

Electricity Price Review
Ministry of Business, Innovation and Employment

The Salvation Army New Zealand, Fiji, Tonga and Samoa Territory Submission

BACKGROUND

1. The Salvation Army is an international Christian and social services organisation that has worked in New Zealand for over one hundred and thirty years. The Army provides a wide range of practical social, community and faith-based services, particularly for those who are suffering, facing injustice or those who have been forgotten and marginalised by mainstream society.
2. We have over 90 Community Ministry centres and Churches (Corps) across the nation, serving local families and communities. We are passionately committed to our communities as we aim to fulfil our mission of caring for people, transforming lives and reforming society through God in Christ by the Holy Spirit's power¹.
3. This submission has been prepared by the Social Policy and Parliamentary Unit of The Salvation Army. This Unit works towards the eradication of poverty by encouraging policies and practices that strengthen the social framework of New Zealand. This submission has been approved by Commissioner Andrew Westrupp of The Salvation Army's New Zealand, Fiji, Tonga and Samoa Territory.

¹ <http://www.salvationarmy.org.nz/our-community/mission/>

Consumer interests

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

The ability of consumers to effectively use and experience the electricity market varies across the New Zealand population. Socially mobile and better-resourced households often have multiple ways to express their priorities to the industry and stakeholders. This review should give priority weighting to the views of those who have traditionally not manoeuvred well through the electricity market, financially constrained and vulnerable households. These people, often do not have an active voice regarding the issues impacting them, problems which predominate are reliable supply, price and ease of understanding and making changes to their supply arrangements. This review should give intense weighting to these issues when reporting to Government.

The Salvation Army submits that the Review's assessments of consumers' priorities are an accurate reflection. As noted above, the focus of our work and ultimately for this submission is the needs, challenges and realities facing vulnerable New Zealanders. As such, we contend that vulnerable Kiwis share the same concerns that most Kiwis, and also most businesses have as identified here – reliability, affordability and fair prices. But the difference is, vulnerable Kiwis generally do not have the voice (or representation), financial means or freedom, or knowledge of this market, to effectively navigate through electricity issues. In our experience with vulnerable Kiwis, the reality is that their “consumer priorities” in electricity-related issues are tenuously balanced with other important and complex areas in their lives such as problem debt, cultural obligations, mental health and addictions issues, food poverty, English language challenges, and numerous other priorities that do effect their decisions about power.

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

The consumer's voice is uneven across the electricity sector. For instance, Utility Disputes reports that the majority of their complaints come from middle-class European consumers. For low income or vulnerable consumers concerned primarily about paying for food, rent, health and educational needs, electricity issues are only addressed in a crisis. Generally, they feel intimidated and baffled by a complex, not easily accessed, and increasingly technological electricity industry. Low income consumers have little voice in the priorities, delivery and costing of power. Industry mediator voices such as Utility Disputes need to be assisted to more highly market their services, and it should be a requirement on all companies to notify Utility Disputes of all complaints they receive so there is a watchdog on company performance.

The challenges about consumer voice are articulated well in pages 16 and 17 of the EPR Report that illustrates that many consumers, particularly those facing energy hardships, are often excluded from actively and effectively participating in this market. Conversely, the Review has noted some groups are well represented through groups like Grey Power. We support this given that many elderly people, in our experience, often face vulnerability through social isolation. In his study on social isolation for elderly people, Dr Hamish Jamieson from the University of Otago stated that *we want to try and show how much social isolation and loneliness are predictors of bad outcomes for older New Zealanders.*²

However, many other groups in society, including Maori, Pacific, new migrants and others, essentially have a limited or non-existent voice in this market. We acknowledge the efforts already made to try and capture these various consumers' voices. We contend that any work to engage vulnerable consumers in this market should be guided by the following principles:

- In for the long run – This engagement should be consistent and regular, and not just one-off focus groups
- Not tokenistic – It should be done with a spirit of effective and real engagement, allowing for a consumer-centric model to influence pricing, but also service and product design, delivery and implementation
- Culturally appropriate – Applying appropriate frameworks to any community or consumer engagement help in making the engagement meaningful and productive
- Not reinventing the wheel – For some groups, there might need to be new and more innovative ways that need be developed to engage with them. But there are also numerous grassroots and frontline organisations and NGOs who are well connected and have valuable data and stories. This Review has already engaged with frontline budgeters working with vulnerable people which are a great approach. There are other 'community champions' or well-connected groups and individuals that can help disseminate this key information. Additionally, we note the work Helen Tua and the Mercury Energy team in Auckland have done in engaging with vulnerable groups. A natural result of this engagement is that these people have a voice into and with a big business that they traditionally have not had.

² <http://www.superseniors.msd.govt.nz/health-wellbeing/preventing-social-isolation/social-isolation.html>

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

The extent to which Consumers trust their electricity suppliers will be in direct proportion to the degree to which they feel they have a way of making their supplier listen to their needs and views. Trust in the industry will be higher amongst those who think they have market alternatives and can apply some pressure in a situation where unmet needs and issues are not being addressed. Low-income households and minority ethnic groups have in our view lower trust in the electricity sector.

Additionally, we contend trust is also shaped by people and distance. People in the sense that if, for example, minority ethnic groups do not see *themselves* reflected in the staff and public image of these companies, then they might be less inclined to engage with or trust a company. We are unsure of the ethnic make-up of those providers in the electricity market. But recently, the State Services Commission, in their own public review of their Principal Act, stated that *Māori, Pacific and Asian ethnicities are still under-represented in the top three tiers of Public Service management. This will take time and deliberate effort to increase as non-European ethnicities are also under-represented at lower levels of management. The lack of ethnic diversity in management is a key challenge.*³ If the reality is similar in this electricity market, then we contend this will affect the levels of trust people will have about this sector.

And distance in the sense that the further away people are from where decisions are made, there is naturally a challenge with trusting in that service or company. This is illustrated well in Figure 3 in the Review Report. This challenge can be mitigated if there were more real opportunities for people to engage and have a voice in the market.

Prices

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

We are unhappy that generation and transmission charges have not changed, yet the domestic cost of electricity has increased considerably. We would prefer a fee which is directly tied to consumption, rather than arbitrarily have costs allocated differently to industry, business and households. Distribution costs should be allocated evenly across all consumption. Additionally, the shift over the years where residential costs have increased significantly adversely affects vulnerable consumers and low-income families even more because their financial resources is already limited, and increasing electricity costs come on top of other costs they have in their lives.

³ State Services ACT 2003 Consultation Document.

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

It is significant that internationally, where consumers have the lowest electricity pricing, it also tends to be countries where industrial electricity pricing is at similar or higher levels. It would seem to suggest that it is better for consumers where electricity is priced at a similar level for industry, business and households. We are very concerned about the steady increase for residential prices over industrial prices as compared to other OECD countries. Again this adds further financial stress on lower-income households in New Zealand.

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

An opportunity exists for increased profits in the electricity industry. Those possibilities are already being well researched by those who can see the chances for improved returns for shareholders. We believe that it would be somewhat naïve to assume that increased demand will not lead to pricing increase. There seems to be a history of an opportunistic price increases even at times when production and distribution cost remained static.

We believe this opportunistic pricing will continue to exist unless a firm and constant monitoring occurs in the market. A further problem is also possibly being created in lower income households. Those households do not have the same capital to purchase greener and more modern energy technologies with lower operating costs. Low-income consumers will need to be monitored into the future to ensure their overall energy cost does not increase disproportionately to other consumers.

Affordability

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

The Salvation Army submits that low-income consumers are poorly served in the current environment. They are also very unlikely to complain or question bills that may be excessive or incorrect. From our work with these households, we would feel that the Consumer survey may be underestimating the number of people who have affordability problems which stop them using essential electricity. The survey results point to 27% of households who had their power cut off because they couldn't pay their bill. Usually, in our experience households make adjustments to their electricity use before they are disconnected. It is likely then that more than 27% of households face affordability problems in their purchase of electricity.

Another concern for us, as illustrated in Figure 11 of the document, is the fact that many lower income families are missing out on the Prompt Payment Discount, particularly those who have missed out on that discount 2 or more times. This indicates the financial challenges these households face, as well as possibly showing the difficulties they might have with their own financial literacy and navigating through this market.

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

We support and affirm difficulties identified by the panel.

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

The future affordability of electricity for low-income consumers needs to be considered in light of general economic and social trends. The affordability of electricity for vulnerable consumers does not just depend on changes in the electricity market. Electricity affordability is far more likely to be impacted by housing costs, the food price index, petrol, health care costs and transport costs. Most families have a hierarchy of spending that they need to observe if they are to maintain their household. This priority of spending for most families is along the following lines; food, housing, transport to work, health care, children's safety, electricity. Polynesian families will additionally give priority to church contributions, funeral or the needs of extended families. An increase in the cost in any item with a higher priority to the household than electricity is going to affect the ability of that household to afford power.

A static electricity cost does not necessarily mean affordability; electricity will become unaffordable for households if other items seen by the household to have higher priority rise in price. Affordability of electricity can only be adequately considered if it includes consideration of different cost pressures facing households.

Summary of feedback on Part three

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

Electricity is too expensive for low-income consumers. The sophisticated and increasing technological smartness of the industry, while having many benefits, are benefits which may not be able to be accessed by low-income consumers. This will lead to further disadvantage and costs for these consumers. Electricity pricing and billing lack transparency, making it difficult for a multiproblem stressed household, to make decisions that will lessen the amount they pay for power.

The pricing mechanism needs to be equitable to all, and we believe a standard cost across the industry, commerce and household is a fair and equitable solution.

The electricity market must not be looked as an entity in itself but considered in light of other social and economic factors facing consumers.

Solutions to issues and concerns raised in Part Three

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

The Salvation Army recommend the following:

1. Standard unit pricing of electricity which enables easy comparison across suppliers.
2. Intervention instruments that provide support to vulnerable and low-income households, allowing them to have a constant supply of electricity to meet their needs
3. A more active monitoring of the pricing regime in the sector.

Additionally, for vulnerable or low-income consumers, there might be innovations that involve the sharing or donating of power from some consumers to others. There are some examples overseas, albeit with huge complexities, where surplus energy has been sold or supplied from one state to another state in America.⁴ Within our New Zealand context, could there be models where higher-income earners or the industry itself could donate and share some of their power with lower-income households? What if consumers could donate some of their monthly bill payment to a general pool of 'free electricity' that the power company could distribute charitably to its most vulnerable consumers? We submit innovations like this are hugely beneficial for a variety of reasons, including social cohesion, real support for vulnerable consumers, and the sharing and efficient use of resources.

⁴ <http://www.latimes.com/projects/la-fi-electricity-solar/>

Part four: Industry

Generation

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

We support the points raised in the paper.

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

No comment

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

We believe there is a significant potential to generate more electricity from solar sources using the roofs of New Zealand households, as well as public, commercial and industrial buildings. The economics of this as a generation possibility has not been viable in the past. New and lower cost technologies are likely to ensure the economics change positively. The government should consider heavily subsidising viable solar insulations and an enhanced payment system for electricity returned into the main grid. Such intervention will set New Zealand up for future increased demand for generation sources.

Retailing

15. *What are your views on the assessment of retail sector performance?*

We believe the present retailing of electricity disadvantages low income and vulnerable customers. There are too many options, the comparisons are challenging to make, and the billing systems often give selected information which misses critical data. We submit that there possibly should be a standard billing process for all electricity consumers preferably which is internet based. A standard invoicing system would enable comparisons to be made by consumers. We also submit that some of the focus on plain and simple English found in the Credit Contracts and Consumer Finance Act around credit arrangements could be useful here for this market's billing and advertising processes to ensure as many vulnerable consumers as possible can understand, navigate and participate effectively in this market.

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

We do not see significant barriers to competition in retailing. Retailers with larger consumer bases always have an advantage in the market and are better able to make unique deals in pricing. Despite this, however, other retailers have been able to enter the market offering different and cheaper models of pricing and engagement. We do not feel there are any significant changes in the retail area immediately apparent which would make a huge difference to consumers.

Vertical integration

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

No comment

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

We accept the analysis, showing that there is little evidence to indicate generators and retail profits are excessive. Still, we recommend that Government should have a system where generators and retailers report their profit and how it occurred regularly. Electricity is a public good. There should be a transparent way of assessing that excessive profits or price gouging are not happening. We are attracted to the possibility of further work being undertaken to see whether companies could be charged for water and geothermal resources, with this charge passed onto vulnerable consumers.

Transmission

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

We have no comment

Distribution

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

No Comment

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

No comment

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

We reiterate that we believe a standard per unit cost of electricity regardless of geography or consumer type would work best. Distribution costs in our view should be shared by consumption usage at a per unit cost

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

We are supportive of the idea of the panel, “establishing distribution system operators that coordinate the buying and selling of electricity over a distributor’s network.”

Summary of feedback on Part four

24. *Please summarise your critical points on Part four.*

Solutions to issues and concerns raised in Part Four

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

Part five: Technology and regulation

Technology

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

We agree with the assessment of the panel. The danger in the introduction of future technology is that in the present market it is likely to be introduced, in a manner that will benefit the companies in the electricity industry rather than consumers. In looking at the impact of technology and the sector, the assumption cannot be made all interests are aligned. The Government needs to have an expert watchdog group who monitor the latest in technologies and encourage those technologies that will best serve the consumer.

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

There would seem to be a possibility that technology will increasingly allow consumers to select the percentage of peak power versus off-peak power they use. Technology which better serves the consumer should be given priority in the rush to introduce innovation. Mechanism to ensure the consumer's voice is not lost in the introductions and rebuilding of the electricity infrastructure are vital

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

Our concern is that emerging technologies are likely to benefit higher-income consumers rather than low-income consumers. A proactive effort will need to be made to ensure that benefits are equally shared. This may mean that the Government needs to consider the capital funding of electricity technologies to lower-income consumers.

Regulation

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

Fairness and environmental sustainability are two critical factors in the future development of an equitable and growing New Zealand. The Government should encourage the electricity industry to develop plans which show how they will meet fairness and environmental sustainability. If this does not occur to a satisfactory level, then Government action is required. We believe this would best be achieved by an organisational structure which is joined up.

We would note that The Salvation Army have had a sharp increase in contact from the industry wanting to work on issues since this review was introduced. It suggests there needs to be a stimulus to get a change in these areas. Furthermore, it indicates there are current opportunities to engage with the industry closer to ensure their consumer-centred approaches adequately includes lower-income consumers.

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

Regulations such as the low fixed charges tend to be complicated, not well known and cause unfairness in the market. We would rather see a system where there are a standard charge and a method of support for low income and vulnerable customers. The Government may, for instance, repay the companies a fixed sum for the provision of a limited free power supply to low-income customers and vulnerable customers.

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

We support the panel's assessment

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

No comment

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

No comment

Summary of feedback on Part five

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

Solutions to issues and concerns raised in Part five

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

Additional information

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