ELECTRICITY PRICE REVIEW

SUBMISSION FORM

To:

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Electricity Price Review

Secretariat, Ministry of Business, Innovation and Employment

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From:

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1. *What are your views on the assessment of consumers' priorities?*

Our view of the priorities to produce tangible consumer's benefits are:

1) **Help Low Users by equalizing prices:** Under current rules, the most frugal consumers pay a higher price per kWh than those that demand larger volumes from the grid. These are also often people on tight budgets or facing significant economic hardship. Equalizing prices between Low Users and Standard Users would reduce Low User prices by 5 to 15%. This can be easily achieved by removing the LU/SU distinction and prohibiting fixed charges from lines companies.

   Example: Currently a Low User in a network area using 4,000 kWh would pay 30 cents per kWh. In that same network, a large user consuming 15,000 kWh would pay 25 cents per kWh. If both parties paid 26.6 cents, the same revenue would be collected for the lines company. Given the low user likely had less impact on the drivers for new transmission and distribution assets, this seems entirely acceptable as a user pays based solution.

   *This would mean a price reduction of **12%** for the low user and a price increase of only **3.7%** for the standard user.*

   As part of the removal of fixed charges, we support the idea a Holiday Home Rule. Allowing lines companies to add a special charge for holiday homes would address any free rider issues for those with a home they use only during the summer months.

2) **Lower heating costs with Time-of-Use (TOU) price structures:** Those in economic hardship often sacrifice health and basic comfort because the cost to heat their homes is too dear. Children's health can be vastly improved with warmth when their immune systems are most vulnerable during the night.

   We support time-of-use pricing as it would create a 30% to 75% reduction in night-time heating energy costs. This is an automatic benefit of TOU because a short period in the evening with higher peak-pricing (that reflects the importance of curtailing peak investment) will create lower prices during the night. We believe night prices can be 1/3rd to 1/5th of evening peak prices and maintain lines company's revenue recovery.

3) **Encourage consumer investment through TOU price structures:** Consumer investment in technologies will lower long term capital investment in the network. Time-of-use prices would induce consumer participation to reduce peak demand, reduce energy consumption and contribute energy behind-the-meter. EVs would increase in popularity with an attractive night time charge and higher on-peak charges will ensure they fill their car at night. Consumers investing to reduce peaks will benefit everyone through lower future prices as incremental network investment, at its high marginal cost, continually pushes price up.

4) **Price structures impact consumer trust:** Consumers can understand "the more you use the more you pay, and vice versa". Consumers can understand that avoiding peak periods reduces future lines price increases. A shift to variable charges, equalized prices and TOU will line up with common thinking of "user pays" and logic-based avoided costs. Logical explanations, an invitation of

consumer participation and standardization of price relationships will increase consumer trust.

5) **Lower prices for consumers from a more liquid wholesale market:** A 5 to 10% reduction in energy costs across all users would result from fully liquid futures market.

   Lower retail prices is not a function of getting more retail competition, it is an issue of increasing traded future volume between those with market power. There is already plenty of competition and a plethora of marketing channels hitting consumers every day. People that act and choose one of 45 brands will save on their power bills. However, the weakness is we have a two-tiered market where small retailers have limited access to the futures market as their competitors with market power withhold volumes. Restricting Gentailers self-dealing to a maximum of 80% of their retail volume would provide the necessary liquidity to deliver these consumer benefits.

6) **Create stronger competitors:** The market is impeded by 93% of the retail offering being essentially the same basic offer. To liberate and foster stronger competitors the rules should ensure that:

   (a) End the two-tiered market by increasing liquidity so retailers have the ability to purchase long-dated volume and convert to new price structures for consumers;
   (b) Structure an open environment for lines companies to become energy retailers – they have the strength and capability to add innovative consumer offers and improve consumer choice; and
   (c) Inducing consumer participation will open up innovation and creativity as retailers would invent ways to blend contracting and technology to enable such participation.

7) **Lines Companies encouraging consumer investment will lower prices and increase cash returns from their trust owners**: Lines Companies cannot reduce future capital expenditure without consumer investment in efficiency and peak reduction. The cost to add an additional MWh of network demand is often 5 to 10 times more-costly than the tariff would support. It is not unusual, across the world, to observe marginal network costs at 50 cents per kWh or greater. To curb the constant inflation of network costs, a permanent and strong signal on the margin is critical. The best way to encourage consumer participation may come from innovations from the networks themselves and their inclusion in the market should be encouraged. Less investment means higher dividends and high dividends means more cash returned to consumers from their trust owners (where applicable).

8) **A new price regime will trigger more switching:** Those that have not switched since 2013, are paying more than those that have; we estimate on average about $20 per month more. A mandated restructuring of prices, in accordance with the comments above, will “wake up” all those apathetic participants. A well execute launch of new innovations will trigger a decision point for nearly everyone in New Zealand.

9) **Prohibition against Prompt Payment Discounts (PPD):** Prompt payment discounts punish users on tight budgets. Our view is this should be banned immediately; particularly since it is really a late payment penalty in disguise. It would not be a surprise to see low income households paying an average of $10

to $20 more per month through these penalties compared to a reasonable late payment charge. They are misleading and unfair.

10) **Prohibition against Win-backs:** Banning the practice of a losing retailer interfering with a agreement after a consumer chooses to switch will improve pricing and competition across the market. Consumers will be better off if all competitors were motivated to seek customers fairly and openly in the market; not just when a switch is completed.

11) **Metering regulations:** Enforcing non-discriminatory pricing between retailers and rules to lower remote reconnection/disconnection charges would:

    a. Put all retailers, large and small, on a level playing field; and
    b. Reduce prices for users in economic hardship who are more likely to be pushed to use pre-pay services.

12) **GST:** Consideration should be given to have an exemption or reduction in GST for those in economic hardship as a way to address energy affordability.

2. *What are your views on whether consumers have an effective voice in the electricity sector?*

In our view, it is not an issue of having a voice. Consumers have many opportunities to "vote with their feet" and they have the option to engage with one of 45 retail brands if they wish to express their concerns.

The problem is deeper; it is important to look at the root causes of consumer unrest. It is not the voice; it is identifying the reason for the need to speak out.

We believe the root cause begins with the focus of the EA to place the consumer experience secondary to industry demands. This is derived from a systemic series of allowed practices that has eroded consumer confidence.

To illustrate:

1) Allowing the practice of win-backs communicates that the EA prefers that "threatening to switch" or "switching and waiting" is preferred to open competition. Consumers need to have more respect for market providers than this represents; particular if a higher level of participation is the future.

2) The EA has allowed consumers to live with the contradiction that "competition will create lower prices" when their direct experience is that prices have risen since 2000. The obvious outcome to this is the general public believe deregulation has failed them.

3) Technologies (such as LED lighting, heat pumps, solar power and batteries), that can genuinely break the cycle of perpetual network expansion, are discouraged by pricing rules. Certain networks are allowed to penalize consumer that make choices. Inevitably this adds to the distrust in the industry.

4) The EA has tolerated deceptive retail practices such as Prompt Payment Discounts (late payment fees spun differently), layered termination fees, multi-year lock-in periods and non-transparent invoices. This has the aggregate effect of eroding consumer trust.

5) Consumers cannot develop trust when regulated price components are hidden on their bills. Under the guise of simplicity, this practice has likely led to greater distrust. Transparency regulations exist in nearly every deregulated market for this reason.

6) Price inequality will contribute to low trust levels. Low users are understandably disenchanted when they realize that larger users, who are clearly the segment of the market that are driving demand increases, get a better price per kWh. This is the opposite of "cost reflective" and not "user pays".

7) Consumers who explore technologies, quickly become jaundiced by the misdirected arguments against solar power and batteries. Many networks position these consumers as negative contributors when they are usually higher demand users and likely to add large off-peak loads such as an electric car. Our market research shows nearly 100% correlation between the inclination between a solar power consumer and an electric car user; making that consumer neutral or additive to the network revenue; particularly if prices are equalized between low and standard users.

Our view is the subject of "consumer advocacy" must first be dealt with in the market rule setting. Fairness in regulatory positioning begats consumer satisfaction. An industry regulator that diligently disallows misdirected arguments will be rewarded with a consumer base that trusts them.

If anything were to change, it would be best to redirect the EA mandate toward putting the consumer experience at the top of the priority list and specifically enshrine the perspective that all consumers are created equal with equal opportunity to access pricing that rewards energy efficiency.

The EA can be the consumer champion, it looks like they are currently choosing not to.

Options:

Our view of the options are:

1) A revised mandate for the EA;
2) A new regulator dedicated to be a watchdog or ombudsman;
3) Add to the mandate of the Commerce Commission; or
4) Empower the UDL.

All options are workable as long as the industry is also directed to act more in the consumer's interest and implements rules so consumers can act in their own self-interest.

Overall, the lowest cost option should be chosen; which is probably change the governance of the EA to one that puts consumer's interests at the top of their priorities.

3. *What are your views on whether consumers trust the electricity sector to look after their interests?*

Our view is consumer trust is as low as it could be. For good reason. The previous section outlines several common practices that contribute to distrust.

Even with statistics that show trust is improving, we know from our customer facing activities that those statistics are not the core problems. As a company we have a very high NPS score, In Grey Power for example, we have NPS scores of 60, but we still hear deep resentment with the industry in general. In other words, an acknowledgment of good service is not the same as having trust.

We also believe the opposite is true. Service problems can be forgiven by a customer base that trusts that they are dealt with fairly.

We have no doubt whatsoever that trust levels would soar if the industry:

1) Equalized prices (replace LU/SU regime with a single variable TOU lines charge);
2) Removed prompt payment discounts and labelled them correctly as late payment penalties;
3) Prohibited win-backs and allowed customers to switch freely but honor the switch;
4) Reward lines companies that embrace technology choices;
5) Restrict retail contract lock-ins to 30 days or less;
6) Mandate retail transparency of line charges; and
7) Government openly support the virtues of competition.

We are also strong advocates of competition and believe competition could come from anywhere but the underlying motivations must be acknowledged.

Understanding Motivations

At the core of a **generator's** motivations is the desire to see higher wholesale prices. Rules that acknowledge this are important to get right.

At the core of **lines company's** motivation is the desire to get their revenue requirement and rules that address this are also essential to a functioning market.

At the core a **retailer's** is the desire to keep the customer and to be protected from the motivations that do not work in the customer's best interest.

To allow these motivates to compete with each other is challenging, but not difficult; as the key is to have rules that ensure each motivation is transparently addressed.

If the consumer can transparently assess the choices, have a sense they are fairly derived, and have a sense the regulator is watching for bad behavior, we would have the recipe to build consumer confidence and trust.

(See industry structure comments later in our submission).

4. *What are your views on the assessment of the make-up of recent price changes?*

In our view, price structures need to accomplish three things:

1) Be standardized across the market;
2) Have strict guidelines for regulated items and allow competition where possible;
3) Have transparent market driven signals for all competitive items; and
4) Send price signals that induce consumer participation.

Therefore, the ideal price regime has these characteristics:

A. Prices that are equal to all consumers

For regulated items with revenue recovery rights:

1) All lines charges should be variable and based on time-of-use or a flat variable price that equals the time-of-use charge at the standard load shape.

(See C. below)

2) This would ensure users pays and reward conservation. Fixed charges are substituted with peak charges over a daily peak period.

(See B. below)

3) Standard Users and Low User definitions are no longer relevant.

For competitive items:

All items that are competitively derived, such as metering, billing, energy and any other bundled services can be presented in any form the retailer chooses. Competition will weed out the poor structures and drive what the customer wants to see and pay for.

Separation of charges between regulated and competitive:

Mandating a separation of regulated charges from the competitive ones would guarantee transparency and oversight by regulators and consumers alike.

B. Time-of-use pricing as the answer to cost reflective pricing

A prohibition on fixed line charges forces legitimacy into time-of-use charges. A clearly communicated night, day and evening price from lines companies will accomplish the following:

1) Cost reflective pricing driven by evening peak usage: The evening price will capture the essence of peak charges and ensure consumers act in their own interest but also contribute to curtailing long term network investment. A high evening price would also serve to discourage electric car charging during this period.

2) Value of delivery on cloudy days: The day price will illustrate the value of energy delivered over the network on a cloudy day. In the end, the network on a cloudy day is the same as a solar panel on a sunny day. The convergence of those two values will ensure the network is rewarded for service provided at that time. These values can be balanced to ensure that consumers without solar power should pay about the same.

3) Value of delivery at night: After evening prices and day prices are established, the night time price would ensure the network received its revenue requirement. It also happens to be the price for energy into an electric car; which should have a vast competitive advantage to petrol at the pump.

4) In addition, seasonal smoothing of lines charges should be mandated. All lines companies should ensure winter prices are the same as summer to avoid adding bill shock to the winter period.

In all cases, the network should be protected and entitled to earn their regulated return.

C. **Consumers given the option to opt out of time-of-use pricing**

Tim-of-use pricing may not be everyone's choice. Networks should be mandated to provide a flat variable option to consumers who decide they cannot respond to time based pricing.

This could be accomplished by a variable charge that demonstrably delivers the same lines revenue as the time-of-use price (t the average network shape.

D. **Solve the "Bach Problem"**

We recognize that previous rules had to contemplate that holiday properties, used only in summer months, may free-ride. We would support a "holiday home" lines charge that is a direct replacement to the standard user stipulation currently in effect. We would support it being mandated on the customer's bill as a special line item; not unlike the EA levy.

E. **New items and rules**

We believe retailers should be able to avoid paying lines charges in the event of a bone fide consumer default.

These amounts should be allowable recoveries on the revenue requirement by the line's companies. These charges should be disclosed and transparent to market participants.

This would ensure better retail pricing for all other customers.

F. **In summary, this package of pricing reform will:**

1) Lower prices to low users;

Example:

Currently a Low User in a network area using 4,000 kWh would pay 30 cents per kWh. In that same network, a large user consuming 15,000 kWh would pay 25 cents per kWh. If both parties paid 26.6 cents, the same revenue would be collected for the lines company. Given the low user likely had less impact on the drivers for new transmission and distribution assets, this seems entirely acceptable as a user pays based solution.

This would mean a price reduction of 12% for the low user and a price increase of only 3.7% for the standard user.

2) Give consumers tools to lower consumption;

3) Give consumers tools to lower absolute bills;

4) Retain the revenue recovery for lines companies;

5) Provide cost reflective value of peak capacity on the network with a consumer signal to respond to;

6) Support and encourage solar, batteries, EVs and energy efficiency technologies without impacting lines companies revenue requirement;

7) Deal with the Bach Problem; and

8) Recover defaulted lines costs in a fair manner.

5. *What are your views on the assessment of how electricity prices compare internationally?*

Excluding GST, New Zealand average prices are about 13 to 16 cents per kWh in US dollars; depending on exchange rates. The USA average is 13.75 cents USD in 2017$ and the Canadian average is about the same. The standard deviation for prices in New Zealand is about 20% across networks which is similar to US and Canada. Comparison to nuclear based markets is not useful. Nuclear regions, such as Japan, UK, Ontario, New York and Florida will pay on the high end of the scale and are higher than New Zealand and cannot be directly compared. When benchmarked against similar technology markets, New Zealand does not have a major price problem, on average.

Comparison to markets in USA and Canada, the form of regulation is a factor. For example, in hydro provinces that are still regulated, prices are lower than those that use coal and natural gas and are deregulated. Prices different between industrial, commercial and residential segments, in about the same way as they do in New Zealand. In Canada, British Columbia, Manitoba and Quebec all sell large volumes to the US, which allow for cross subsidization in the home markets. This gives the appearance of lower prices. New Zealand does not an equivalent opportunity.

In all of these markets, the biggest variable is whether prices are fixed or variable. Variable prices, by definition, are less discriminatory than fixed prices and deviations are less where variable prices are the norm.

The second biggest driver for energy prices in deregulated markets is the fact that water is valued at the price of natural gas and natural gas prices are much higher in New Zealand than in North America.

The third biggest driver is the lack of a liquid futures market. New Zealand generators, wearing their retailer's hat, are not naturally incented to offer competitive hedges on future sold volumes. Given their fiduciary duty to make a profit, regulation on this issue is critical to getting better pricing to consumers in New Zealand. Forward liquidity has been solved in most other deregulated markets in North America.

Above all else, the biggest influence of price rises since deregulation in NZ has been the cost of transmission and distribution. This also true in North America. This has nothing to do with de-regulation. Any region that has been growing since 1920 will have a constantly growing asset base and a constantly growing revenue requirement. Old assets are replaced with expensive new ones. The marginal cost of new assets can 5 to 10 times the value of the historic base.

The key is to provide legitimate pricing regimes to allow consumers to participate in curbing peak demand. Regions that have deliberately curbed peak demand will enjoy lower long-term prices than those that ignore this issue and continue to layer onto fixed prices.

New Zealand is perfectly positioned to use recent smart metering additions to re-distribute prices fair and equitably and invite consumer participation in the market.

6. *What are your views on the outlook for electricity prices?*

Price outlook:

1) **Wholesale futures:** With proper levels of liquidity, futures look to be flat for a number of years into the future. Solar power additions, new geothermal capacity, peaking plant additions and flat gas should lead to pricing around the long-term average of about $75 for a flat priced hedge.

2) **Gaining access to these prices:** Poor liquidity means a two-tier market exists where generator-retailers get better prices than pure retailers. Market liquidity constraints mean prices will not reach the wider market. Generators are incented to withhold volumes from futures periods and restrict competition. The current market making rules do not provide enough volume to make bold market offers. The solution to liquidity is discussed in later sections.

3) **Equalizing prices will reduce prices for frugal users:** As described earlier, prices for Low Users will fall if Standard Users pay the same price in kWh terms (allowing a cessation of the LU/SU regime).

4) **Well communicated regime changes can create more switching to reduce total retail price:** An industry-wide shift to time-of-use pricing will trigger all consumers to shop for a better deal. This will ensure the NZ average will fall as the 45 retail brands go to work to acquire customers.

5) **Lines Companies pricing:** Lines companies do not need fixed charges to achieve cost-reflective pricing. Lines companies can retain their revenue security and consumers can win at the same time with time-of-use pricing.

   If lines company and retail prices are converted to time-of-use prices power bills can be managed down. In addition, a reduction in capital investment, resulting from consumer participation in technology, (such as solar power, batteries, heat pumps, automation, energy efficiency), will produce lower lines company charges over time.

6) **The price of carbon:** With this shift, we believe NZ will accelerate their way toward meeting its climate change objectives. A faster replacement of coal and fossil fuel generation will occur as a result of positive messaging and engagement of consumers. This will ultimate reduce the price of carbon embedded in the wholesale prices.

7. *What are your views on the assessment of the size of the affordability problem?*

As discussed earlier, New Zealand pricing is not out of range from analogous markets, such as the USA or Canada. In short, our view is the average is fine; the allocation is not.

From an affordability perspective, it is the lack of "equity in pricing" and "freedom to avoid cost" that is the biggest problem for those on tight budgets.

To summarize these points, what we do know is this:

1) If we put all consumers on the same pricing, those on tight budgets will be better off.

2) In general terms, variable prices mean frugality has a higher reward. For this reason, diligent users on budgets will be better off.

3) If we put all consumers on variable time-of-use pricing, those on tight budgets will be better off as they can choose to avoid peak periods.

4) These two decisions mean standard users will pick up a greater share, which seems fair given they are more likely to drive peak demand.

5) Those that use EVs and help reduce network costs; which is great news since electricity is about 10 times cheaper than petrol and EV owners will seek a lower cost option in large quantities.

6) If we abolish Prompt Payment Discounts, those in economic hardship, (who are the mostly likely to be hit with these penalties), will be better off.

7) Communicating with consumers to encourage them to act on their right to choose a retailer addresses affordability on average as more switching means lower average bills across society.

8) If we proactively create a more liquid futures market, consumers in general will get better pricing.

9) If we invite other competitors, such as lines companies and technology providers, all consumers will get better pricing through increased competition.

8. *What are your views of the assessment of the causes of the affordability problem?*

Energy:

Energy has been the same price for at least 50 years. We know that, across the world, that generation costs in the 1970s are about the same as generation costs now. The long-term trend of energy costs can be shown to be about 6 cents per kWh ($USD) since the beginning of thermal electricity production. Forward looking costs of wind, solar and efficient natural gas plants support a long-term view of 6 cents per kWh ($USD).

Deregulation has had an influence in areas that are hydro dominant and with high gas prices. New Zealand has faced higher water values than say, Canada, where gas prices are driven down by North American gas markets. However, even this effect is trivia compared to transmission and distribution effects.

Transmission and Distribution:

By the rules or rate of return regulation, old assets are replaced by more expensive ones and averaged in. Absolute growth in population means new assets slowly overtake the weight of old ones in the regulated rate base. A rising rate base is not the fault of management, it is the result of the math driving regulation.

Since customers have paid for depreciation, the price for transmission and distribution will slowly be dragged up to the marginal cost of the infrastructure; which can 5 to 10 times more expensive that the current tariffs would allow.

This means, that unless a proactive set of cost-avoiding regulations are pursued, the time between when the average cost converges upon the marginal cost shortens.

Smart metering has created the ability to implement time-of-use pricing; meaning there is no better time to act than the day after smart metering is available, as the average and marginal costs are destined to converge.

Relief can come from increased off-peak demand; which spreads the revenue requirement without increasing capital investment. For example, the use of electric cars will drag down all line company prices as off-peak volumes increase.

In summary, affordability is directly linked to the pace of increasing transmission and distribution charges; not the cost of energy. Rules that defer such cost increases are critical to managing affordability.

GST:

Exempting power bills from GST, or having a lower GST for essential serves like electricity, would produce a large consumer benefit. It could also be conditional: such as those on pre-pay or those in some measurable form of economic hardship.

9. *What are your views of the assessment of the outlook for the affordability problem?*

The key, as mentioned in other sections, is to address the transmission and distribution expenditure in the future since current expenditures are sunk and already in the revenue recovery equation.

This is enabled by an effect re-balancing of prices and creating consumer interest in participating in the long-term improvement.

Equalizing pricing will produce 5 to 20% lower prices for low users and allowing peak cost avoidance will allow frugal users to reduce. Low off-peak prices will encourage low income families to invest in keeping warm and healthy homes.

Our view is a reduction of 25% bill cost is achievable by simply addressing allocation.

Many have claimed solar power and batteries will harm pricing. We disagree with this contention. We believe that a combination of price equalization and time-of-use pricing can be executed to shift revenue to cloudy days and peaks to allow the current average price to remain the same for low users. In fact, it could be a requirement of the price restructuring to ensure it to be so.

Standard users will pay more but as previously argued, they are the users most likely driving demand on the network capacity.

Reducing GST for those on pre-pay services would be a great way to immediately relieve the power bills for those members who are already in tight situations.

10. *Please summarise your key points on Part three.*

The summary of the key issues with Consumers and Pricing:

1) On average, New Zealand prices are not too different to similar international markets. The issue is one of segmentation, allocation and liberating signals for consumers to take action. Smart metering has created an environment for NZ to lead by inviting consumer participation in the lowering of future prices.

2) Primarily driven by fixed lines charges, Low Users pay a higher overall electricity price than Standard Users. (In round numbers, Low Users often pay greater than 30 cents per kWh while most Standard Users pay below 25 cents per kWh.) This contributes to the perception of unfairness and hits the most vulnerable.

3) Lines Companies face a deeply rooted problem that is beyond their control. They are consistently facing upward pressure on line tariffs that results from historic assets being replaced with more costly new assets, new growth comes at marginal costs and marginal costs are 5 to 10 times higher than tariffs can support. The same impact appears on TransPower charges which amplify the effect on consumers.

4) Consumer trust levels are low in the industry but the opportunity to communicate a new and fair regime where participation is rewarded could rebuild that trust.

5) There are some positive offsets coming that the industry can rely upon. For example, the natural evolution of EVs into the market will dilute infrastructure costs for everyone.

6) Government can have a big win if a change in regime comes with a market wide call to action to explore new retail offers under the new format. Historically apathetic consumers could be motivated to shop for a better deal. This will produce a step change of better pricing across the entire market.

7) The Wholesale market is intentionally starved of future volumes and has resulted in higher prices for consumers. More liquidity will result in lower costs.

8) GST rules could be modified to produce lower prices for those in need.

11. *Please* briefly describe any potential solutions to the issues and concerns raised in Part three.

The summary of the keys steps to improving affordability by reducing electricity prices and power bills:

1) Start with price equalization across the market (giving regard to the Bach Problem) by requiring lines companies to remove fixed charges and by removing the LU/SU regulation;

2) Implement time-of-use pricing to dilute future peak investment in the long run and provide signals to consumers to reduce in the short run;

3) Mandate that low users prices, at system load shape, are not higher than current regulations under time-of-use regime;

4) Communicate with consumers to indicate how to saving money within the time-of-use structure;

5) Communicate and encourage EVs to dilute infrastructure costs for everyone;

6) Communicate and encourage switching and remove barriers to switching to open up the market to those that have not switched in some time;

7) Remove barrier in the wholesale market by increasing liquidity of futures,

8) Build consumer trust by removing disingenuous industry practices to engage them in participating in energy efficiency or other forms of participation; and

9) Let as many interested parties as possible enter the retail market thrive and the best ideas will win.

12. *What are your views on the assessment of generation sector performance?*

Generation Sector issues:

1) **Fundamental motivations and fiduciary obligations:** Generators are compelled to perform in accordance with one over-arching principle: to see wholesale prices are as high as competition will allow. This means they are not necessarily aligned with the goals of the consumer; who, by definition, want to see prices as low as possible. This fiduciary responsibility means that the Electricity Authority must develop regulatory mechanisms to allow competition to counter-balance the "duty generators have to maximize price".

2) **Tendency to see the market short of volume:** Without working in concert, generators are independently motivated to with-hold volume in the short term (if it produced mark-to-market gains in the trading book), retire capacity (if it increased the likelihood of a dry year) and deter disruptive energy supply such as solar power and batteries.

3) **Thin tolerance for competition:** Generators who are also retailers, will have a thin tolerance for competition. While regulators and consumers should desire competition from as many places as possible, including lines companies and technology specialists, generators concede the need for only minor forms of competition; as deep down they are naturally unable to accept true disruptive influences.

4) **Future Markets:** The most powerful way to introduce competition to generators, is to facilitate a liquid futures market. This can only be done, with vertically integrated dominance like we have in New Zealand, by regulatory edict. Generators, given their over-arching fiduciary duty, will not voluntarily facilitate a liquid futures market.

5) **Performance cannot be assessed in isolation of the retail market:** With the motivation to see higher prices, the only way to assess generators is to observe their performance in how they simultaneously facilitate wholesale competition and led with retail innovation. This assessment is clearly different for each generator.

6) **Generators performance is in the hands of the EA:** The generator-retailers in New Zealand are world-class. But even world class organisation need a good regulator who understands how to balance their fiduciary responsibilities with that of the consumer. On that score, the EA has failed to build-in consumer protections, failed to deliver a liquid futures market, failed to break the contradictory link between what motivates a generator and what should motive a consumer-focused retailer.

13. ***What are your views of the assessment of barriers to competition in the generation sector?***

Generation Sector barriers:

1) **Variable network charges:** Generators should be able to access rewards of long-term reduction in capital in both the transmission and distribution networks. This could include competition from lines companies or consumers. Abolishing fixed charges from transmission and distribution in favour of a peak pricing will improve competition and create an incentive to curtail long term investment in expensive assets, reduce system losses and provide net benefits to consumers through lower prices. (See previous comments on the relative cost of marginal network assets.) The market has effectively delivered on marginal signals for energy through spot market rules; this thinking must now apply to networks to deliver future capital avoidance.

2) **Liquid futures market:** A liquid future market will not only facilitate more retail competition, but it will open the door for more wholesale generation competition. Small generators need to see clear signals of the forward vale of electricity based on sound principles of liquidity.

3) **Vertical integration:** Generators who naturally think of consumer demand as a hedge, will be reluctant to acquire contracts from a competitor; at least not in a meaningful volume. Separating the retail functions from generation functions is the most effective way to discover the lowest price generation options. Consumers will benefit if Gentailers have some form of separation introduced. It will enable great liquidity in the futures market and also allow the best generation ideas to find their way into the market. We believe a maximum self-dealing of 80% of their volume would produce the desired result.

14. *What are your views on whether current arrangements will ensure sufficient new generation to meet demand?*

Meeting demand:

1) **This is the wrong question:** The question should really be: ***Are the rule sufficient to allow meeting of demand in an economically efficient manner?***

   The answer to that question is "not likely". The market has been designed to find the balance between "dry year risk" and "futures premiums". This balance can be heavily influenced by rules. For example, a generator can dismantle a power plant or sell it to a competitor. Dismantling will be the better option as it increases dry year risk and therefore increases futures premiums. A generator that can use its power to occasionally produce extreme peak prices will add to the overall futures premium. Starving the futures market will also add to the futures premium. None of these potential events have been directly addressed by the EA so far.

2) **Solar Power and Batteries:** Solar Power and batteries are the neutral replacement for Huntly: large volumes of solar power will lower futures premiums and also reduce network investment. Both events will reduce consumer prices over time.

3) **Peaking Plants:** A liquid futures market will enable market participants to properly assess the value and location of peaking plants. The current under-supply of volume in the futures markets, and non-existence of ample peaking options, are inhibiting economically efficient application of peaking technology.

4) **Vertical integration:** A separation of generation activity from retail activity in vertically integrated market participants will increase economic efficient decision making in the wholesale market. Dismantling power plants will take on a different meaning and exercising market power to create artificially high futures premiums will be unprofitable for all generators. Consumers will receive lower prices with separation.

15. ***What are your views on the assessment of barriers to competition in retailing?***

Barriers in Retail:

1) **Top Line Principle:** The top line principle in the competitive market should always be "the more competition the better".

   All forms of competition: from generators, pure retailers, lines companies, technology specialists, bundled service providers, petrol companies, telcos and web-based providers should all have equal opportunity.

2) **Generator dominant market without liquidity rules:** The most significant barrier to competition is a dominance of generator-retailers without liquidity rules. This will limit the scale of new retailers, slow the growth of new retailers, increase risk of a new retailer and increase the cost of operation. Competition and lower prices are a function of liquidity, above all else.

3) **Separation rules:** A separation of generation activity from retail activity in vertically integrated generators participants will result in better competition. Similarly, lines companies should be able to enter the market is lines functions are separated from retail functions. The fundamental is to ensure the retail part of the operation is separately reported and governed in accordance with proper disciplines.

4) **Standard approach in lines charges: A** country-wide stand approach to lines charges would reduce cost and lower barriers to entry. A stipulated form of time-of-use pricing would provide consistency and provide for different rate base levels across the networks.

5) **Win-back regime:** The current win-backs regime is an outright failure. It promotes the use of predatory pricing, inhibits market-wide offers from large participants, it biases against new entrants with growth imperatives, it destroys consumer trust and does not deliver a consumer benefit (as consumers would still receive such offers in the normal course of competition).

6) **Lack of metering regulations:** Metering pricing is uneven and creates competitive advantages for some. New entrant retailers can pay more for meter data than a large retailer for the same data at the same house. This must be remedied and regulating non-discriminatory pricing is the solution. Metering companies should have a right to recovery and giving them an opportunity to seek rate relief would also be justified; provided such relief was non-discriminatory.

16. *What are your views on the assessment of vertical integration and the contract market?*

Putting in pace specific vertical integration rules will lower consumer prices as previous discussed in this submission.

The solution to Vertical Integration:

1) **Reporting Separation:** For vertically integrated participants with more than 10% market share, implement a separation of generation reporting activity from retail reporting activity. This will increase economic efficient decision making in the wholesale market. Transfer prices between segments should be specifically prohibited; meaning each entity would report its respective trading positions of hedged and unhedged volumes.

2) **80% Volume of self-dealing:** For such participants, regulate a limit to self-dealing. This would improve market liquidity and force accurate and fair trading. A limit of no greater than 80% of retail volume come be provided in self-dealing contracts. Back-to-back arrangements that "give effect" to self-dealing would also be specifically disallowed.

3) **Bid/Ask spreads and contract volumes:** To deliver the best outcome for consumers, specific rules on the structure of futures contracts that narrow bid/ask spreads and stipulates small contract sizes. Current market making rules are a good guideline.

4) **Peaking periods:** Be prepared to implement peak period market making if the 80% volume restriction fails to produce liquidity of contracts on peak.

17. *What are your views on the assessment of generators' and retailers' profits?*

Retail:

Margins in the retail market are at the minimum level to expect in a fully functioning market. The cost to operate in this market is quite high given complexities. The practice of offering fixed prices in a very volatile wholesale environment is already as challenging enough. In short, profit is not high and the consistent sell down of small retailers proves the market is not overly profitable.

Wholesale:

If vertical integration rules, time-of-use lines pricing and competition includes all forms of market participants, the profit in wholesale market will normalize to a level where the market is sustainable, and consumers receive the best possible pricing.

18. ***What are your views on the process, timing and fairness aspects of the transmission pricing methodology?***

Transmission economics are similar to distribution economics in that incremental investment is far more expensive than the average tariff would support. For this reason:

1) **Time of Use:** Distribution companies should pay for transmission in a time-of-use fashion such that they can flow through the tariff to the retail provider. This will synchronize the risk and allow the retailer to flow the same charge through to consumers.

2) **Location based pricing:** Current pricing that is derived from location adjustments should be left as is. This will allow the other changes to be implemented without added confusion and frustration by market participants.

19. *What are your views on the assessment of distributors' profits?*

Distribution companies are severely challenged with the economics of marginal cost investment. It is difficult to plan capital expenditures when the spread between the margin and the average is in the 5 to 10 times range.

For this reason, distribution profit structures are fine and the revenue recovery model is also fine.

As previously presented, Distribution companies should recover their revenue in a time-of-use fashion to engage customers in the process of reducing future capital. It is the best way to curb price escalation and engage consumers in the investment of energy efficiency.

Some improvements could include:

1) **13-month revenue rate riders:** Lines companies would have less risk is they were allowed to carry forward a washup to restore any unders and overs in the previous years revenue recovery. This would address any concerns about the unpredictability of consumer participation in the market during any given year.

2) **Competition:** Lines companies should be encouraged to participate in the retail market. This would be done through specific separation of reporting function; similar to those prosed for generators, whereby a distribution company must have management and reporting separation between the lines business and the retail business.

20. ***What are your views on the assessment of barriers to greater efficiency for distributors?***

Distribution:

As noted in previous sections, the most effective market mechanism to deliver long term efficiency in distribution is time-of-use pricing. By a large margin, the most difficult challenge facing distribution companies, around the world, is the phenomenon that new capital is far more taxing on revenue recovery than old equipment. This will mean price rises in perpetuity; unless the consumer side of the market starts investing in technology.

Most countries have tried to solve this with rebates and subsidies. The belief that luring consumers to energy efficiency and distributed generation through government run programs was a way to offset the margin cost of distribution. This has largely failed; as the cost of the subsidies are layered on to negate any gains in reduced future capital.

The only realistic way to induce long term reduction in future capital is by offering time-of-use pricing as a standard and enshrine the model into the regulatory framework.

This will simultaneously induce shifting of load to off-peak, embedding solar energy into the market, stimulate EVs, drive energy efficient lighting and appliances and contribute micro-batteries through the system.

All the same effects and drivers also apply to TransPower as well.

Retail:

Distribution companies could provide an excellent opportunity for consumers in the retail market. In the end, it may be their ability to withstand risk that puts the most effective pressure on the generator-retailer group of participants.

The key would be to ensure separation of reporting and management - in the same way generator-retailers should be separated.

21. *What are your views on the assessment of the allocation of distribution costs?*

The fundamental issue with transmission and distribution:

If you were to model the future of the distribution of power starting back in 1920, you would make a few basic assumptions. Those assumptions would include that consumers would steadily use more, they would also gradually increase their load factors (use more off-peak), and happily pay for the monopoly service as long as it was regulated. This would mean consumers would simultaneously pay the full cost of depreciation and fund growth. The weight of old assets would keep prices in check, as, even though the marginal cost is several times higher than the depreciated rate base, the costs would tend to fall until the assets started to wear out.

In fact, you would observe in that model that the price of distributing power would decline for the first 60 years, until about 1980, and then slowly increase as old assets are replaced with new ones. Rapid population growth post-1980 would accelerate the replacement and addition of new assets and therefore accelerate the rise in distribution prices. Which for the most part, is pretty much what happened throughout the OECD as distribution utilities could dependably pay dividends.

You would also observe by about year 2000, the marginal cost of new distribution is now over 10 times the cost of the depreciated rate base. This makes adding new assets without injecting equity nearly impossible. The result is a driving up of rates to fund future expansions. In the model, A vicious circle would appear around 2010, where it appears that reasonable rate escalations cannot sufficiently fund both growth and the replacement of historic equipment.

In some markets it would not be usual to see marginal cost of distribution and transmission reaching 50 times higher than tariffs would allow.

The problem would not be nearly as severe in regions where growth is more modest. But in all cases, the viscous circle effect ultimately comes in to play.

The only relief would come from a market-wide reduction in demand. Technology that allows individual decisions to add up to a slowing of the vicious circle. LED lighting, heat pumps, more efficient TVs, energy efficient appliances and solar/battery combinations are all necessary to reduce the inevitable mathematics of marginal cost growth.

The other form of relief would come from off-peak demand growth. The electric vehicle represents the most dramatic example of this as long as users are discouraged from plugging in on-peak.

Cost recovery using time-of-use is the only reasonable approach.

The math of this approach is determinable. In rough terms, cost recovery should follow this basic model:

Revenue recovery model: 40% of the revenue should be collected on-peak (during 20% of the hours); 40% during the day (during 40% of the hours); and 20% at night (during 40% of the hours).

22. *What are your views on the assessment of challenges facing electricity distribution?*

The fundamental challenge with transmission and distribution:

Transmission and distribution companies benefit from regulation as, historically, it was the perfect way to give consumers confidence in dealing with monopolies on one hand, and, on the other hand, ensure adequate funding of market-wide electrification on the other.

The problem is the marginal cost of expansion. After the assets reach their useful lives, replacement and maintenance of the old assets contribute a large part of the revenue recovery model. This would not normally be a problem except the cost of the margin asset, in a 50-year depreciation scenario, can be 5 to 10 times than the tariff would support.

Eventually consumers are set on a long-term path, about 50 years in duration, of prices converging on the marginal cost.

For trust-owned utilities seeking a dividend, this model can be unsustainable without serious escalation of revenue recovery.

Relief from the upward pressure can come through natural consumer market reactions, such as the purchasing of LED lights. Consumers will react to variable prices if the y are transparently presented and there is a high expectation they will continue.

Countries have also chosen to offer large prices for solar power and energy efficient appliances. In 2004, Germany offered about 50 cents per kWh for solar as an early mover in addressing this problem. Other countries have followed and bans on incandescent lights and other known peak contributors have appeared. California, in a summer peaking environment, have recently mandated solar power on all new homes in response to the problem.

For New Zealand, the solution is much simpler. Since we have already invested in interval metering, mandating time-of -use pricing is the solution.

Providing the next level of price transparency, through time-of-use pricing, will accelerate the participation as consumer market technologies are increasingly made available.

This will slow the migration to margin costs on the network and provide consumers with an antidote to perpetual increases in power costs.

23. *Please summarise your key points on Part four.*

To provide the lowest cost of power into the future, the New Zealand Electricity Market must address:

1) **Barriers to competition:** Pricing complexity, self-dealing, ill-liquid forward markets, unfair practices, misleading marketing and lack of price signals for consumers all add barriers to new competition and artificially inflate prices to consumers.

2) **Ensure a level playing field:** Vertical integration left unchecked, unregulated metering services and an illiquid futures market have contributed to a two-tiered system where existing small retailers are permanently disadvantaged. This contributes to higher prices to consumers.

3) **Maximize consumer participation:** Fixed charges and lack of time-of-use pricing inhibits consumer participation in the market.

4) **Slowing the migration to Marginal network costs:** Marginal costs for the network can be 5 to 10 times (or greater) that current tariffs allow. Consumer participation in the market is essential to slowing the impacts of these high marginal costs.

5) **Helping with affordability:** Low income and frugal users are subsidizing larger users at this point in time. Equalizing prices and providing opportunities to receive the benefits of conservation is essential to help these consumers see more affordable energy.

6) **Health effects for low income families:** Human health, particularly children, is affected by cold houses particular during sleep. Finding ways to get lower prices at night without inducing investment on peak should be a big priority.

7) **Charging off-peak:** EVs are a great addition to the market as long as they do not induce investment on-peak. Pricing signals should ensure consumers pay much more for on-peak charging.

24. Please briefly describe any potential solutions to the issues and concerns raised in Part four.

To provide the lowest cost of power into the future, the New Zealand Electricity Market must:

1) **Induce as much competition as possible:** All forms of competitors from generators, lines companies, pure retailers, specialty technology providers, petrol companies, Telcos should have an option to participate.

2) **Ensure a level playing field:** With the backdrop of maximum competition, the two kinds of market participant that can use their market power or monopoly positions to create an unfair advantage, should be forced to report and act as separate entities. In other words, generators should have governance separation between retail and generation; and lines companies should have the same requirement between the network and the retail activity.

3) **Maximize consumer participation:** With lines pricing allocated into time-based revenue recovery periods, consumers can rely on the price signals to make effective decisions to reduce on-peak and lighten their impact on the grid through conservation. The rough allocation should be: 40% of the revenue should be collected on-peak (during 20% of the hours); 40% during the day (during 40% of the hours); and 20% at night (during 40% of the hours).

4) **Slowing the migration to Marginal network costs:** With lines and transmission pricing allocated into time-based revenue recovery periods, the long-term lift to marginal costs will be slowed or perhaps even stopped. Marginal costs for the network can be 5 to 10 times (or greater) that current tariffs allow; so this is the most important economic imperative there is.

5) **Helping with affordability:** Curtailing price rises is the most important thing to address affordability. Removing fixed charges is a part of that equation as in a true “users pays” environment, frugal users should receive full benefit, and conservation should be fully rewarded.

6) **Health effects for low income families:** One of the pleasant by-products of peak allocated pricing is that Lowering night time pricing will allow low income families to heat their space more affordably. We believe night prices can be 1/3rd to 1/5th of evening peak prices.

7) **Strong signals to ensure EVS charge off-peak:** High peak charges will encourage EV owners to behave responsibly and use off-peak periods for charging

25. *What are your views on the assessment of the impact of technology on consumers and the electricity industry?*

Technology issues and observations:

1) **Technology is critical:** The wide-spread use of consumer-based technology is the key to accomplish lower future prices (particularly network charges as previously discussed) and deliver a 100% renewable electricity market. Every market rule improvement should enhance the prospect for EVs, LED lighting conversions, solar power, batteries, energy efficient appliances and more efficient heating systems.

2) **Consumer participation:** The most effective way to deliver this quickly is to engage consumers. There are many examples across the world where consumers will act to any price signal they understand to be permanent or repeatable.

3) **Price signals:** The key to permanent and repeatable price signals is to embed the structures in the market rules. Given the weight of lines company and transmission charges, these are the ones that require the greatest degree of specificity.

4) **Scale effects:** An aggregation of technologies can have dramatic effect. LED light conversions in 250,000 homes can equate to a 200 MW peaking plant over the winter being added. Solar power with batteries on 15% or the homes would offset a similar amount in summer. EVs would absorb the production of a typical solar system; so encouraging simultaneous use would cause minimal impact on the wholesale market and lower prices on the network.

5) **Helping with affordability:** Technology and time-of-use pricing can help low users as well. Shifting loads to off-peak and heating more in the low priced periods will add to their quality of life without costing more.

6) **100% Renewable Market:** It is realistic to expect that applying time-of-use pricing for 10 years will trigger the closure of Huntly, the propagation of over 100,000 EVs, the implementation of grid-connected solar plants and brighter, warmer homes. Batteries, including grid-scale, could very quickly be more economic than gas-fired peaking capacity as well.

7) **Carbon pricing and other collateral benefits:** with enough activity, the cost of carbon would reduce to zero, large scale expenditures in the grid would reduce to a manageable level, lines companies could channel capital to more economic activities than grid expansions, a warming climate and increase in air conditioning would be offset by solar power, lake levels with excess summer production could positively impact dry year risk and, as a result, consumers will receive lower cost power.

In short, technology is nothing but a positive impact, if coupled with time-of-use pricing. Providers of technology should come from as many sources as possible and competition from all parts of the industry is important to support and stimulate. No willing participant, whether a company of a consumer should have a barrier to act, as the aggregate effect of scaled use of technology should be the goal.

26. ***What are you views on the assessment of the impact of technology on pricing mechanisms and the fairness of prices?***

We believe the fear that technology will cause detrimental effects to lines companies is unwarranted. Technology and pricing regimes can be made to work together for the long-term reduction of capital investment. This can guarantee lines companies their revenue requirement and reduce cost to consumers. We believe reductions in revenue from technologies such as solar power will be made up from the use of EVs. The key is to ensure demand on-peak is always reducing over time.

To that end, our views are:

1) **Time-of-use pricing:** Consumers need to know that price levels will reward their investment decision. Time-of-use is the perfect way to simultaneously reward a frugal consumer, a solar power user, a EV user, a consumer seeking on-peak savings with LED lights, and so on.

2) **Punishment-free electricity market:** As a result, it should be prohibited to punish any consumer for making any investment choice that reduces peak volume, increases renewable energy volume or swaps petrol for electricity.

3) **Cloudy day revenues:** Lines companies have been openly against solar power on the basis that they reduce revenue. We believe that time-of-use pricing and recognizing the value of the network on a cloudy day, can make the introduction of solar power a none issue. Batteries, and their ability to reduce peak demand, can also be a positive as future network planning of capital expenditures.

4) **Low growth areas:** Wide-spread use of technology in certain networks could be an issue if they do not intend to face growth capital. We believe that this could be addressed by the differentials used in the time-of-use structure for that particular network. A review of the capital plans for a network would be the best way to judge an a case bay case basis.

27. ***What are your views on how emerging technology will affect security of supply, resilience and prices?***

Technology and security of supply:

1) **Consumer level:** The most effective way to improve security of supply is to put in a battery connect to the in-house circuit panel. This would be a pleasant outcome for all solar battery users. Grid scale batteries in residential substations, as a competitor to peaking plants, would also bolster local security of supply for all connected users.

2) **Summer solar:** A surplus of summer energy from solar panel providers will decrease dry year risk as strong solar production would continue through May in most regions. It would be the equivalent of thermal generation running almost every day from Oct through April. Dry year premiums would tend to be less in these scenarios.

3) **EVs:** EVs ultimately will use quite a lot of energy. Fortunately, EVs owners and solar uses are quite correlated and solar growth would run parallel to EV growth. Batteries or general system storage in a 24-hour period would allow for this offset to be effective**.** Disincentives to charge on-peak with time-of-use pricing will ensure EVs have minimal impact on network expenditures.

4) **Adaptation:** In a world where the market starts pushing loads off-peak and reducing volumes, the day-to-day operations shift to newly crafted operating modes on cloudy days and night time periods. In other words, the market will be quite resilient an adaptive to this for the foreseeable future.

5) **Consumer bills:** Solar users will save on solar but most likely spend about the same amount running an EV. Low users may pay more to improve household comfort at night but save by reducing on-peak. General infrastructure costs may go up but with lower demand profiles would rise less than otherwise would be the case. With price equalization, low users would get an immediate benefit. Time-of-use will put more control in consumers hands; so retailers can become energy use coaches to help consumers lower costs.

6) **Other impacts: Industry and job creation:** Energy efficiency and solar/battery propagation will create a large number of technical and trade-level jobs.

28. *What are your views on the assessment of the place of environmental sustainability and fairness in the regulatory system?*

Regulatory observations:

1) **Commerce Commission:** No concerns. If anything they could be more on-top of prompt payment discounts, win-backs and other consumer-facing positions some retailers take.

2) **EA:** The priorities of the EA needs major re-tooling in our view. They are not dealing with the important issues that affect competition and consumer prices. They should be advocating for time-of-use pricing, improving market liquidity, improving saves and win-backs, sorting out prompt payment discounts/late payment penalties, separation of retail from generation, guidelines for distribution companies entering retail, LU/SU price equalization, metering regulation, to name a few.

3) **UDL:** No concerns or recommendations.

4) **Environmental issues:** No real concerns. The carbon pricing regime will slowly react to a shift to more renewable energy and consumer participation in that will accelerate the move to 100% renewable.

29. ***What are your views on the assessment of low fixed charge tariff regulations?***

As previously discussed, the regime should:

1) **Remove the distinction:** The distinction should be removed. It is important that from the customers point of view, the price should be the same for all.

2) **Removal of fixed charges from regulated entities:** For lines companies, fixed charges should be replaced with time-of-use rates that roughly follow the weighting guidelines of:

   - 40% of the revenue should be collected on-peak (during 20% of the hours);
   - 40% during the day (during 40% of the hours);
   - and 20% at night (during 40% of the hours).

   Of course, each lines company would have the ability to adjust according to there circumstances as long as the three basic blocks are served with a price per kWh.

3) **Mandatory disclosure:** A rule to make the lines charge transparent on the bill would ensure the lines companies price signaling was received by all the connected customers.

4) **Retail behavior:** Since all other charges, (metering, billing and energy) are contestable, there is no need to be prescriptive. A retailer that chooses to package the costs and make them non-transparent, runs a risk that other retailers make more attractive offers.

30. ***What are your views on the assessment of gaps or overlaps between the regulators?***

We believe the alignment and allocation of responsibilities should be done once the EA mandate is revised to be more consumer oriented. Once a new set of pricing rules are implemented, the solution to any allocation (and any gaps) would be a by-product of the implementation process.

31. ***What are your views on the assessment of whether the regulatory framework and regulators' workplans enable new technologies and business models to emerge?***

As we mentioned earlier, the EA is off target. They are not dealing with the important issues that affect competition and consumer prices. They should be advocating for time-of-use pricing, improving market liquidity, improving saves and win-backs, sorting out prompt payment discounts/late payment penalties, separation of retail from generation, guidelines for distribution companies entering retail, LU/SU price equalization, metering regulation, to name a few.

32. ***What are your views on the assessment of other matters for the regulatory framework?***

No other observations to add.

33. ***Please summarise your key points on Part five.***

We believe the price review should:

1) The LU/SU regime creates unfair prices for low users, is not cost-reflective, is not “user-pays” and discourages consumer participation in reducing consumption through efficiency or technology;

2) Technology and efficiency are not fully communicated as a priority of the market;

3) The lack of a mandated level of transparency hides well intending lines companies pricing signals from reaching the consumer;

4) The wholesale market liquidity problem is a strong barrier to wide-spread competition;

5) Vertically integrated generator/retailers can unfairly compete with cross-subsidies within their transfer pricing;

6) Other competitors, such as Line Companies, technology companies, Telcos will be helpful to creating more innovative competition;

7) Win-backs allow defensive retailers to disengage in open competition and unfairly compete if and only if a consumer acts;

8) Prompt Payment Discounts as a marketing tool are misleading and punish those that struggle to pay each month; and

9) Metering pricing can be discriminatory and provide a competitive advantage;

10) Disconnection/reconnection fees should allow for low cost pre-payment services to help those that struggle to pay their bills each month; and

11) The EA mandate is not consumer-focused and needs a re-vamping of priorities to implement a better pricing regime

34. ***Please briefly describe any potential solutions to the issues and concerns raised in Part five.***

Summary of Solutions:

1) Implement government led communication that encourages consumer participation in the market (technology and efficiency);

2) Mandate TOU pricing with lines companies by:

   - 40% of the revenue should be collected on-peak (during 20% of the hours);
   - 40% during the day (during 40% of the hours);
   - and 20% at night (during 40% of the hours).

   Give lines companies the option to offer a flat price variable price for lines charges; provided it could be demonstrated that the flat price was the same consumer cost as TOU at the average network demand profile.

3) Minimum level of transparency to let lines companies pricing signal reach the consumer;

4) Equalizing prices by banning lines companies fixed charges;

5) Fix the wholesale market liquidity problem through mandated third-party purchase rules;

6) Force corporate reporting separation of vertically integrated retailers;

7) Encourage other competitors (Line Companies, technology companies, Telcos);

8) Ban win-backs and replace with communication that encourages fair and market-wide competition;

9) Ban the use of Prompt Payment Discounts as a marketing tool and replace with reference to Late Payment Penalty;

10) Regulate metering pricing and disconnection/reconnection rules to ensure a level playing field and low cost prepayment services; and

11) Re-tool the EA mandate to be outwardly consumer-focused.

Additional information

35. ***Please briefly provide any additional information or comment you would like to include in your submission.***