7 June 2018

Low-Emissions economy
New Zealand Productivity Commission
PO Box 8036
The Terrace
Wellington 6143

By email to info@productivity.govt.nz

RE: Low-Emissions economy – draft report

Submission of the Electricity Retailers' Association of New Zealand (ERANZ) and the Electricity Networks' Association (the ENA) on the Productivity Commission's Low-Emissions Economy Draft Report (April 2018)

The Electricity Networks Association (ENA) and Electricity Retailers' Association of New Zealand (ERANZ) welcomes the opportunity to provide feedback on the Productivity Commission's low-emissions economy draft report.

In broad terms, ERANZ and ENA are supportive of the Productivity Commission's draft report on how New Zealand can best transition to a low-emissions economy. It puts forward many important points and makes several good recommendations. However, we believe that there is one critical extra step which will be required if we are to achieve lower emissions through increasing electrification: the current low fixed charge regulations need to be removed.

ENA and ERANZ request that the Productivity Commission recommend, in its final Low Emissions Economy report, that the Government revoke the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004.

The low fixed charge regulations present a significant barrier to achieving a low emissions economy

One of the Commissions draft report's findings states:

> *The most significant barriers inhibiting the uptake of EVs in New Zealand are …. The lack of cost-reflective pricing in New Zealand*[1].

There is widespread agreement that adoption of cost-reflective distribution pricing has many advantages for consumers and other electricity industry participants. Of particular significance, cost-reflective pricing is critical in transitioning to a lower carbon economy through efficiencies in the use

[1] *F11.6 (page 297)*

of the distribution network, particularly for electrification of transport. The Commission, the Electricity Authority, distributors, and retailers all agree that distributors should be adopting cost-reflective pricing. This is welcome.

The report discusses ENA and ERANZ's joint submission dated 1 October 2017[2], in which we provided evidence of the impact of the Regulations in holding back the uptake of electric vehicles. We thought it useful to reiterate the various issues with the LFC regulations, which are included in an appendix to this letter.

Given the agreement on the need to remove the Regulations we would encourage the Commission to be bolder in its recommendation on the removal of the LFC regulation.

Conclusion

There is widespread agreement that the LFC Regulations are a significant barrier to the adoption of cost-reflective pricing, and consequently lower emissions. They are a barrier because the Regulations prohibit stepped and tiered pricing and add complexity to service-based pricing options. Your draft report correctly points out that a lack of cost-reflective pricing is a barrier to the uptake of EVs in New Zealand.

We submit that your final report should go further than your draft and recommend the revocation of the low-fixed charge regulations.

Yours sincerely

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[2] Productivity Commission report, page 340

About ENA & ERANZ

ERANZ represents companies that sell electricity to New Zealand customers and businesses. ERANZ's role is to promote and enhance a sustainable and competitive retail electricity market that delivers value to New Zealand electricity customers.

ENA represents the local electricity distribution businesses (lines companies) that take power from the national grid and deliver it to homes and businesses. It harnesses the collective expertise of members to promote safe, reliable and affordable power for its members' consumers.

Appendix: Issues with the LFC Regulations

- The regulations require that retailers and EDBs offer alongside every 'standard' retail or distribution tariff, an LFC compliant tariff. This has the potential effect of doubling or at the very least significantly increasing the number of tariffs the industry is required to offer. This in turn makes the process of changing those tariffs more complicated, expensive and time consuming. The regulations significantly restrict the implementation of pricing options that are likely to be central to capacity and demand pricing. These are key examples of pure cost-reflective pricing likely to be adopted by New Zealand electricity distribution businesses (EDBs).

The Regulations (10.2 and 16.1) state:

> *"A low fixed charge tariff option must not contain— **(a)** variable charges for domestic consumers that are **tiered or stepped** according to the amount of electricity consumed."*

- Several forms of cost-reflective pricing are likely to require stepped or tiered pricing to be easily implemented. For example, customer demand pricing and booked capacity pricing would likely need to be stepped or tiered to operate sensibly, and so would likely breach the regulations.

- Other types of pricing, such as installed capacity, might potentially be structured as a series of different energy packages each with a set or fixed capacity charge and therefore would arguably not be 'tiered or stepped' and would arguably not be captured by the regulations. However, this interpretation is novel and has not been tested in the courts. There is likely to be reluctance on the part of retailers or EDBs to implement widespread pricing changes in reliance on it. The electricity sector would prefer that the Regulations were removed, as this would allow the widest range of distribution pricing options to be considered. Revocation of the regulations would also remove any uncertainty stemming from the possibility of having to defend new pricing in the courts and possibly unwind service-based and cost-reflective pricing changes ruled to be in breach of the Regulations.

Further reasons for the Commission to support the revocation of the Regulations include:

a) A 'low user' as defined by the Regulations is not a low user in a real sense– the 8,000 kWh per year threshold (9,000kWh in the lower South Island) is higher than the average consumer's consumption.

b) Because the low fixed charge is not cost reflective, it sends the wrong price signal to consumers about the actual fixed cost of a network connection.

c) The low fixed charge of 15c a day for electricity distribution businesses raises $55 per consumer per year, less than one-tenth of the true cost of an individual connection to a network. This is clearly not cost-reflective.

d) The Regulations are holding back the development of new customer-friendly, cost-reflective tariffs such as mobile-style tiered pricing plans.

e) The Regulations result in higher consumption-based prices which, by definition, encourage consumers to make inefficient investment decisions to avoid consumption of grid-generated electricity.

f) The Regulations may benefit many smaller households, including those on low incomes, but they do not benefit larger low-income households. As such the Regulations are a poorly targeted method of assistance for low-income households and are indeed to the detriment of larger low-income households which rely on electricity as their primary energy option.

g) As the average volume of electricity consumed declines, the scale of the cross-subsidies from consumers not on low fixed charge tariffs, to those who are, increases.

h) As distributors move towards more cost-reflective pricing approaches based on consumers' demands, the Regulations continue to mean that variable prices are on average much higher than they would otherwise need to be. This leads to greater variability in bills and increased uncertainty/risk for consumers trying to manage household budgets.