electricity networks association

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**Miriam Dean QC**
**Chair**
**Electricity Review Panel**
**C/- Ministry of Business, Innovations and Employment,**
**Wellington**

By email to:energymarkets@mbie.govt.nz

**RE: ENA Submission on the Electricity Pricing Review**

Dear Miriam,

Electricity use is going through a period of unprecedented change. It is more important than ever that the sector has the confidence of the New Zealand public. And that its structure, operations and practices are serving both consumers' interests and the interest of New Zealand as a whole.

In this context, the Electricity Networks Association (ENA), an industry association of 27 electricity distribution businesses (EDBs), welcomes the government price review. We're pleased to have the opportunity to respond to the pricing review Panel's issues paper.

ENA acknowledges there is a widespread perception among consumers that the price of electricity has risen significantly over recent years, and some concern that this increase in prices has been excessive or not justified. We welcome thorough examination of this issue by the Panel.

While there will always be improvements that can be made to markets, we think it important to acknowledge that New Zealand's electricity market is performing well in many respects – but there is always scope for improvement:

- Despite our geographic isolation and low density of our customer base, New Zealand ranks well in OECD comparisons of electricity prices versus other developed nations;

- While other countries struggle to adjust to a low-carbon electricity market, the expectation in New Zealand is that we can add further renewable generation capacity at the same cost as existing generation, and continue to increase the proportion of renewables in the electricity market. New Zealand's relative ranking is likely to improve as a result;

- The regulatory framework for electricity distribution businesses is, in the sector's estimation and by the Panel's own admission, functioning well for the benefit of New Zealand consumers, but certain aspects could be improved.

These certain aspects will require ongoing enhancements to the market to improve efficiency and effectiveness, especially as New Zealand embraces new technologies. Tackling regulatory overlap is also another potential area of improvement explained in our submission.

Regardless of the Panel's finding in relation to the facts and merits of price rises, the ENA accepts there is a genuine problem with energy affordability that affects a segment of consumers. We note the Panel's view that there is a two-tier electricity market in New Zealand that has rewarded consumers who are actively engaged in the competitive market while penalising more passive consumers who often lack the knowledge, ability or inclination to 'shop around' for the best deals.

ENA welcomes any practical and effective recommendations the Panel might make to address this problem, and, based on overseas learnings, we have put forward some suggestions in our submission.

Tuning to climate change, as New Zealand ramps up efforts towards de-carbonisation of the economy – relying to a large extent on electricity to replace fossil fuels in transport and industrial processes – it's critical that the industry is ready and able to meet the challenges this creates.

New consumer technology is giving consumers greater ability to produce, rather than just consume, electricity, as well as take part in control and management of the electrical power system. This two-way flow of both energy and information also fundamentally changes the traditional role of distribution networks.

ENA is leading a significant reform initiative that we believe will deliver a more secure energy future for residential electricity consumers, particularly those currently in energy hardship. New technologies such as solar, batteries and EVs can help many consumers lower their personal electricity charges, however the impact on network costs is less certain (for example, poles and wires are still needed for customers with small-scale generation that continue to require a supply from the network at times) and networks may need to be upgraded to allow for peak-time charging for customers with EVs, for example.

However, there is also scope for technologies such as grid connected batteries, controlled EV chargers, and smart network management to increase EDB efficiency.

Under current pricing approaches, consumers without the new technologies (who are more likely to be low-income households) would end up shouldering more of the costs. The ENA is leading a significant reform effort to revisit the way network costs are recovered to avoid this effect.

The ENA is confident that its members on the distribution side of the electricity sector are well-placed to meet these current and future challenges and help ensure the benefits of potentially revolutionary change are shared by all consumers and New Zealand as a whole.

Finally, a disclaimer: in the context of the Electricity Price Review, it has not been possible for the ENA to achieve consensus in responding to all the questions posed in the panel's template submission. As such, some individual EDBs will also put forward their own views on the many questions raised in the issues paper, which may differ from the views expressed in this submission.

On the next page, I attach the ENA's 18 recommendations to the Panel.

Yours faithfully,

**Ken Sutherland**
Chair
Electricity Networks Association

**Summary of Recommendations***

**The following 18 recommendations are in the ENA's submission to the Electricity Price Review**

**Recommendations – Consumers and Prices (part 3)**

3.1. That the Panel investigates non-regulatory options for supporting the consumer voice in New Zealand – possibly an electricity consumer 'ambassadorial' role or similar.

3.2. That the Panel encourages greater consumer access to credible, independent information to consumers about electricity prices, technologies, and energy conservation options to lower energy costs.

3.3. That the Winter Energy Payment be reviewed so it is targeted at those in energy hardship – which needs to be well-defined by a broad set of relevant factors (e.g. income, energy costs, quality of housing, household make-up, etc).

**Recommendations – Industry (part 4)**

4.1. That the government or the relevant regulator carry out further research and data analysis into the 'two-tier' market of consumers, including the characteristics of consumers who switch and don't switch, and review solution options used successfully overseas.

4.2. ENA acknowledges concerns that 'saves' and 'win-backs' are an impediment to full and effective retail competition and consumer switching. We recommend and support the Electricity Authority's continuing investigation into the practice.

4.3. That the Panel recommends resolving long-running concerns about liquidity in the wholesale electricity market and that improving the depth and resilience of the contract market should be given higher priority.

4.4. That the Panel notes concerns raised about gentailer transfer pricing, and promotes solutions to improve transparency of generator and retailer financial reporting.

4.5. That the Electricity Authority seeks pragmatic solutions that will enable it to complete its review of the transmission pricing methodology as soon as possible.

4.6. That the Panel recommends that EDBs commit to introducing modified distribution pricing options as soon as practicable. This will be dependent upon:

- The government having revoked the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 (refer recommendation 5.3);
- That the metering equipment (i.e. smart meters) necessary to support these new tariffs is installed, and consumption data is available.

- Effective customer engagement, and retailers supportively passing new distribution charges to their customers.

4.7. That the Panel recommends an open access regime for smart meter data (i.e. consumption and network data) with standardised terms and conditions, subject to commercial agreement between all parties.

4.8. That the Panel recommends EDBs carry out a review, with support from ENA, to examine cost allocation, to determine if residential consumers are being allocated a fair share of non-network or shared costs under their existing pricing methodology. The output of review(s) will be made publicly available.

**Recommendations – Technology (part 5)**

5.1 That the Panel strongly encourages deployment of smart meters to as many New Zealand consumers as practicable.

5.2. That the Panel recommends the New Zealand Emissions Trading Scheme is the appropriate way for the government to encourage economy-wide decarbonisation at the lowest possible costs.

5.3. The ENA recommends that the Electricity (Low Fixed Charge Tariff option for Domestic Consumers) Regulations 2004 should be revoked as a matter of urgency. ENA and EDBs are willing to commit to lead a process, with government and other industry participants (e.g. retailers), to design mechanisms to mitigate any negative impacts of this transition.

5.4. That the responsibility for the regulation of any matters related to electricity distribution should be transferred from the Electricity Authority to the Commerce Commission.

5.5 That no regulatory intervention be made while markets enabled by new technologies (e.g. PV, electric vehicles and charging infrastructure, domestic and grid-scale batteries, etc) are still emerging. If and when concrete, real-world evidence emerges of some negative effect on new markets due to EDB interaction, it would then be reasonable to reassess the regulations around 'network access'.

5.6. That the Panel recommends that the regulatory framework supports the ability to improve standards, codes and guidance in a timely way, to avoid barriers to technology uptake or business innovation.

5.7. That the Panel supports a review of the Electricity (Hazards from Trees) Regulations 2003, which results in more effective methods of managing vegetation at risk of disrupting electricity supply, and reduces network operating costs (and therefore consumer bills).