

22 March 2019

Electricity Price Review Panel
c/- MBIE
Wellington
by email: energymarkets@mbie.govt.nz

SUBMISSION ON ELECTRICITY PRICE REVIEW OPTIONS PAPER

Introduction

- 1 Orion New Zealand Limited (**Orion**) welcomes the opportunity to comment on the “Electricity price review – options paper” (the **paper**) released by the price review panel in February 2019.
- 2 Overall, Orion considers that the paper presents a thoughtful, concise and well-balanced view of the issues and the possible responses to them. We are particularly supportive of improving the ways that hardship is dealt with.
- 3 The Electricity Networks Association (ENA) has also submitted on the paper. Orion endorses the ENA submission.
- 4 The remainder of our submission is in the appendix where we:
 - 4.1 Provide our views on the positions the panel has arrived at, and
 - 4.2 Provide additional comments that either support our view or suggest ways that some options could be implemented.

Concluding remarks

- 5 Thank you for the opportunity to make this submission. Orion does not consider that any part of this submission is confidential. If you have any questions please contact Bruce Rogers (Pricing Manager), DDI 03 363 9870, email bruce.rogers@oriongroup.co.nz.

Yours sincerely



Rob Jamieson
Chief Executive

Appendix: Orion responses on each option

At a glance:

- We support the panel’s view
- We do not support the panel’s view, or suggest a particular approach where the panel was undecided
- We are neutral or undecided

Option	Orion view / comments
A	
<p>A1 Establish a consumer advisory council</p>	<p>We strongly support the panel’s view.</p> <p>The charter / terms of reference of the council need to be carefully thought through. Particular care needs to be taken in establishing how the proposed council’s views are to be taken into account by participants that are required by other legislation or regulations to carry out consumer consultation. We presume the council’s views will have some standing in those situations, but will not be determinative.</p> <p>Perhaps a GPS could clarify some aspects of this, for example by recording an expectation that participants have regard to the council’s views.</p>
<p>A2 Ensure regulators listen to consumers</p>	<p>The panel is currently undecided. We believe the panel should decide to not recommend this.</p> <p>Establishment of the council under A1 should provide a louder voice if there is currently a gap in this area. It seems prudent to wait and see how this plays out.</p> <p>In any case, regulators are exposed to customer views via various formal and informal processes, and the decisions of the regulated parties are also subject to consumer influence.</p>
B	
<p>B1 Establish a cross-sector energy hardship group</p>	<p>We support the panel’s view.</p>

	We note that coordination across new and existing agencies will be important. There is some risk that accountabilities will be blurred.
B2 Define energy hardship	We support the panel’s view. The definition and quantification of energy hardship will be central to designing and monitoring the various initiatives to address it.
B3 Establish a network of community-level support services to help consumers in energy hardship	We support the panel’s view. It will be important to build on the capability and trust such organisations already enjoy.
B4 Set up a fund to help households in energy hardship become more energy efficient	We support the panel’s view, in principle. There is some risk that this cuts across or duplicates initiatives that are already in place so coordination will be important.
B5 Offer extra financial support for households in energy hardship	We support the panel’s view. Should build on winter energy payment approach with greater targeting.
B6 Set mandatory minimum standards to protect vulnerable and medically dependent consumers	We support the panel’s view. It is important to keep the focus on issues of financial hardship and the risk and possible consequence of disconnection for non-payment.
B7 Prohibit prompt payment discounts but allow reasonable late payment fees	No comment.
B8 Explore bulk deals for social housing and/or Work and Income clients	We support the panel’s view, in principle. It will be important to coordinate with other initiatives. For example if the switching problem for customers in hardship is solved the approach here might be less important.
C	
C1 Make it easier for consumers to shop around	We support the panel’s view.

	<p>In terms of price comparison we believe it would be useful for Powerswitch to run some tests on what difference data makes to the comparison outcome (and of course this may already be done). This could be facilitated in at least two ways:</p> <ul style="list-style-type: none"> • by Powerswitch doing data analytics on all the comparisons done to determine what factors make a material difference to the outcome and in particular the identification of the cheapest retailer, • by running multiple anonymised datasets across the comparison engine and seeing how sensitive the outcome is to variations in the underlying data. <p>We also note that there are providers of price comparison services other than Powerswitch. Their interests should be acknowledged. Perhaps one way to enable ongoing competition for this service is to require the publically funded provider to allow any other party access to the pricing data they maintain at low or zero cost.</p> <p>As we noted at one of the workshops, we are not sure that Powerswitch can provide much assistance to customers choosing amongst possible price plans, which is not the same as choosing the cheapest retailer for their current plan. This is not a criticism of Powerswitch, just an observation that plan comparison involves consideration of a range of other factors, including possible additional (retail and electrical) costs to effect the change.</p>
<p>C2 Include information on power bills to help consumers switch retailer or resolve billing disputes</p>	<p>We support the panel’s view, in principle.</p> <p>Given current trends, bills may not be the best way to achieve this. With many and perhaps most bills being received electronically we doubt many consumers look at the bill in any detail.</p>
<p>C3 Make it easier to access electricity usage data</p>	<p>We support the panel’s view.</p> <p>It is important though to distinguish between consumer access to their data and third party access to that data. It is reasonable, and likely a requirement that holders of information take reasonable steps to confirm appropriate authorisation before releasing it to third parties.</p>

	<p>We also note that not all retailers obtain or hold interval data. The ideal of real time access to historical interval data could be a very costly step. It is unclear what value it would add to customer switching decisions, hence the idea of ‘testing’ Powerswitch in our response to C1.</p>
C4 Make distributors offer retailers standard terms for network access	<p>We do not support the panel’s view.</p> <p>The DDA as currently conceived will, in Orion’s view, raise a number of significant issues. Given that the EA is consulting on this, and will have to carry out a cost benefit analysis for any associated Code changes, we believe the panel should be neutral on this and simply refer to the EA process. We do not believe the panel is in a position to judge whether a DDA is a good idea particularly when the detail is still being worked through.</p>
C5 Prohibit win-backs	<p>No comment.</p>
C6 Help non-switching consumers find better deals	<p>We support the panel’s view.</p> <p>Perhaps the focus should be on those in hardship or those who might for other reasons struggle to shop around as this option does seem to involve some socialisation of otherwise private search costs.</p>
C7 Introduce retail price caps	<p>We support the panel’s view.</p> <p>Retail price caps are highly likely to have unintended consequences: most notably, higher prices.</p>
D	
D1 Toughen rules on disclosing wholesale market information	<p>We support the panel’s view.</p> <p>We note there are existing rules that might not be being adequately enforced.</p>

<p>D2 Introduce mandatory market-making obligations</p>	<p>No comment.</p>
<p>D3 Make generator-retailers release information about the profitability of their retailing activities</p>	<p>We support the panel’s view.</p> <p>It will be useful to consider what additional information is needed (there are already segmental financial reporting obligations on listed companies) and perhaps more importantly, how timely the information needs to be. Market conditions are dynamic, so knowing what the situation was for a year that ended six months ago may not be particularly helpful in assessing a current situation.</p>
<p>D4 Monitor contract prices and generation costs more closely</p>	<p>We support the panel’s view.</p> <p>This could be made routine, say monthly reporting. We note though that there are some private providers of this sort of service already.</p>
<p>D5 Prohibit vertically integrated companies</p>	<p>We support the panel’s view that this should not be progressed at this stage.</p> <p>D1 to D4 need to be given time to work.</p>
<p>E</p>	
<p>E1 Issue a government policy statement on transmission pricing</p>	<p>We support the panel’s view.</p> <p>We believe the GPS needs to set out the government’s expectations around:</p> <ul style="list-style-type: none"> • whether transmission pricing should include a forward looking price signal (we think it should) • whether transmission pricing changes should reallocate the cost of past investments (we urge caution in doing this) • whether transmission pricing is seeking to price a service irrespective of the specific assets used to provide it, and the age of those assets (we think it should)

	<ul style="list-style-type: none"> • whether the reallocation of the cost of the HVDC from South Island generators to distributors - and therefore end consumers – is fair (we think it is not).
<p>E2 Issue a government policy statement on distribution pricing</p>	<p>We support the panel’s view.</p> <p>Content is obviously critical, but for us the key element is a public government statement and commitment to price structure changes across the sector, while acknowledging the inevitable wealth transfers that will result.</p> <p>The GPS would confirm that transition and management of bill shocks is a critical success factor. It would also commit the government to measures that assist those in hardship that are adversely affected to manage those effects.</p> <p>The GPS could confirm a time frame over which pricing changes should occur. We have no problem with this being quite a long period (say five years or even more) given that the needs of those in hardship that are adversely affected must be given significant weight.</p> <p>We note, in terms of the low fixed charge (LFC) regulations, that these are fundamentally retail price regulations, so any GPS must encompass some aspects of retail pricing as well.</p>
<p>E3 Regulate distribution cost allocation principles</p>	<p>The panel is undecided on this. We do not support regulation of cost allocation principles.</p> <p>We are happy to work with officials so that they better understand current approaches.</p>
<p>E4 Limit price shocks from distribution price increases</p>	

	<p>In any case the key driver of price (or bill) shocks will be the phasing out of the LFC regulations. We recommend that this phasing be included in the regulations themselves, for example by giving the regulations a termination date sometime in the future together with a series of steps, for example of the maximum fixed charge allowed under the regulations each year leading up to the termination.</p>
<p>E5 Phase out low fixed charge tariff regulations</p>	<p>We strongly support the panel’s view.</p> <p>Also see our response to E2 and E4.</p> <p>We completely understand the political difficulty in phasing out these regulations. The move away from consumption based pricing, at least for most residential customers, represents a fundamental change in industry regulation and its impact on them. That it is, in our view, essential to New Zealand investing wisely in new technology while not imposing undue costs on more vulnerable consumers does not make it an easy decision.</p> <p>A second-best solution that might be politically more palatable - and that the panel could recommend as an alternative - would be changing the regulations so that they do not apply where a connections has distributed generation.</p> <p>We are absolutely committed to doing whatever we can to assist with this transition which requires coordinated action on a number of fronts.</p>
<p>E6 Ensure access to smart meter data on reasonable terms</p>	<p>We support the panel’s view.</p> <p>Just to clarify, this is distributor access. It is not the same as consumer or third party access.</p> <p>We note significant industry work is going into this and we applaud ERANZ leadership.</p> <p>Retailers have already, helpfully, agreed that where data is not procured by retailers via their contracts with MEPs (for example power quality data) the distributor is free to contract with the MEP for that data.</p>

<p>E7 Strengthen the Commerce Commission’s powers to regulate distributors’ performance</p>	<p>We do not support the panel’s view.</p> <p>We believe the Commission already has significant tools at its disposal, and in any case it has effective mechanisms of its own for proposing changes to its powers.</p> <p>The Commission already has enforcement powers under the Commerce Act available to it. The Commission should publish enforcement guidelines to provide transparency and a framework for process around addressing breaches and likely application of the enforcement penalties available to them.</p>
<p>E8 Require small distributors to amalgamate</p>	<p>We support the panel’s view.</p>
<p>E9 Lower Transpower and distributors’ asset values and rates of return</p>	<p>We support the panel’s view.</p>
<p>F</p>	
<p>F1 Give the Electricity Authority clearer, more flexible powers to regulate network access for distributed energy services</p>	<p>We do not support the panel’s view (in part)</p> <p>It is unclear in the paper what the problem is.</p> <p>That parties have sought to clarify, via the courts, what a regulator can and cannot do, particularly with respect to another regulators areas of responsibilities, is not in our view evidence of a problem.</p> <p>We do however agree that it would be useful for the two regulators, with industry and MBIE involvement, to agree a process for resolving any boundary issues that emerge.</p>
<p>F2 Transfer the Electricity Authority’s transmission and distribution-related regulatory functions to the Commerce Commission</p>	<p>No comment.</p>
<p>F3 Give regulators environmental and fairness goals</p>	<p>We support the panel’s view (in part)</p>

	<p>We note that, with respect to network revenue recovery at least, it is a zero sum game. There is some risk that “protecting” one group of consumers ignores the inevitable impact on other groups.</p> <p>We are not sure what the evidence is that “household and small business consumers” need more protection, but in any case we are unsure if the panel is correct in effectively stating that it is consistent with the Authority’s statutory objective. To us the objective looks to apply to consumers in an aggregate rather than a segmental sense.</p> <p>In any case we consider that the measures under B and C will go a long way to assisting those in hardship.</p>
<p>F4 Allow Electricity Authority decisions to be appealed on their merits</p>	<p>No comment.</p>
<p>F5 Update the Electricity Authority’s compliance framework and strengthen its information-gathering powers</p>	<p>No comment.</p>
<p>F6 Establish an electricity and gas regulator</p>	<p>No comment.</p>
<p>G</p>	
<p>G1 Set up a fund to encourage more innovation</p>	<p>We are unsure.</p> <p>We question what gap is being filled here. We note that a number of agencies, for example EECA, have funds available.</p> <p>Separately, the Commerce Commission is considering ways to better accommodate distributor innovation as part of the DPP reset process, so it is already on their radar in that context. A draft decision on reset is expected in May.</p>
<p>G2 Examine security and resilience of electricity supply</p>	<p>We are unsure.</p>

	<p>We doubt the Authority is best placed to undertake such a review. It looks more like the core business of MBIE or Treasury’s infrastructure unit?</p> <p>We note recent issues with electricity supply have shown the strong influence of gas supply on that. This reinforces the need for wider consideration.</p>
<p>G3 Encourage more co-ordination among agencies</p>	<p>We support the panel’s view.</p> <p>We believe this coordination needs to be across government and encompass social welfare and environmental agencies as well as just the industry specific regulators.</p> <p>For example, social welfare agencies will have a particularly important role in the managed phase out of the low fixed charge regulations.</p>
<p>G4 Improve the energy efficiency of new and existing buildings</p>	<p>We are unsure.</p> <p>We note there is significant activity in this space already.</p>