

23 October 2018

Miriam R Dean CNZM QC
Chair, Electricity Price Review
c/o Secretariat, Ministry of Business, Innovation and Employment
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via email: energymarkets@mbie.govt.nz

Dear Chair

Electricity Price Review

The BusinessNZ Energy Council is pleased to have the opportunity to provide a submission to the Electricity Price Review Panel on its first report for discussion entitled 'Electricity Price Review Hikihiko Te Uira' dated 30 August 2018, and released on 11 September, 2018.¹

In the context of the Electricity Price Review's terms of reference, you have been asked to complete the four tasks listed below, and that your first report addresses items 1 and 2:

1. examine the state of the electricity sector;
2. report your findings;
3. seek feedback on those findings; and
4. recommend improvements to the Government.

In your first report, you ask for views on your assessment of 29 aspects of the industry relating to the bundled electricity price.

In order to assist us in responding, we commissioned an independent report to assess the state of the sector (including electricity prices) using a framework used previously. This framework of assessing outcomes from the electricity sector is to analyse those outcomes against the following five public policy objectives—objectives that are enduring for policy makers across countries and time:

- security of supply – in the sense of supply meeting demand without involuntary cutting supply, or a heightened threat of cuts to supply;

¹ Background information on the BusinessNZ Energy Council is attached in Appendix One.

- efficient operation of the wholesale and retail sectors, with competition a primary tool for achieving efficiency;
- efficient use of, and investment in, long life assets (including transmission and distribution), guided by economic regulation
- meeting community or social minimums, including universal access to electricity and support for those who can't pay; and
- integrating environmental objectives while mitigating the impact on the industry of achieving these objectives, with a current focus on climate change.

Having undertaken this analysis, we asked the authors to check the analysis in your first report against their findings. As you might expect, there is agreement on some of the Review Panel's findings and disagreement on others. A summary of the findings, set in the context of the Review Panel's questions posed to submitters, is attached to this letter as Appendix Two. Where the authors' findings don't address questions asked by the Review Panel we simply note 'No comment'.

We commend the attached report from the Sapere Research Group to the Review Panel for its consideration. Being based on an assessment of a set of desirable outcomes, we consider that it can serve as a useful check on the work of the Review Panel and as such act as a helpful pathfinder towards those issues whose resolution will most likely yield the outcomes the Government hopes for based on the terms of reference.

If there's anything we can do to assist the Review then please do let me know. Similarly Sapere Research Group would be happy to expand on or explain further anything in the attached report that wasn't clear or that the review team wished to follow up on.

Yours sincerely



John A Carnegie
Executive Director
BusinessNZ Energy Council

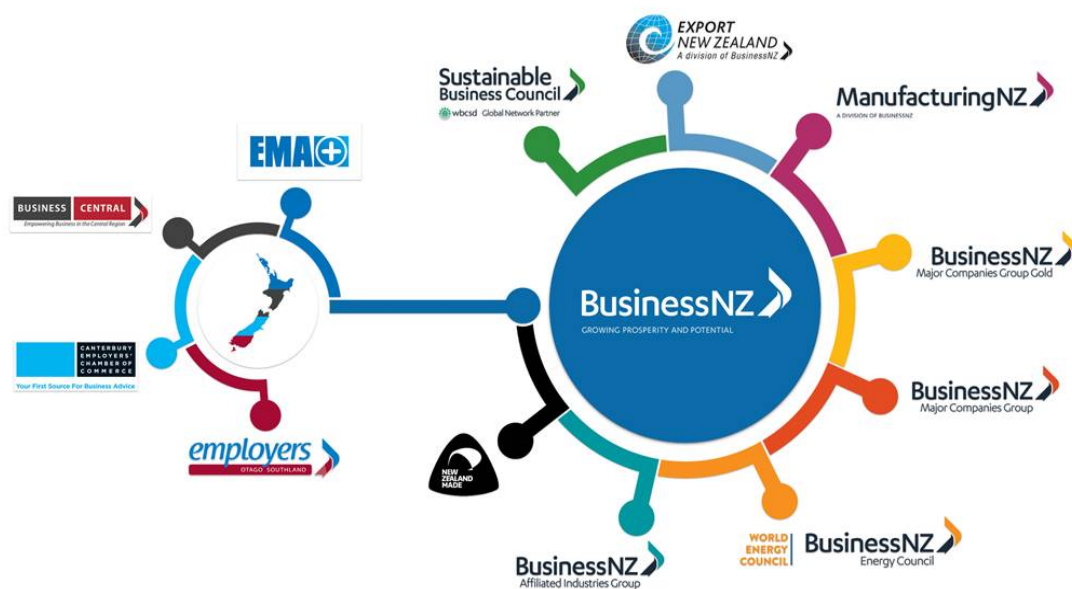
APPENDIX ONE: ABOUT BUSINESSNZ

[BusinessNZ](#) is New Zealand's largest business advocacy body, representing:

- Regional business groups [EMA](#), [Business Central](#), [Canterbury Employers' Chamber of Commerce](#), and [Employers Otago Southland](#)
- [Major Companies Group](#) of New Zealand's largest businesses
- [Gold Group](#) of medium sized businesses
- [Affiliated Industries Group](#) of national industry associations
- [ExportNZ](#) representing New Zealand exporting enterprises
- [ManufacturingNZ](#) representing New Zealand manufacturing enterprises
- [Sustainable Business Council](#) of enterprises leading sustainable business practice
- [BusinessNZ Energy Council](#) of enterprises leading sustainable energy production and use
- [Buy NZ Made](#) representing producers, retailers and consumers of New Zealand-made goods

BusinessNZ is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy and services for enterprise, BusinessNZ contributes to Government, tripartite working parties and international bodies including the International Labour Organisation ([ILO](#)), the International Organisation of Employers ([IOE](#)) and the Business and Industry Advisory Council ([BIAC](#)) to the Organisation for Economic Cooperation and Development ([OECD](#)).



APPENDIX TWO: SUMMARY TABLE

| | Response | Sapere Report reference |
|---|--|--------------------------------|
| 1. What are your views on this assessment of consumers' priorities? | We agree there is no such thing as a typical consumer. The notion of consumers typically wanting a reliable supply of electricity and fair and affordable <i>prices</i> misses a critical point. Consumers want affordable <i>costs</i> which includes price and volumes. Prices may be fair in the sense of reflecting the bundled cost of supply, and yet the cost of maintaining a healthy home can be unaffordable for some households because of the volume of electricity required to do so. | Chapter 5 |
| 2. What are your views on whether consumers have an effective voice in the electricity sector? | No comment | |
| 3. What are your views on whether consumers trust the electricity sector to look after their interests? | No comment | |
| 4. What are your views on this assessment of the makeup of recent price changes? | No comment | |

| | Response | Sapere Report reference |
|--|---|--------------------------------|
| 5. What are your views on this assessment of how electricity prices compare internationally? | <p>Figure 9 of the Review only picks up on the price component of electricity bills, and ignores the volumes of electricity required to live healthily in New Zealand houses. Philippa Howden-Chapman et al (2012) write:</p> <p><i>About three-quarters of New Zealand’s domestic energy use is in the form of electricity; this is much higher than OECD norms</i></p> <p><i>It seems clear that of the high percentage of people who are potentially in fuel poverty in New Zealand, very few actually spend the necessary proportion of their income on heating needed to attain the indoor environment which will protect their health</i></p> <p><i>Unlike other OECD countries that have also identified the problem of fuel poverty, New Zealand has been too slow to recognise the problem’s antecedents—inadequate standards for existing houses, rising income inequality, and the need to protect low-income households from the rising price of heating fuels.²</i></p> | Section 5.7 |
| 6. What are your views on the outlook for electricity prices? | <p>We think that the Review is incorrect to dismiss the possibility that the cost of maintaining security of supply standards, with very high levels of renewable generation, will lead to higher retail prices. Even with lower costs for some technologies and greater use of DER to maintain security of supply, we expect that the cost of maintaining security of supply is likely to rise if current thermal plant in that role is too quickly replaced with low emission generation alternatives.</p> <p>This is consistent with the WEC energy trilemma that observes that generation, security of supply and cost should always be looked at simultaneously.</p> | Section 2.6 |

² Philippa Howden-Chapman, Helen Viggers, Ralph Chapman, Kimberley O’Sullivan, Lucy Telfar Barnard, Bob Lloyd (2012) Tackling cold housing and fuel poverty in New Zealand: A review of policies, research, and health impacts.

| | Response | Sapere Report reference |
|---|--|--------------------------------|
| 7. What are your views on this assessment of the size of the affordability problem? | Affordability and fuel poverty are treated as the same problem but they are not. With respect to affordability, a two-tier market is not an indicator of a lack of competition. With respect to fuel poverty, the industry has not had a strong focus on this issue and could do more working in collaboration with regulators and government. | Chapter 5 |
| 8. What are your views of this assessment of the causes of the affordability problem? | See above | |
| 9. What are your views of this assessment of the outlook for the affordability problem? | See above | |
| 10. What are your views on this assessment of generation sector performance? | We agree with the Review that competition has been effective in restraining contract prices. | Section 3.4 |
| 11. What are your views of this assessment of barriers to competition in the generation sector? | No comment | |
| 12. What are your views on whether current arrangements will ensure sufficient new generation to meet demand? | The issue is not simply whether current arrangements will ensure sufficient new generation to meet demand. The issue is whether there will be sufficient generation to meet demand and maintain security of supply, especially if very low emissions are planned for the electricity sector. Under some scenarios of the path to low emissions the cost of security of supply could lead to significant price rises.. As above, this reflects the concept of the energy trilemma where by environmental goals, security of supply and the cost of supply should always be considered simultaneously. | Chapter 2 |
| 13. What are your views on this assessment of retail sector performance? | Retail competition seems to be thriving and based on our reading the Review accept that. | Section 3.1 |

| | Response | Sapere Report reference |
|---|--|--------------------------------|
| 14. What are your views on this assessment of barriers to competition in retailing? | See above | |
| 15. What are your views on this assessment of vertical integration and the contract market? | The issue, if there is one, is whether vertically integrated generator retailers are manipulating competitors' hedge costs relative to their own retail offerings. No evidence of foreclosure or price squeezing in this sense has been presented to the Review but if there was there are a series of progressively draconian measures that could be introduced to address the state of the hedge market. | Section 3.5 |
| 16. What are your views on this assessment of generators and retailers' profits? | The measure adopted by the Review does not inform an assessment of whether profits are excessive or not. In a workably competitive market entry and exit of generation capacity would drive scarcity rents to equal (on average) the cost of new capacity over time. If scarcity rents were to materially exceed the cost of new capacity over the life of those assets then this may be an indicator of excess profits. | Section 3.4 |
| 17. What are your views on the process, timing and fairness aspects of the TPM? | | Section 4.1 and 4.2 |
| 18. What are your views on this assessment of distributors' profits? | No comment | |

| | Response | Sapere Report reference |
|---|---|--------------------------------|
| 19. What are your views on this assessment of barriers to greater efficiency for distributors? | <p>We agree that distribution pricing should more accurately reflect the cost of distribution networks. We also think that owners of DER should be able to compete to provide distribution services, or compete to provide services in the contestable market.</p> <p>Distributors are actively working towards more cost-reflective tariffs (as advised to the Chair of the Panel by the Distribution Pricing Working Group 27 September 2018) and the Authority is pursuing initiatives that are encouraging distributors to do so. Also, the Authority's Innovation and Participation Advisory Group is working actively towards unravelling the individual problems associated with equal access to trading opportunities for DER owners. They are expected to make recommendations on steps to open access to the Authority board late in 2018. The IPAG includes a representative from the Commission and the recommendations will include steps the commission might take.</p> | Chapter 4 |
| 20. What are your views on this assessment of the allocation of distribution costs? | No comment | |
| 21. What are your views on this assessment of challenges facing electricity distribution? | As per comments for question 19 | |
| 22. What are your views on this assessment of the impact of technology on consumers and the electricity industry? | The Authority and the Commerce Commission are working with Transpower, distributors and retailers to ensure that barriers to the uptake of new technologies are reduced and that consumers can benefit from new technologies. | Section 4.1 |
| 23. What are you views on this assessment of the impact of technology on pricing mechanisms and the fairness of prices? | This is a good summary. The Authority and the Commission are aware of these developments and are working together to ensure that the benefits of these technologies will flow to consumers either directly through monetising flexibility or indirectly through less investment and lower costs for network owners | Section 4.1 |

| | Response | Sapere Report reference |
|--|---|--------------------------------|
| 24. What are your views on how emerging technology will affect security of supply, resilience and prices? | <p>DER will both cause problems and be a resource to solve its own security-of-supply and power system challenges. DER can be installed in a way that exacerbates problems or in a way that provides lines and energy services. As above, the regulators are working together and with distributors especially to open access for the benefits of DER to security of supply.</p> <p>Where we disagree with the review is the relationship between greater renewable generation, maintaining security of supply and the cost of doing that. We don't think the increased deployment of DER or a lower cost for wind turbines will necessarily be enough to offset the cost of achieving security of supply with high levels of renewable electricity generation.</p> | Section 2.6 |
| 25. What are your views on this assessment of the place of environmental sustainability and fairness in the regulatory system? | <p>The Review reiterates the Authority's current arm's-length position with regards to emissions outcomes in electricity. This is inconsistent with the fact that all sectors expected to play a role in de-carbonising NZ's economy - of which electricity is one - will have to be part of the solution. Our view is that Authority will need to consider electricity emissions outcomes in its decision-making. We aren't saying this means the sector would be required to meet fixed de-carbonisation targets but we are arguing that the long terms interest of consumers includes the sector taking emissions reductions implications into account in its decision making. That responsibility for the sector will be made increasingly clear.</p> | Chapter 6 |
| 26. What are your views on this assessment of low fixed charge tariff regulations? | No comment | |

| | Response | Sapere Report reference |
|--|--|--------------------------------|
| 27. What are your views on this assessment of gaps or overlaps between the regulators? | We agree with the Review that there are no clear gaps or overlaps between regulators. We note that the Commission and Authority are working closely together, through the IPAG for example, to free up the market for DER owners to identify and take advantage of opportunities, including with both the regulated businesses and the contestable market. | Chapter 4 |
| 28. What are your views on this assessment of whether the framework and regulators' workplans enable new technologies and business models to emerge? | The Commission and Authority are working closely together through the IPAG to free up the market for DER owners to identify and take advantage of opportunities including with both the regulated businesses and the contestable market. | Chapter 4 |
| 29. What are your views on this assessment of these other matters for the regulatory framework? | No comment | |