



COVERSHEET

Minister	Hon Dr Megan Woods	Portfolio	Energy and Resources
Name of package	Publication Of The Electricity Price Review Options Paper	Date of issue	29 March 2019

List of documents that have been proactively released

Date	Title	Author
13 February 2019	<i>Publication Of The Electricity Price Review Options Paper</i>	<i>Office of the Minister of Energy and Resources</i>
13 February 2019	<i>Electricity Price Review: Publication of Options Paper – Minute of Decision</i>	<i>Cabinet Economic Development Committee</i>

Information withheld

No parts of the cabinet paper and minute have been withheld

In Confidence

Office of the Minister of Energy and Resources
Chair, Cabinet Economic Development Committee

PUBLICATION OF THE ELECTRICITY PRICE REVIEW OPTIONS PAPER

Proposal

1. This paper asks the Cabinet Economic Development Committee to note the Electricity Price Review's (the Review) intention to publish its options paper.
2. A summary of the Review and its options paper is given below. The options paper is attached at Annex One.

Executive summary

3. The Review has prepared an options paper which outlines their early ideas to address the problems it identified with New Zealand's electricity sector in its first report.
4. The paper has been designed to test early solutions with stakeholders, before the Review submits its final recommendations to the Minister of Energy and Resources in May 2019.
5. The options the Review favour in the paper are designed to work as a package. Many of the options address the need for electricity prices to be fair and affordable, not just efficient and competitive. This is a unique feature of this review's terms of reference, as it has not featured in past reviews.

Background

6. In the context of rising residential electricity prices, a review of electricity prices was commenced. An independent panel of experts was appointed in April 2018 [APH-18-MIN-0039] and the Review started later that month.
7. The Panel and its Chair, Miriam Dean CNZM QC, were tasked with investigating whether the electricity sector, as it exists at present, is delivering a fair and equitable price to consumers.
8. The Panel were also asked to consider whether the electricity market and the regulatory framework will continue to be appropriate in the future, particularly with the emergence of new technologies.

9. The Review is structured into three stages. The first stage of work focused on determining facts and building evidence on issues in our electricity sector. These findings were published in the first report for discussion on 11 September 2018. It also released a detailed *Analysis of retail billing data* on 15 October 2018 to further inform its analysis of the issues facing the sector.
10. The second stage of work is focused on developing possible solutions to the issues highlighted in the first report. The Review has considered ways to improve the sector, and it intends to test these early ideas with stakeholders in a round of engagement following the publication of the options paper.
11. The third and final stage of the Review will be the development and presentation of final recommendations to the Minister of Energy and Resources in May 2019.

Summary of the options paper

12. The options paper considers 41 options. Many address the need for electricity prices to be fair and affordable, not just efficient and competitive. The paper is focused from the consumer's point of view and their say in the direction of the sector.
13. The report is divided in seven sections, with a number of options within each. As noted, the options are designed to act as a package and often work in tandem with each other. There are sometimes variations under an option where alternate means of addressing certain issues exist.
14. The options range from being relatively mild to much more interventionist. Under each option the Panel provide their position on whether they are in favour, not in favour or are undecided on that particular option.

Section A: Strengthen the consumer voice

15. This section contains two options to enhance and strengthen the consumer voice and ensure regulators and industry participants incorporate consumers' needs into regulatory and commercial decisions. These compliment other options contained in sections B and C.

Section B: Reducing energy hardship

16. This section contains eight options to address energy hardship. Some could provide immediate benefits and should be considered as a priority, whilst others require further analysis to understand their costs and benefits, and how they co-exist with other Government measures to tackle wider poverty issues.

Section C: Increasing retail competition

17. Section C contains seven options designed to increase retail competition and allow electricity consumers to attain a better deal; either through the provision of better information, through to the introduction of price caps to target excessive retail pricing. Other options focus on those consumers that are not inclined to switch retailers and receive the benefits of competition.

Section D: Reinforcing wholesale market competition

18. Section D contains five options to increase or reinforce competition in the wholesale electricity market. These options range across a spectrum of increased information disclosure, to making the voluntary hedge market mandatory, through to the more interventionist measure of splitting electricity generation and retailing businesses.

Section E: Improving transmission and distribution

19. This section contains nine options to improve the electricity transmission and distribution sector. Many of these options are directed at transmission and distribution pricing and how to limit consumers experiencing sudden price shocks. There are also more interventionist options directed at improving regulation, the scale of the sector and lowering transmission and distribution asset values, with the potential to lower overall consumer prices.

Section F: Improving the regulatory system

20. Section F has six options to improve the sector's regulation. These focus on the respective regulatory powers that the Commerce Commission and the Electricity Authority have, the functions that each entity performs, and whether there is merit in establishing a combined electricity and gas regulator. The latter option is somewhat beyond the Review's terms of reference, but they have opted to include it as an option.

Section G: Preparing for a low-carbon future

21. This section has four options for preparing for a low carbon future and the rapid changes in technology taking place. These are focused on encouraging innovation, ensuring a more co-ordinated approach by Government, and maintaining reliable security of supply for the future. We note that there has been and still is a large amount of work underway in this area; notably the Productivity Commission and the Interim climate Change Commission.

Additional Comment

22. There is also an additional commentary in regard to consumers of the distribution company The Lines Company (TLC) in the central North Island King Country area. Many of these consumers are in energy hardship and this has been brought to the fore by TLC's and the region's particular features and characteristics, including its low density coupled with above average levels of social deprivation. The Review's investigations into this issue are ongoing and it will seek industry consultation on this particular problem.

Publication of the report

23. The report attached is a final draft which may undergo some final minor edits after cabinet committee approval. I propose to authorise the publishing of the report on the Ministry of Business, Innovation and Employment's (MBIE) website after full Cabinet consideration.
24. The panel will then seek submissions on the report for approximately 4 weeks, closing around Friday 22 March 2019. The Review will then continue into phase three.

Consultation

25. I have met with members of the Electricity Price Review Panel on a number of occasions to discuss its options paper. It is intended to provide the public and industry with a range of options for improvements to the electricity sector, with a particular focus on consumer outcomes. It is my view that the report is sufficiently measured for this purpose. It has also been written to be understood by non-technical readers.
26. Where the Review has indicated a position on an option, this has been supported by the evidence gathering and analysis that has been undertaken as part of the first stage of the Review. I understand that the options development has been robustly informed by the extensive stakeholder engagement, as well as reference to submissions from the public and the industry.
27. A number of options in the report will be of high interest to stakeholders and I imagine it will generate a high number of submissions. I have advised the Panel of the importance of appropriate communications surrounding the publication of the report.
28. The report has been shared with the Department of the Prime Minister and Cabinet, Ministry for the Environment, Ministry of Social Development and The Treasury. Relevant sections of the report were shared with the Electricity Authority and the Commerce Commission for fact checking purposes.
29. This Cabinet paper was prepared by the MBIE and the following departments were consulted: Ministry for the Environment, Ministry of Social Development, Treasury and The Department of the Prime Minister and Cabinet.

Financial Implications

30. There are no financial implications associated with releasing the report for publication. Subsequent stages of the review will identify options for solutions that may have financial implications; if this is the case, they will be addressed in future cabinet papers.

Legislative Implications

31. There are no legislative implications associated with the release of this report.

32. Subsequent stages of the review will identify options for solutions that mean there are regulatory issues that need adjusting; if this is the case, they will be addressed in future cabinet papers.

Regulatory Impact Analysis

33. Regulatory impact analysis requirements do not apply at this stage. A regulatory impact statement will be prepared when policy decisions are sought.

Human Rights

34. No inconsistencies with the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993 have been identified.

Publicity

35. The Panel plans to release this report for publication on the MBIE website mid to late February 2019. Key stakeholders will be notified of its release.
36. I also plan to proactively release this Cabinet paper on MBIE's website, subject to redactions as appropriate under the Official Information Act 1982.

Recommendations

The Minister of Energy and Resources recommends that the Committee:

1. **note** the Electricity Price Review's options paper has:
 - 1.1. Developed a number of options for addressing the need for electricity prices to be fair and affordable, not just efficient or competitive.
 - 1.2. The options are broad and address all aspects of the electricity sector.
 - 1.3. The options are designed to act as a package and often work in tandem with each other.
 - 1.4. The options range from being relatively mild to much more interventionist.
2. **agree** to delegate authority to the Minister of Energy and Resources to release the report once final formatting has been completed, in late February.
3. **note** this Cabinet paper will be proactively released on the MBIE's website.

Authorised for lodgement

Hon Dr Megan Woods

Minister of Energy and Resources