



1 February 2016

Submissions
Electricity Authority
Wellington

EVOLVING TECHNOLOGIES FOR PRICING DISTRIBUTION SERVICES

The Electra Trust is responding to the personal invitation from the Electricity Authority chairman of 3 November seeking our views on this consultation paper.

As a starting point we support the submission from our umbrella organisation, Energy Trusts of New Zealand, which reflects our interests.

This Electra Trust submission takes a helicopter approach in looking at the strategic outlook for an electricity distribution industry which faces change created by:

- pricing pressures on consumers leading to some reduced consumption
- successful energy conservation marketing
- the emergence of alternative supply options
- technology changes within the industry
- electronic management advances giving consumers more direct control
- consumers who are increasingly aware of choices

The outcome could be a static or reducing level of consumption which will put more pressure on the ability of distributors to maintain or improve established and new supply services as operating costs go up.

Overshadowing all this is a fractured generation/retail/distribution industry which, because of vested interests and imposed silos, does not work well together to plan for the future.

While we recognise that the Electricity Authority and Commerce Commission are doing the homework on the changing environment, they tend to pick up the threads retrospectively rather than lead proactively

The changes listed above have been known about for some time yet only in December 2015 has the Authority bitten the bullet and begun to consult – allowing a very short timeframe over the summer holidays for submissions.

Demand Management

It is a matter of concern that the Authority is again putting pressure on the distribution sector to deliver solutions without first seeking to establish for its own benefit what consumers actually want.

The Authority's stated goals are to (a) promote competition by making it easier for consumers to make better energy choices, (b) improve consumer confidence in the information they are getting to get better engagement, and (c) do better monitoring to know what is going on in the industry.

All good high level stuff – but how does that translate in terms of practical outcomes which could be pulled together more effectively by engaging more directly with EDBs and consumers at all levels to get a firmer grasp of day-to-day realities and practical solutions.

Both the Electricity Authority and Commerce Commission appear to prefer an arms-length approach with EDBs which is not helpful.

For example, we all want a demand management system which benefits our consumers but we believe the restrictive and costly level of regulatory activity – which can deter creative development – may lead to direct conflict with converging technologies.

We look to the Electricity Authority now for ways to:

- collaborate more actively with EDBs rather than maintain its arms-length
- lighten the regulatory framework and open the way for positive change
- display leadership and vision in an era of increasing choice in supply
- encourage new ways of improving demand side management
- offer incentivised opportunities for change which benefits consumers

The answers to these points will affect the way EDBs and consumers invest in, or balance, traditional power distribution sources with evolving technologies.

While the Electricity Authority is considering the implications of new technologies in terms of distribution pricing arrangements which provide long term benefits to consumers, there can be no one-size fits all for EDBs which differ in scale and geographic location.

Recommendation

That the Electricity Authority engages more directly with EDBs and consumers to meet the intent of its own stated goals; to communicate more effectively on forward planning; and demonstrate to consumers that it is working collaboratively with EDBs before taking entrenched positions.

Distribution Pricing

EDBs are operating in an increasingly risky investment environment and the greatest care needs to be taken to avoid creating financial imbalances which jeopardise efficient operational management and future development during an era of change.

The balance between maintaining existing power line networks, capital equipment replacement, and investing in new directions, is difficult. For a number of networks, impositions such as the obligation to maintain supply, create disproportionate burdens.

It was helpful to have acknowledgment in the consultation paper that distributors are now operating in an increasingly competitive environment and a positive step forward would be to have the weighted average cost of capital (WACC) applying to EDBs amended to recognise this.

It was not helpful to read in the consultation document, with no advance notice to EDBs, and no substantive evidence produced, that consumers could see an increase in their distribution charges of up to 30 percent in the next 10 years.

It was of concern that the Electricity Authority chose to make broad public statements about a potentially bleak future for EDBs unless they “take action” without at least first discussing their views with ETNZ.

ETNZ holds two large conferences each year at which the Authority could have sought time to unveil its thinking to virtually all EDBs in one hit!

Recommendation

That when the Electricity Authority says it wants to make sure “that distribution pricing is designed accordingly”, that it first demonstrates that it has taken the realities for EDBs into account and been prepared to discuss its views directly with them before putting out a public consultation document based on assumptions that EDBs may not accept.

Regulatory Framework

We have reached the stage where regulated activities have become so boxed in that they will become incompatible with converging technologies.

They are also a costly impost on EDBs (for Electra alone compliance costs paid to the Electricity Authority and Commerce Commission are about \$400,000 a year).

From the wording of the Electricity Authority’s consultation paper, it appears as though the Authority is fishing for ideas rather than showing leadership.

That would be fine if the creativity expected from EDBs is matched by an opening of the regulatory doors to allow for it - and it is encouraging to see that the Electricity Authority is prepared to look at rule changes and incentives.

Recommendation

That the Electricity Authority works more closely with EDBs to review the regulatory framework with a view to reducing constraints and opening doors to progress to meet a changing electricity supply and useage environment.

Communication

The Electra Trust would like the Electricity Authority to consider whether it is communicating effectively with consumers.

For many consumers the actual and emerging changes in the supply of electricity are confusing.

In the absence of leadership from the top, it is difficult to take a definitive lead at local level without first having a fairly clear picture of what the regulators intend. It is not good enough to put the onus for operational change on EDBs without creating, in parallel, a supportive dialogue.

As a starting point the Electricity Authority might like to consider developing a series of paid educational media features to make consumers familiar with change and options; using the EECA model to develop a series of television advertorials; and enlisting the support of community newspapers to tell the Electricity Authority story and blend in local EDBs.

Summary

Thank you for encouraging consultation and we hope that the Electricity Authority will take a more proactive approach to working directly with EDBs to create a positive climate for change and better consumer understanding.

**Chris Turver MNZM JP
Chairman
Electra Trust**