19 January 2018

Energy Markets Policy Team
Ministry of Business Innovation and Employment
Wellington

By email: energymarkets@mbie.govt.nz

Dear Energy Markets Policy Team

**Electricity Pricing Review proposed terms of reference**

We welcome the opportunity to provide feedback on the proposed terms of reference (TOR) for the Electricity Pricing Review.

**The review is timely**

Electricity is an essential service underpinning the economic wellbeing of New Zealand. The last Ministerial Review of the electricity market occurred in 2009. However, given it did not specifically focus on consumer pricing, we consider this review to be timely as an opportunity to identify options to improve the delivery of long term benefits to consumers.

In addition, since the last review, emerging technology, digital transformation and innovative business models have gained prominence in our industry, and are challenging traditional thinking. Accordingly, we consider the review is timely in this regard.

**The review could lead to a better understanding of pricing**

Another valuable outcome of the review would be to increase transparency of the inputs to prices and allow consumers to better understand the drivers of their electricity bill across the supply chain.

**Objectives of the review**

While the draft TOR refers in part to assessments of “equity and fairness” as well as “efficiency and fairness”, we consider the key issues that the review is aiming to address are not sufficiently clear in the document. We would recommend that this is clarified in any amendment to the draft. We have assumed that one of the primary drivers for the review is energy affordability.

In our view, ensuring efficient operation of the electricity sector, at all levels of the supply chain, is critical to ensuring prices are affordable for consumers, and is supported by:

- robust but flexible economic regulation to allow monopoly network services to adapt and cope with technological change risks and opportunities; and
- open and strong market competition in retail, generation and other competitive parts of the electricity sector, with minimal barriers to entry.
The review should be future-focused and balance energy trilemma issues
Internationally, the “energy trilemma” is used to describe the importance of balancing affordability, sustainability and reliability of energy services. A continued focus on the trilemma for both the short and long-term requires efficient operation of the electricity market across the supply chain, and fit-for-purpose regulation. For example, electricity could be made more affordable, particularly in the short-term, by reducing investment and/or lowering service quality but this may not be in the best interests of consumers in the long-term.

We consider the review should be cognisant of the trilemma. We also appreciate that any recommendations will need to be consistent with government policy objectives, including those intended to accelerate New Zealand’s transition towards a low emissions economy.

Information gathering
Given the major industry structural reforms were implemented in 1999, we generally agree that the review should focus on the period from that time. However, we also consider some topics may be better informed by considering a longer historic period. Accordingly, we suggest the review should allow flexibility in time frames for historic data collection and be driven by the objective for the specific enquiry.

Scope of the review should be prioritised
We note that the scope of the TOR is very broad and consideration could be given to further focussing the scope. In the absence of this, the broad scope coupled with the relatively short time-frame requires some components of the review to be prioritised.

We agree that the matters signalled as out of scope are appropriate. Regulation to support the operation of Part 4 of the Commerce Act (the Input Methodologies) has been extensively and recently reviewed by the Commerce Commission. Key aspects of price regulation, including asset valuation, have undergone multiple reviews over the last seven years and the Commission are due to publish their final determination on our own Capex IM review in March 2018.

Early indication of review process will support effective industry engagement
We support the intention for a high degree of consultation and engagement signalled in the draft TOR. Strong and transparent engagement and a clearly signalled process will help the review achieve good outcomes for consumers, and acceptance of those outcomes by the industry.

We look forward to contributing further to this review.

Yours sincerely

Alison Andrew
Chief Executive