

22 March 2019

Miriam Dean QC  
Chair  
Expert Advisory Panel  
Electricity Price Review  
Ministry of Business, Innovation & Employment

By email to [EnergyMarkets@mbie.govt.nz](mailto:EnergyMarkets@mbie.govt.nz)

**Submission by Refining NZ on the Electricity Price Review – Options Paper**

Dear Miriam,

Thank you for the opportunity to make this submission on the Electricity Price Review Options Paper.

Refining NZ welcomes the Review Panel's focus on the efficiency, fairness and equity of electricity prices for end-consumers. As a major employer based in Northland we know that this is of real relevance to many in our Northland communities.

We are certain that giving electricity consumers a greater voice will be immensely valuable in setting the future direction of New Zealand's electricity sector.

**Refinery background:**

1. Our refinery at Marsden Point is the only oil refinery in New Zealand and supplies approximately 40% of the total energy needs of New Zealand and 70% of the transport fuel needs. The remainder is met by products imported from overseas refiners by our major oil company customers (BP, Z Energy, ExxonMobil).
2. Refining NZ is committed to helping New Zealand meet its climate change obligations, and our objective is to produce the highest quality transport fuels with the lowest carbon footprint practically possible.
3. To that end we have invested around \$735 million to improve energy intensity (and hence, our carbon emissions profile), remove benzene from petrol and to produce low sulphur diesel.
4. The refinery's business case for investing in energy efficient assets is based on the continued sustainability of our business in a highly competitive market, and requires a long lead-in (typically 5-6 years), clear market signals, and certainty of government policy for that investment to be approved by the Refining NZ Board. The refinery's \$365m investment in a new petrol making unit which improved energy efficiency across the refinery and reduced carbon emissions by 120,000 tonnes per year, is a prime example of this forward focused investment approach.
5. Refining is energy intensive with electricity accounting for around a third of the Company's cost of operation. Refining NZ uses around 31% of the electricity consumed in Northland.

Refining NZ

Port Marsden Highway, Ruakaka, Northland 0171, Private Bag 9024, Whangarei 0148, New Zealand  
Telephone: +64 9 432 8311 Email: [corporate@refiningnz.com](mailto:corporate@refiningnz.com) [www.refiningnz.com](http://www.refiningnz.com)

Refining NZ is not grid-connected but receives supply from the Bream Bay grid exit point via Northpower's substation and dedicated feeders to site.

6. The refinery is a major employer (around 600 employees and contractors) and contributor to the Northland economy. It is estimated that for every job at the refinery another two are created in Northland and a further six around the country in supporting services to the refinery.<sup>1</sup> The refinery accounts for around seven percent of Northland's GDP.<sup>2</sup>

### Key points from our submission

Our views on the Panel's Option paper are summarized in the key points below.

7. Refining NZ welcomes the majority of the recommendations presented in the Options paper, especially those with a potential to make a positive social impact and those which directly impact our business as a major electricity user. We consider the recommendations made by the Panel a good starting point from which a detailed plan for implementation can be developed.
8. We agree broadly with the Panel's recommendations around community level support for those suffering energy hardship, and would emphasise the need to provide a robust definition and metric for energy hardship before any subsequent support such measures are put in place.
9. While the option to introduce a consumer advisory council has merit we believe policy makers should be wary of creating an additional level of bureaucracy and cost. Consumer inclusivity should be an added focus for existing bodies, the Electricity Authority and the Commerce Commission, and should be considered before establishing an entirely new body.
10. Given the broader social impact of Transmission pricing we believe that this issue should be addressed by government rather than by the Electricity Authority. In our submission on the Electricity Authority's TPM issues paper (July 2016) we stated our belief that the proposed changes to the TPM would have a clear social impact on Northland, where a poorer section of the community will pay for growth in the richer Auckland region simply to retain the current level of service, and reimburse large South Island based gentailers and large electricity users. We agree with the Panel's recommendation that a Government Policy Statement be introduced, and believe that the content of such a statement should be open to public consultation.
11. Refining NZ believes that there is enormous opportunity to harness our natural resources (e.g. wind and solar) for renewable energy in Northland and across the country. Introducing innovative wind and solar technologies would add resilience to the electricity network and ultimately, benefit electricity consumers through lower electricity prices. As noted in the

---

<sup>1</sup> Northtec and the Institute of Public Policy, "The New Zealand Refining Company: Our contribution", Whangarei, 2008

<sup>2</sup> [www.infometrics.co.nz](http://www.infometrics.co.nz)

report published by the Productivity Commission<sup>3</sup> - which analysed the lower cost way to achieve net zero emissions and the electrification needed to achieve this - the falling cost of new wind generation may result in falls in the generation component of electricity prices in the longer term.

With the cost of installing wind generation lower than the long run marginal cost of existing generation assets, it is not immediately clear why gentailers who hold the majority of consented wind farm sites, are not advancing in this space and suggests that greater market transparency is needed.

We know that state and government led auctions for wind farm development, backed by bankable PPA's of ten years or more, have been awarded in Australia at prices ranging from AUD 48 to AUD 56 MWh (real terms) and in Brazil at US\$ 28MWh. We would suggest that government led auctions to support new wind and solar projects would be an appropriate market based intervention which will both lower prices for consumers, stimulate renewables investment and create long term fabrication and construction jobs in regions such as Northland.

To the latter point, we believe that the growth that wind and other renewable projects would bring to the regions makes renewables an attractive proposition for investment by government whether through the Provincial Growth Fund or the Green Investment Fund.

While making the case for renewables, we are also aware that the wider benefits of renewable energy for decarbonising the electricity system are being considered by the ICCC.

12. The options paper does not make clear where the funding for a number of recommendations A1 (consumer voice) B1, B2, B5 (reducing hardship) D2 (mandatory market making obligations) and G1 (low carbon future) should come from. Furthermore, the newly introduced electricity levies may well result in an increase in electricity prices which would simply diminish the intended outcomes of the Electricity Price Review process.

Our detailed responses to the options presented in the Options paper are set out below:

<b>A</b>	<b>STRENGTHENING THE CONSUMER VOICE</b>
----------	---

<b>A1</b>	Establish a consumer advisory council
	Refining NZ agrees there is a need to improve consumer involvement in the electricity sector. Existing resources from Government agencies such as the Commerce Commission and the Electricity Authority should be considered before any decision to set up the Council. We consider that this approach could be extended to gas, water and fibre utilities.

<b>A2</b>	Ensure regulators listen to consumers
-----------	---------------------------------------

<sup>3</sup> The Productivity Commission: "Low-emissions economy", Final Report, August 2018. Available at [https://www.productivity.govt.nz/sites/default/files/Productivity%20Commission\\_Low-emissions%20economy\\_Final%20Report\\_FINAL\\_2.pdf](https://www.productivity.govt.nz/sites/default/files/Productivity%20Commission_Low-emissions%20economy_Final%20Report_FINAL_2.pdf)  
Refining NZ

	We believe it is essential that regulators engage with consumers to better understand their views and to better explain the impact of proposed regulatory changes. At the same time we recognise that establishing explicit statutory responsibility to consult consumers of all types may well impact regulator’s other priorities and create delays in the regulatory process, e.g. EA’s delays with the TPM review process.
--	--

<b>B</b>	<b>REDUCING ENERGY HARDSHIP</b>
----------	---------------------------------

<b>B1</b>	<b>Establish a cross-sector energy hardship group</b>
	Refining NZ agrees with the Panel’s recommendation. We also agree with utilizing existing and diverse energy organization resources: Governmental, Non-Governmental Organisations and private owned companies that are already progressing hardship initiatives. We believe that this group should also look into other sources of energy such as transport fuels and gas.

<b>B2</b>	<b>Define energy hardship</b>
	We agree with the Panel’s recommendation and think this should be the first step before considering solutions such as B1, B3, B4, B5 and B8. Additionally, we see merit in including an energy hardship metric in the government’s budget process.

<b>B3</b>	<b>Establish a network of community-level support services to help consumers in energy hardship</b>
	This option is worth considering further. We agree broadly with the Panel’s recommendation but this first needs a robust definition and metric for energy hardship before any community level support measures are considered or a cross party hardship group is established.

<b>B4</b>	<b>Set up a fund to help households in energy hardship become more energy efficient</b>
	Same feedback as option B3 above.

<b>B5</b>	<b>Offer extra financial support for households in energy hardship</b>
	Same feedback as option B3 above.

<b>B6</b>	<b>Set mandatory minimum standards to protect vulnerable and medically dependent consumers</b>
	Refining NZ does not have a view.

<b>B7</b>	<b>Prohibit prompt payment discounts but allow reasonable late payment fees</b>
	Refining NZ does not have a view.

<b>B8</b>	<b>Explore bulk deals for social housing and/or Work and Income clients</b>
	Same feedback as option B3 above.

<b>C</b>	<b>INCREASING RETAIL COMPETITION</b>
----------	--------------------------------------

<b>C1</b>	Make it easier for consumers to shop around
	We support the idea to enhance the comparison websites and that this should be executed by the Electricity Authority. Refining NZ agrees with the Panel's recommendation that a variation to the primary option is not favoured.

<b>C2</b>	Include information on power bills to help consumers switch retailer or resolve billing disputes
	Refining NZ does not have a view.

<b>C3</b>	Make it easier to access electricity usage data
	Refining NZ does not have a view.

<b>C4</b>	Make distributors offer retailers standard terms for network access
	Refining NZ does not have a view.

<b>C5</b>	Prohibit win-backs
	Refining NZ does not have a view.

<b>C6</b>	Help non-switching consumers find better deals
	We agree with the Panel's recommendation. We understand that the responsibility for switching communications (What's My Number) belongs with the Electricity Authority. A repeat of this campaign would help boost consumer awareness.

<b>C7</b>	Introduce retail price caps
	Refining NZ agrees with the Panel's recommendation that this option is not favoured.

<b>D</b>	<b>REINFORCING WHOLESALE MARKET COMPETITION</b>
----------	---

<b>D1</b>	Toughen rules on disclosing wholesale market information
	Refining NZ considers there are significant gaps in the information disclosure rules. We agree with the Panel's recommendation to extend the disclosure rules to include information on the availability of generation fuel and that the EA should vigorously enforce the existing disclosure rules. A prime example is the Pohokura field gas outage. This was a key factor in electricity prices increasing in Spring 2018, however, no generator-retailer shared any specific information that gas fuel shortages were on the way.

<b>D2</b>	Introduce mandatory market-making obligations
	Refining NZ remains uncertain about introducing mandatory market-making obligations under the basis of its difficult design, implementation and monitoring. Other market making designs with easier designs and more durable results should be explored further, e.g. incentivised market-making.

	Overseas analysis of the pros and cons of different market-making designs should be conducted before committing to one option.
--	--

D3	Make generator-retailers release information about the profitability of their retailing activities
	Refining NZ does not have a view.

D4	Monitor contract prices and generation costs more closely
	Refining NZ does not have a view.

D5	Prohibit vertically integrated companies
	We agree with the Panel's recommendation.

<b>E</b>	<b>IMPROVING TRANSMISSION AND DISTRIBUTION</b>
----------	--

E1	Issue a government policy statement on transmission pricing
	<p>Refining NZ supports the Panel's proposal for the Government to issue a Government Policy Statement (GPS) for transmission. A GPS will provide the EA with a clear direction on how the Government thinks efficiency/equity trade-offs around transmission pricing should be resolved.</p> <p>Given the broader social and environmental issues at stake we believe strongly, that the issue of transmission pricing should be addressed by government rather than by the Electricity Authority, which appears not to have given consideration to the social or environmental cost in their modelling.</p> <p>In our submission on the TPM (July 2016) Refining NZ noted that in Northland where unemployment is at 5.6%, (1.3 percentage points above the national average)<sup>4</sup> and therefore has consumers least able to afford an increase and who will face the biggest increase in transmission charges simply to retain an existing level of service. We are of the view that the proposed price model effectively transfers money from upper North Island consumers and industries to gentailers (~\$44 million p.a.). This is not socially acceptable.</p> <p>We share Transpower's concern that the latest EA TPM proposal could have a negative environmental impact. Users are not incentivised to improve their energy efficiency from a transmission charge perspective as a result of using installed capacity instead of actual demand as basis for allocating part of the charges. The transmission charge does not provide an incentive to reduce energy use, and may lead to inefficient or unnecessary infrastructure investments.</p> <p>We share the concern expressed by others including the Northern TPM group, that reallocating costs of historic grid investments, as the latest EA TPM proposal recommends, could create an unstable investment environment which will make users reluctant to invest</p>

<sup>4</sup><https://ecoprofile.infometrics.co.nz/northland%20region/QuarterlyEconomicMonitor/Unemployment>

	and may destroy a business case for investments already made.  We agree with the Panel’s recommendation that a Government Policy Statement be introduced, and believe that the content of such a statement should be open to public consultation.
--	---

E2	Issue a government policy statement on distribution pricing
	As with option E1, Refining NZ agrees with the Panel’s recommendation and believes that a Government Policy Statement (GPS) will send a correct signal to the market and consumers and strike a balance between fairness/equity and efficiency and competitiveness. To be consistent, a GPS need to take a whole-of-market approach (i.e. that includes transmission and distribution).

E3	Regulate distribution cost allocation principles
	We are opposed to regulating distribution cost allocation principles as there is no evidence that the current voluntary approach does not work.

E4	Limit price shocks from distribution price increases
	Refining NZ does not have a view.

E5	Phase out low fixed charge tariff regulations
	Refining NZ remains uncertain as to whether the benefits attributable to removing the regulations will exceed the costs incurred by regulators, distributors, retail companies and consumers for designing and implementing a phase out program.

E6	Ensure access to smart meter data on reasonable terms
	We support the idea to ensure access to interval data, this should be regulated by EA.

E7	Strengthen the Commerce Commission’s powers to regulate distributors’ performance
	We agree with the Panel’s recommendation but would suggest that further consultation on this option is needed.

E8	Require small distributors to amalgamate
	Refining NZ agrees with other submitters such as the Major Electricity Users Group, Business Energy Council, that this option is not favoured.

E9	Lower Transpower and distributors’ asset values and rates of return
	Refining NZ does not have a view.

<b>F</b>	<b>IMPROVING THE REGULATORY SYSTEM</b>
----------	--

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

	Refining NZ does not have a view.
F2	Transfer the EA's transmission and distribution-related regulatory functions to the CC
	Refining NZ does not have a view.
F3	Give regulators environmental and fairness goals
	Refining NZ agrees with the Panel that this option is not favoured.
F4	Allow Electricity Authority decisions to be appealed on their merits
	Refining NZ does not have a view.
F5	Update the EA's compliance framework and strengthen its information-gathering powers
	Refining NZ does not have a view.
F6	Establish an electricity and gas regulator
	<p>Refining NZ believes this option needs to be considered further but we do not agree with establishing an electricity and gas regulator until all issues are understood and all feasible options, including having a single energy regulator, are compared.</p> <p>We understand the Panel would require more detailed/expert analysis before making a final recommendation in this option. We believe the MEUG commissioned TDB Advisory assessment of key policy and operational issues common to the gas and electricity sector, will contribute to a better understanding of potential options.</p>

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

G1	Set up a fund to encourage more innovation
	<p>There are existing funds to encourage innovation (e.g. Green Investment Fund, Provincial Growth Fund) and generators, retailers and other market participants are well placed to evaluate the business opportunity and absorb the risks related to investing in innovation.</p> <p>We would contend that greater transparency around innovation funding (application process, outcomes of funding decisions) is needed to provide investment certainty for energy intensive business to invest in low carbon initiatives.</p> <p>As noted earlier in this submission, alongside existing funds for innovation, we suggest that this would be further incentivized by government led auctions to support new wind and solar projects. This would be an appropriate market based intervention which will both lower prices for consumers and stimulate renewable investment.</p> <p>We know for example, that state and government led auctions for wind farm development, bankable PPA's of ten years or more, have been awarded in Australia at prices ranging from AUD 48 to AUD 56 MWh (real terms) and in Brazil at USD 28MWh.</p>
G2	Examine security and resilience of electricity supply
	Refining NZ believes there is a great need to examine the security and resilience of electricity supply particularly as we move to a low carbon future.



	<p>In this regard, we believe the Electricity Authority (EA) and Commerce Commission are well aware of the security and resilience of the current electricity system. How we transition to a 100% renewable electricity generation by 2035 is addressed in the Productivity Commission “Low-emissions economy” report. The question of future security and resilience is also with the Interim Climate Change Committee (ICCC) for consideration and we would expect the EA to also be involved. Given all of the above, we think there is no need for a third party to review this topic.</p> <p>Looking ahead to 2035 and beyond, we believe that the introduction of innovative wind technologies would add further resilience to the electricity network and ultimately, benefit electricity consumers through lower electricity prices.</p>
--	--

<b>G3</b>	<b>Encourage more co-ordination among agencies</b>
	Refining NZ believes it is critical to have a good co-ordination among governmental, non-governmental and other agencies to be able to successfully implement the transition pathway towards a low emissions economy.

<b>G4</b>	<b>Improve the energy efficiency of new and existing buildings</b>
	We agree and support this idea. We understand that the already announced “new healthy homes standards” to make rental properties warmer and drier, will improve the energy efficiency of new and existing rental buildings.

Finally, thank you again for the opportunity to make this submission. Should the Panel have any queries about the content of this submission we would be happy to discuss this in person, should there be the opportunity to do so.

Yours faithfully



**Mike Fuge**  
Chief Executive Officer  
**Refining NZ**