on their networks.

G3. Encourage more co-ordination among agencies

Support

G4. Improve the energy efficiency of new and existing buildings

Support.

This can include consideration of lower emission fuels such as gas to improve a building's fuel diversity and overall affordability.