Genesis Energy's submission on the electricity price review options paper

1. Executive Summary

1.1 Overview

Genesis supports a significant number of the 41 options included in the paper released on 20 February 2019 by the Electricity Price Review Panel (**Panel**). We recognise our role and that of other industry participants in:

(a) working collaboratively with Government to target solutions for consumers experiencing energy hardship;

(b) empowering consumers to meaningfully engage and benefit from the choices offered by the competitive market; and

(c) bringing greater transparency to all parts of the supply chain to ensure consumers continue to have trust and confidence that the sector is delivering fair, affordable, efficient prices.

In choosing which options to recommend, we believe it is appropriate for the Panel to focus on options that will deliver genuine sustainable benefits for all consumers in the long-term, rather than short-term gains. We caution that, what might present as quick wins may, on deeper analysis carry unintended consequences that put the collective progress made for consumers over the past decade at risk.

The Panel must also carefully balance any affordability, reliability and sustainability trade-offs inherent in its recommendations. This will better protect consumers from price shocks or disruptions to the secure supply of electricity to homes, businesses and industry as we transition to an exciting technology-enabled, low-emissions future.

1.2 Consumer voice and energy hardship

Genesis believes in the benefits of a more consumer centric approach and supports measures to strengthen consumer participation in the sector, including establishment of a Consumer Advisory Council (A1). As evident in our products and services such as *Energy IQ*, we are focused on providing relevant, useful and insightful information to our customers to drive better engagement and more informed choices. Consumer choice is a fundamental principle underpinning the competitive retail market, which comprises of a significant number of retailers offering more innovative products and services to meet consumers' varying energy needs. However, we recognise that this choice is not always available to consumers experiencing energy hardship and we support options (B1- B6) and (B8) to effectively target meaningful short and longer-term change for this group.

We do not support the regulation of prompt payment discounts (**PPD**) as recommended in (B7). The removal of PPD has been presented as a panacea for consumers in hardship, when in fact it does not improve fairness. Consumers experiencing energy hardship are better supported by targeted measures. Removing the PPD is a form of price regulation that we believe will undermine competition, discourage and disrupt innovation and reduce the benefits of choice enjoyed by many consumers.

1.3 Increasing retail competition

Genesis is constantly looking for new ways to better engage our customers, to ensure we remain their retailer of choice, focusing on service and delivering innovative energy management tools to give customers greater control of their energy use. Competition amongst the 35 + retailers is strong and we know our customers can and will vote with their feet if we are not offering them the sorts of choices that suit their energy needs. We support the Panel's recommendations to promote switching, provide consumers with easy access to their own data and ensure standard access to networks (C1-C4) as ways to improve consumers' awareness of the choices available in the wider market.

We do not support options that are fundamentally 'anti-choice' including prohibiting win-backs (C5) and promoting bulk switching (C6). These, in addition to (B7), are blunt regulatory interventions that disrupt the competitive market signals working to encourage new entrants, product and service innovation and price competition. We believe this extent of intervention is unnecessary when other options can improve competition without the significant risk of unintended adverse consequences, including those noted by the Panel itself referencing bulk switching for vulnerable consumers (B8).

1.4 Reinforcing wholesale market competition

We agree with the Panel that market participants and consumers would benefit from increased transparency of the wholesale market. Reflecting on the electricity and gas market stress experienced during spring 2018, it is important to address any actual or perceived information asymmetry to build greater trust and confidence in the market. An improved disclosure regime is needed that facilitates the disclosure of gas production outages and greater disclosures of the performance of generator-retailers (D1, D3, D4).

Changes are also needed to ensure market-making arrangements are robust and durable, especially during times of market volatility. This will be best delivered by an incentivised scheme that shares costs and risks to those best placed to manage them (D2). It is in the interests of all market participants to understand that any market-making design must reflect the realities of the market it operates in, including accepting prices will be high when there is a tightening of supply and demand. Volumes traded in the market during recent fuel shortages were high, even with widened spreads. Ultimately the availability of volume is the key indicator the market continued to function as intended. Narrower spreads would not address the underlying issue of high prices which, after an extended period of years of benign market conditions, may have come as a shock to some market participants. We have sought independent advice on market making design principles, which we have shared with the Panel.

1.5 Improving transmission and distribution

We are disappointed the Panel is unwilling to pursue greater efficiency gains in the monopoly parts of the sector, including through the amalgamation of electricity distribution businesses (**EDBs**) or lowering asset values and rates of return (E8 and E9). While we acknowledge the challenges inherent in these options, we believe this is a missed opportunity to target reductions in consumer bills, therefore improving affordability. Any dollar spent unwisely by monopoly businesses is a cost that consumers cannot switch to avoid, we encourage the Panel to issue strong direction to EDBs to pursue efficiencies through shared service models in lieu of amalgamations. Strengthened powers for the Commerce Commission (**Commission**) (E7) are important to provide increased scrutiny of monopoly spending. We also see a role for the Electricity Authority (**Authority**) and the Commission to be clear on expected timelines for standardising network access (C4) and realising the benefits of simplified and more cost-reflective pricing.

We agree with the Panel that consumers should have easy and timely access to their data and note that Genesis already provides this through a purpose-built online portal (C3). Consumers should also benefit from data shared between industry participants (E6). We support defining reasonable terms for access to smart meter data as a priority but this cannot compromise customer privacy or undermine the competitive market.

1.6 Improving the regulatory system and preparing for a low carbon future

Genesis supports the future regulatory framework to allow the market to deliver innovation for consumers but be responsive to potential market failures as distributed energy resources (**DER**) continue to change the way the industry and its consumers generate, store and consume energy. In our view, rules to determine how (not who) industry competes to deliver the benefits of DER to consumers must be clarified now, although we support the Authority to have flexibility to regulate network access (F1). This will mean participants are confident to invest knowing there is a level playing field, and enable greater collaboration and data sharing.

We support a review of the security and resilience of the sector that includes the role of DER, but looks more broadly at how best to ensure New Zealand continues to have access to secure, affordable and reliable energy into the future (G2). This should consider whether the current market structure will be fit for purpose in a more renewable future.

A summary of our position in respect of each option is set out in section 2 of this submission and we elaborate further on the above points in the relevant sections set out below. Where we do not support an option that has been recommended, we offer an alternative solution. We also wish to note our support for the ERANZ submission.

2. At a glance

Option	ELECTRICITY PRICE REVIEW	genesis
A1: Establish a consumer advisory council	🟢	🟢
A2: Ensure regulators listen to consumers	🟠	🟠
B1: Establish a cross-sector energy hardship group	🟢	🟢
B2: Define energy hardship	🟢	🟢
B3: Establish a network of community-level support services to help consumers in hardship	🟢	🟢
B4: Set up a fund to help households in energy hardship become more energy efficient	🟢	🟢
B5: Offer extra financial support for households in energy hardship	🟢	🟢
B6: Set mandatory standards to protect vulnerable and medically dependent customers	🟢	🟢
B7: Prohibit prompt payment discounts but allow reasonable late payment fees	🟢	🔴
B8: Explore bulk deals for social housing and/or Work and Income clients	🟢	🟢
B9: Ensure greater access to credit via positive credit reporting		🟢
B10: Require all retailers to provide a vulnerable customer product/service		🟢
C1: Make it easier for consumers to shop around	🟢	🟢
C2: Include information on power bills to help consumers switch retailer or resolve disputes	🟢	🟢
C3: Make it easier to access electricity usage data	🟢	🟢
C4: Make distributors offer retailers standard terms for network access	🟢	🟢
C5: Prohibit win-backs	🟢	🔴
C6: Help non-switching consumers find better deals	🟢	🔴
C7: Introduce retail price caps	🔴	🔴
C8: Promote regular consumer engagement via plan check requirement		🟢
C9: Explore extending virtual asset swaps beyond 2025		🟢
D1: Toughen rules on disclosing wholesale market information	🟢	🟢
D2: Introduce mandatory market-making obligations	🟢	🟠
D3: Make generator-retailers release information about profitability of their retailing activities	🟢	🟢
D4: Monitor contact prices and generation costs more closely	🟢	🟢
D5: Prohibit vertically integrated companies	🔴	🔴
D6: Require the Electricity Authority to provide education on information sources		🟢
D7: Establish a central repository for market disclosures		🟢
E1: Issue a government policy statement on transmission pricing	🟢	🟠
E2: Issue a government policy statement on distribution pricing	🟢	🟠
E3: Regulate distribution cost allocation principles	🟠	🟠
E4: Limit price shocks from distribution price increases	🟠	🟢
E5: Phase out low fixed charge tariff regulations	🟢	🟢
E6: Ensure access to smart meter data on reasonable terms	🟢	🟢
E7: Strengthen the Commerce Commission's powers to regulate distributors' performance	🟢	🟢
E8: Require small distributors to amalgamate	🔴	🟢
E9: Lower Transpower and distributors' asset values and rates of return	🔴	🟠
E10: Provide guidance for distributors to explore shared service models		🟢
F1: Give the Electricity Authority clearer, more flexible powers to regulate network access for distributed energy services	🟢	🟢
F2: Transfer the Electricity Authority's transmission and distribution-related regulatory functions to the Commerce Commission	🔴	🔴
F3: Give regulators environmental and fairness goals	🟢	🟠
F4: Allow Electricity Authority decisions to be appealed on their merits	🔴	🟢
F5: Update the Electricity Authority's compliance framework and strengthen its information gathering powers	🟢	🟠
F6: Establish an electricity and gas regulator	🟠	🟠
G1: Set up a fund to encourage more innovation	🟠	🟠
G2: Examine security and resilience	🟢	🟢
G3: Encourage more co-ordination among agencies	🟢	🟢
G4: Improve the energy efficiency of new and existing buildings	🟢	🟢

3. Strengthening the consumer voice

Genesis believes in the benefits of a more consumer centric approach and supports steps to strengthen consumer participation in the sector. As a company, we have found that by focusing on engaging with our customers about their energy use, they are better informed and more able to make choices, which builds trust and confidence in both Genesis and the industry.

We support the establishment of a consumer advisory council that provides a platform to better promote the interests of residential and small business customers (A1). To ensure this council has teeth they should be prepared to reject tokenism and genuinely reflect the views of New Zealanders and their different energy needs. Independent customer research that speaks to the views of a cross section of electricity customers would support the council in achieving this objective.

Balancing the need for independence with sufficient technical knowledge, while keeping costs reasonable, will be critical success factors. An interim council that is funded by industry could be set up as a priority to design a robust framework for the longer-term, including determining appropriate diverse representation e.g. individuals in front-line, customer-facing roles, representatives from small businesses, local government members, and budget advisory services.

4. Reducing energy hardship

Genesis supports targeting solutions to more effectively address genuine energy hardship and wants to work with industry and government stakeholders to deliver a package of 'fit for purpose', durable measures that make a meaningful difference for vulnerable consumers.

We agree a cross-sector energy hardship group should be established as a priority (B1). This group should initially be tasked with defining what 'energy hardship' is, how these households can be identified to ensure access to support measures and completing a stocktake of existing community and industry support available to vulnerable households e.g. the scalable ERANZ *EnergyMate* pilot that provides in-home, wraparound support and advice (B2 and B3).

This approach will ensure more effective collaboration between industry and government so that resources are best spent on identifying gaps in current support frameworks and filling those gaps with viable and effective solutions. These solutions should be focused on both assisting consumers in hardship to manage costs in the short-term (e.g. debt management), while driving at the underlying causes of energy hardship in the longer-term (e.g. low incomes and improving poor quality housing stock).

We support implementing mandatory minimum standards to protect customers who are vulnerable and medically dependent (B6) and believe all vulnerable consumers should be able to access support services. We note there is an existing ERANZ voluntary practice benchmark to model this from.

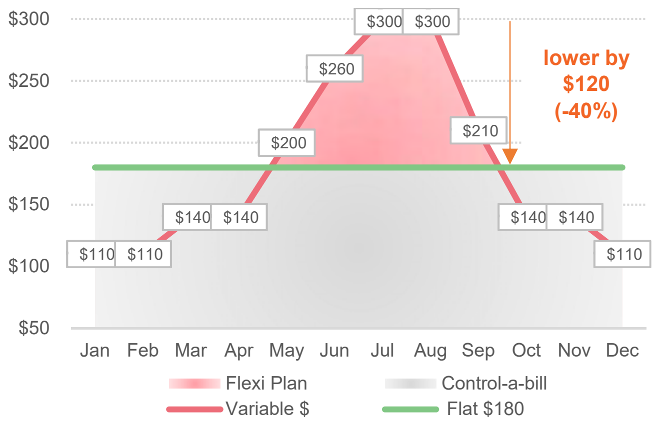
We also note that the range of possible solutions includes the Government establishing a 'Poverty Commission' to bring together the strands of work on energy, financial and housing hardship. Energy poverty is a subset of poverty and we agree this option is worthy of consideration outside of the scope of the EPR. We also see the proposal to improve the efficiency of New Zealand homes and businesses, which is a driver of very high energy consumption, has real merit (G4). We note there are existing funding programmes available to consumers, e.g. EECA's *Warmer Kiwi Homes*.

Regulating Prompt Payment Discounts is no panacea

Regulating PPD (B7) is no panacea for the issues faced by consumers in energy hardship, which can be better addressed by the other seven options in the paper that we support (B1 - B6; B8).

Customers supported under Genesis' vulnerable care package have their PPD automatically applied, which balances providing certainty for consumers with ensuring bills are paid on time. Our vulnerable care package includes other support measures that make a real difference to vulnerable customers including positive credit reporting - something we believe should be an industry standard as it improves consumers' access to credit (Genesis B9). It also has a bill-smoothing product, *Control-a-bill,* which helps customers to align their budgets with their bills and can effectively reduce their winter bill by 40 per cent.

Impact of Bill Smoothing



We believe all retailers should be required to provide a product or price plan that is targeted at assisting customers who are trying to avoid getting into debt they cannot manage. Having flexible payment options that smooth the bill or allow customers to pay smaller amounts more frequently (e.g weekly or fortnightly billing) are effective ways of preventing customers falling into difficulties (Genesis B10).

We reject claims that PPDs are inherently misleading. All retailers are well aware of the obligations under the Fair Trading Act 1986 not to mispresent prices or discounts. The name itself describes what is clearly communicated to all customers – PPDs are conditional on paying bills on time, which over 90 per cent of our customers do each month. Whilst we appreciate that PPD (or other price innovations e.g. free periods of power) might be difficult to communicate via a price comparison website, it is important to recognise that switching tools should be designed to reflect all the products and services available in the fast-moving competitive market; the market should not have to limit itself to fit within the bounds of price comparison websites.

The move to regulate PPDs sets a concerning precedent for intervention in the competitive market, especially if the panel extends it to other conditional discounts such as for direct debit, paperless billing and bundled offers. This kind of blunt price regulation undermines competition by reducing choice for customers and discourages innovation, which ultimately harms all consumers.

Further, regulating to remove PPD will not ensure customer price reductions because each retailer will determine its pricing strategy by reference to its assessment of overall competitive market dynamics. Our view is that the best and most effective way to ensure customers receive the benefit of low prices is to provide a platform for effective and sustainable competition.

If the panel continues to support option B7, it is crucial it allows adequate time for retailers to manage the customer impacts and system changes required. Many customers have enjoyed their PPD for over a decade, many have fixed PPD terms in their contracts and PPD is a key feature of some bundled offers customers have chosen. When Meridian Energy removed its PPD there was uncertainty for our customers as a number chose to contact us to confirm their PPD would not change. We will need to manage these messages carefully along with changes to Billing and CRM IT systems to ensure billing system errors are avoided.

5. Increasing retail competition

Genesis is always looking for new ways to better engage our customers to encourage them to continue to see us as their retailer of choice, including offering them meaningful insights that help them understand and manage their bills. We are working harder than ever to retain and attract customers thanks to a fiercely competitive market, with over 35 retailers offering an increasingly innovative range of choices to the consumers they serve. This competition is also driving improvements in service and cost efficiencies into retail businesses, resulting in decreased prices on the energy component of consumer bills and increasing customer satisfaction levels.

New Zealand consumers are finding it easier to switch and have high satisfaction compared with the United Kingdom (**UK**) and Australia. Recent surveys revealed two thirds of New Zealand consumers were aware of their ability to switch and the potential to make savings[1] versus the UK where 56 per cent had no awareness of switching at all.[2]

[1] Electricity Authority, "Advertising Tracker - telephone omnibus results," 2017
[2] Competition and Markets Authority, "Energy market investigation final report," 2016.

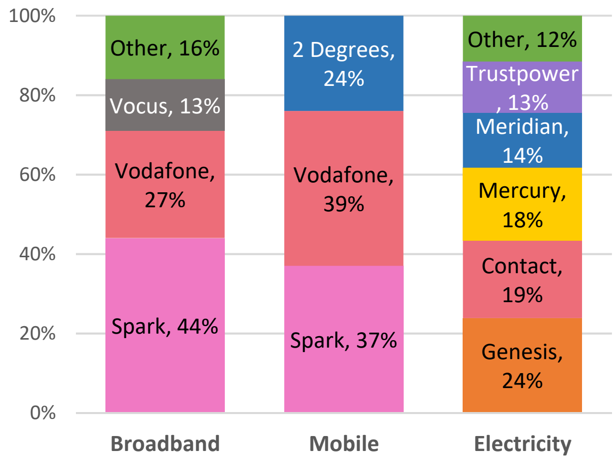
Competition measures New Zealand vs Australia & UK

NZ	UK	Australia
36 retailers for 2m customers (1:56k)	64 retailers for 25m customers (1:391k)	33 retailers for 9m customers (1:261k)
3-4 days to switch	16 days to switch	15 days to switch
$207 average annual savings	$600 - $800 annual savings	$500 - $800 annual savings
83% satisfied	65-70% satisfied (Big 6)	53% satisfied

Reference: Newgrange Consulting Report for ERANZ: International review of electricity retail markets

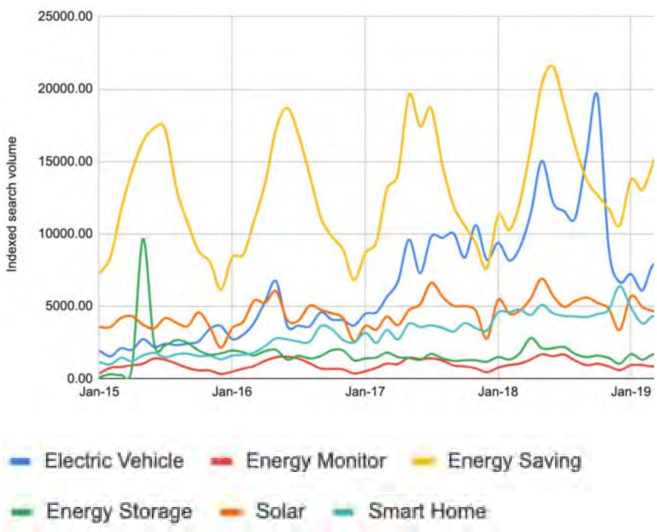
Electricity retail market concentration levels compare favourably against other consumer driven utility markets (e.g. telecommunications and broadband that are often cited as highly competitive).

Electricity Market Concentration vs Broadband and Mobile Markets



Electricity consumers are making choices based on what provides best value to their families and businesses. Assessing value is subjective and is informed by both price and non-price components including customer service and useful add-ons (such as energy management capability, free power periods and bundling options - i.e. electricity and gas combined). As more choices become available we are seeing greater engagement in energy. Recent analysis provided to us by Google shows a steady increase in New Zealand search terms for energy savings and electric vehicles.

New Zealand Search Terms



Reference: Google Future Energy Trends (report for Genesis Energy)

We support options intended to enable consumers to more readily experience the benefits of competition including: (a) making switching easier; (b) making more information about the products and prices available; and (c) ensuring there continues to be an easy route to resolving disputes[3] (C1-2). We believe that ensuring consumers have ready access to their data can enable this and note that Genesis has an industry-leading online portal that was designed to ensure customers and their agents can access their data in a timely fashion (C3).

We also consider that ensuring standard access to networks should be a priority to better facilitate retail competition, including for new entrants or tier two retailers looking to scale their operations into the regions (C4).

Price regulation undermines competition and discourages innovation

The innovation and choice enjoyed by consumers is the result of strong competition driving retailers

[3] We note that although awareness of Utilities Disputes Limited (UDL) is low, customers are still able to resolve their issues 72% of the time, which is the highest across industry categories according to the Consumer Protection, National Consumer Survey 2016, figure 33. Genesis provides customers with information about UDL on all bills, as well as on our website. We support the recommendation for other retailers to follow suit.

to find new ways to attract and retain customers. The proposals to prohibit PPDs (B7), win-backs (C5) and introduce bulk switching deals (C6) will individually and collectively disrupt the competitive market signals that are working to encourage new entrants, product and service innovation and price competition.

Competition is currently benefitting many consumers, as noted by the Panel. Many consumers, some of whom are likely represented in the number that have not switched, are happy to remain loyal to their current retailer. Others have benefited from switching, or from finding the best offers in the market through the winback process. This is supported by research undertaken by the Authority, which shows that in addition to the 440,000 customers switching retailer each year another 500,000 consider switching and then decide to stay with their current provider. [4]

Some great comments from our Voice of the Customer Surveys:

"Have had Genesis as our power company for YEARS and YEARS. Have had many companies try to get us to change BUT it's always a NO!! Great customer service, great products and great value for money!"

"I have had 2 other power company before and Genesis is the best so far in fact 100% do my payment every fortnight and I have no worry customer service is great very friendly so keep up the great job your all doing and have yourselves a merry Christmas"

While the full benefit of competition may not be reaching a small subset of consumers, this should not be addressed by non-targeted interventions that could unfairly harm the large number of consumers who do enjoy the numerous benefits of genuine and effective competition. The Panel has acknowledged concerns with non-targeted interventions when commenting on (B8). It notes that consumers' electricity needs vary significantly and a one-size-fits-all approach may leave consumers worse off. Additionally, consumers may miss out on innovative offers available in the market, including those that leverage technology developments.

Blunt measures in the form of non-targeted interventions are the regulatory equivalent of cracking a nut with a sledgehammer. The panel's comments are relevant to (C6), (B7) and (C5) and recognise that unintended consequences can harm consumers if regulatory intervention fails to hit the mark. The introduction of the Low User Fixed Charge (**LUFC**) is a good example of how poorly targeted regulation can distort the market and discourage innovation. We believe the introduction of (C6) will distort the market too, discouraging investment in customer loyalty.

Genesis has focused on driving deeper engagement with its customers regardless of how long we have been their retailer of choice, including by offering innovative products such as *Power Shouts* and *Energy IQ* or customer favourites like *FlyBuys*.

Not only is Genesis enjoying increasing customer approval ratings, analysis of our residential customers shows that the majority of customers that have been with us for more than five years are receiving discounts or lower 'no frills' rates. This indicates the benefits of competition, including price *and* innovation benefits, are flowing to customers that are not switching.

Pricing for Genesis Residential Customers > 5 Years Tenure

* our no-frills plan
** our no contract plan

We understand the Panel has based its support for the bulk switching proposed in (C6) on a UK trial. However, the New Zealand market can be distinguished from the UK on the basis: (a) consumers have greater trust and confidence in the industry; (b) the level of savings from switching

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[4] Electricity Authority, "Electricity Consumer Survey," 2016.

retailer is significantly lower; and (c) New Zealand has a more active switching market, a higher penetration of smart meters and access to free and independent price switching tools.

The Panel should be extremely cautious in adopting the UK's bulk switching campaign initiative. It is yet to be shown that this initiative delivers long term benefits for consumers. While the campaign may have been cited as a success based on take up rates, the impact on competition is yet to be seen and it is yet to be proven if consumers are on a better deal for their own circumstances as a result of the switch. Genesis' view is that (C6) is likely to disincentivise customers to engage effectively in the market longer term, which is at odds with the Panel's broader focus.

We urge the Panel to focus on measuring the success of the options noted below before taking more radical steps such as (C6). This will enable New Zealand to be an innovation leader, which we are well positioned to do with our high penetration of smart meters, renewable energy and active competitive market.

Ensuring all consumers can access the benefits of competition

Consumers have varying energy needs that competition can and will deliver for. To support effective competition, consumers need full information to support more informed choices taking account of their own unique circumstances. How Genesis customers feel when they are empowered to manage their own electricity use and bills is evident in the below:

To empower all consumers with useful, meaningful transparency about the choices available to them, we support the options (C1 – C3) that encourage switching. (C4) will also support retail competition to continue to grow beyond the main urban centres by making more choices available to more consumers.

Genesis suggests the Panel considers whether the current requirement for retailers to communicate with their customers annually about their household's plan can be better leveraged. Existing communications are focused on whether consumers qualify for the LUFC but, in future, retailers could use this as an opportunity to engage with residential (and business) customers on what plans they have available that could best suit a customer's circumstances (Genesis C8). This could be coupled with information about how and where to switch.

We recommend the panel explores whether the current virtual asset swaps should be extended beyond 2025 (Genesis C9). Existing arrangements have been effective in further strengthening competition in the New Zealand market by encouraging large incumbent gentailers, including Genesis, to expand into areas where they do not own generation.

6. Reinforcing wholesale market competition

Genesis is confident the wholesale market can and will continue to perform well with incremental improvements rather than structural change. We maintain our view there is a need to improve market transparency to address any actual or perceived information asymmetry and build greater trust and confidence in the market amongst all participants. We support inclusion of an option requiring the Authority to provide appropriate education to market participants on functioning and inherent risks relating to the wholesale electricity market and the many information sources available to participants. This will assist to address the perception of information asymmetries (Genesis D6). We also see a benefit in establishing a centralised repository for market information to make it easier for participants to navigate current market disclosures (Genesis D7).

Genesis also supports an improved disclosure regime (D1). Since 2017, we have called for increased visibility of thermal fuel limitations in discussion with the System Operator (**SO**) and the wider market. We recognise the importance of thermal fuel to understanding the risk of supply shortages in the broader energy system. The opaqueness of reduced gas supply was evident during the Pohokura outages in late 2018, contributing to an extended period of stress and volatility in electricity and gas markets.

Currently, there is no equivalent requirement for gas producers to disclose planned and unplanned outages, as applies to generators in the electricity industry. Genesis supports requiring the operators of gas production stations to disclose outages to the market. We also support large gas users to disclose any outages and note that Genesis already does this as per its Electricity Industry Participation Code 2010 obligations. In addition, we supply the SO with information about our coal stockpile to be modelled in the hydro risk curves, which we think should reflect the risk of running out of stored energy, not just hydro lake levels.

We note the Gas Industry Company (**GIC**) has recently published an issues paper canvassing options for gas information disclosure requirements. We encourage the GIC to work with the Authority to ensure thinking is aligned and to enable the Authority to address any gaps in its own disclosure regime once the GIC has completed its regulatory processes.

We further support requiring gentailers to disclose information about the financial performance of their generation and retailing activities (D3) and we support contract prices and generation costs being monitored periodically (D4). Genesis already provides segmented reporting and discloses the transfer price of energy sales in its Annual Report and is willing to do so in an appropriately standardised, disaggregated format that is consistent with agreed accounting standards.

Market-making arrangements need durable fast market rules

Genesis agrees that the current market-making arrangements have supported strong growth in the volume of fixed-price contracts traded and improved retail competition, two key success indicators that prove the scheme is achieving its intended purpose. A report from Sapere (which we have shared with the Panel) finds that the arrangements now appear to be being measured against an indicator not previously put to the industry: the widening of spreads during a period of volatility.

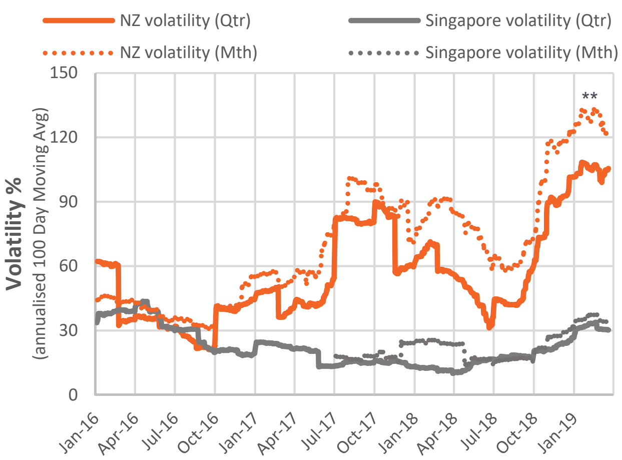
We are concerned this is driving a perception that the market is broken, when in fact any market-making arrangements would always need to provide provisions to trade through market stress. High prices will persist even if spreads are narrowed due to a genuine tightness of supply and demand, and regulating market-making would not solve the underlying issue that some market participants would prefer lower prices. The fact that volume was available through this period is a key indicator that the market continued to function, albeit at prices that did not suit some participants.

That said, we agree the regime should be evolved to ensure it is fit for purpose and durable for the future, especially during such times of volatility. We note the Panel favours imposing mandatory market-making obligations referring to the UK model and in time transitioning to an incentivised scheme as in Singapore (D2). Our preference is to implement an incentives-based scheme as soon as practicable, for reasons explained below and noting the differences between New Zealand and other markets.

As a starting point and regardless of whether the model is voluntary, mandatory or incentivised, market-making arrangements must make trade-offs between provisions for trading through volatility, trading during normal market conditions, the number of market-makers and what incentives are available to market-makers.

It appears the crux of the current issue in New Zealand is understanding what amounts to 'portfolio stress' when there is a 'fast market'. The Sapere assessment of the New Zealand, UK and Singaporean schemes is that these sorts of provisions underpin the success (or failure) of regimes and must reflect the unique characteristics of the market in which they apply. Accordingly, while lessons may be taken from other jurisdictions, the uniqueness of New Zealand's hydro-dominated and seasonally-variable market must be accounted for.

Contract Volatility* New Zealand vs Singapore



* Contract volatility is calculated using the 2nd forward quarter/month of the contract
** Volatility on monthly contracts is currently greater than 120%, which is considered extreme.

The Panel appears not to have taken full account of key features that distinguish the UK and Singapore schemes, in particular recognising that they have recalibrated their arrangements to respond to market volatility and have markets that are thermal-dominated and less volatile than our own. There is also no reference to the flaws of the mandatory market-making regime in the UK, or to understanding the barriers to developing an incentives-based scheme in Singapore that were particular to that market.

In the UK spreads are pre-defined to account for market volatility and 'fast market' conditions. There are no incentives for market-makers, who have made successive trading losses such that the market regulator was sufficiently concerned to propose both a soft land period at the beginning of trading periods and a new 'fast market' rule. With the cost of market-making rising, there are now concerns that designated market-makers will merge to consolidate their obligations, which could destabilise the scheme and reduce competition.

In Singapore an incentivised scheme is working relatively well, although the costs of market-making have been higher than anticipated due to market volatility. This is not a failure itself but further evidence that fast market rules must be robust.

One of the key benefits of the Singapore model is that it accounts for these costs efficiently. This is because it is open to any participants with the capacity to market-make, which speaks to a general principle that underpins any competitive market; a wider pool of participants mean costs and risks are spread and liquidity is improved. As a result, companies that are best placed to play the role of market-makers take on that responsibility in both normal and volatile trading conditions because they will be rewarded to do so. It has also significantly reduced compliance and monitoring costs compared with a mandatory regime, as noted by the Panel.

It appears the main barrier to designing an incentivised scheme in the near-term for New Zealand is the impression it would take several years to develop based on the experience in Singapore. There are two key reasons why it would be different in New Zealand.

First, market-making arrangements in Singapore were introduced at the same time as a new futures market, to which there was considerable resistance. In New Zealand, we already have both a successful futures platform and a willingness to transition existing market-making arrangements. Secondly, we note that the Australian Securities Exchange (**ASX**) is already facilitating the current market-makers to design parameters for a licencing agreement with incentive and compliance arrangements. The Authority has been informed of this work, which could be accelerated and prioritised, including determining an appropriate cost-recovery model.

We support industry collaboration to deliver an incentivised model as quickly as possible but accept an appropriate regulatory backstop that is clear market makers should not be required to take on undue risks may be necessary. The addition of other parties into market-making will provide narrower spreads and more resilience in times of market stress.

this should be a key focus for the Panel regardless of whether the design of the scheme is voluntary, mandatory or incentivised.

Market making is one of a number of wholesale market mechanisms that support retail competition. Retailers also have a variety of bilateral contract options to help manage their wholesale price risk which, if used in conjunction with ASX futures, will enable them to effectively mitigate their exposure to high spot prices in times of market stress. For example, Genesis currently has a number of small, long-term deals directly with merchant generators. This has enabled us to effectively build on our hedge book through a number of mechanisms that are available to all retailers.

7. Improving transmission and distribution

The monopoly parts of the sector need to be more transparent and accountable for how they spend consumer funds as the broader industry comes under pressure to keep prices affordable for consumers.

Efficiency gains can be made through simplification and standardisation

We see that EDBs face a 'please explain' for sustained high prices when performance is evidently reducing and assets are deteriorating. When transmission costs are included, lines costs make up almost 40 per cent of consumers' bills and have been the cause of 90 per cent of residential bill increases since 2012. Significant efficiency gains are needed to reduce the price escalation from the monopoly parts of the sector that do not face competitive disciplines, to ensure they are best positioned to deliver benefits to consumers.

We support standardisation and simplification across the distribution sector and are pleased that the Panel endorses requiring EDBs to offer standard terms for network access (C4). We also support the option to phase out the LUFC (E5) as it currently drives unhelpful complexity and high winter bills. Removing it will both address these issues and allow simpler pricing structures to be developed for the benefit of consumers. It is important that as this change is made and EDBs move to more cost reflective pricing, consumers are protected against price shocks through a well-managed and signalled transition.

Unfortunately, the panel's unwillingness to recommend amalgamation (E8) means the inefficiency and complexity of 29 different network suppliers with different agreements, standards and tariffs remains a problem. We are concerned that some EDBs might not have the scale necessary to keep up with changing consumer preferences and that those networks will suffer from a lack of future-fit infrastructure investment as a result. We appreciate the complexities inherent in amalgamation but urge a greater commitment to sharing and collaboration between EDBs as an alternative.

We note the panel seeks to 'encourage' more contracting and joint ventures between EDBs, and better collaboration generally. In our view, specific guidance should be provided to EDBs in order to ensure that shared services models are prioritised as a way to deliver material benefits to consumers (Genesis E10). Some networks are doing this already, for example, the Powernet management model, however, the practice is not common across the sector.

The Commission should be empowered to improve EDB efficiency, including their asset management practices, operational performance and investment in infrastructure and business systems (E7). We particularly support this option and believe the Commission should make use of its broader range of tools, including benchmarking, to bring greater transparency and focus on EDB performance and highlight areas for improvement. We also strongly support the development of forward looking quality measures.

Data sharing on reasonable terms to deliver consumer benefits

We agree EDBs should have access to data to efficiently manage their networks, develop cost reflective pricing and improve outage communication (E6). There are clear customer benefits for doing so. Genesis already has bilateral agreements with many EDBs to share data appropriately but there are some that will not agree to terms protecting consumer privacy and misuse of data – this is a good example of the lack of standardisation among the 29 EDBs.

Genesis respects its customers' rights to privacy and is concerned to ensure it meets with increasingly stringent legislative obligations as they relate to customer privacy and data protection. The reasonable terms that Genesis seeks from EDBs are assurances that the data shared will be used strictly for network purposes and that there are robust controls around data privacy. We do not accept that there should be a lower threshold for privacy for consumers in some regions compared with others and why any monopoly business seeking to enter contestable markets should get free access to data to enable them to do so.

While we are committed to resolving the current impasse being experienced with a small number of EDBs, so that all EDBs have data to develop cost reflective pricing, a regulatory solution may in fact be needed. Increasingly, retailers have individualised systems and processes when it comes to data collection and storage to support their competitive offerings. This means it is likely to be more efficient if EDBs and metering equipment providers contract directly. This is especially relevant considering EDBs require data that most retailers do not collect e.g. voltage data. A standardised agreement, which ensures consumer privacy is at the centre of data disclosure between all industry participants and that limits misuse of that data so as not to undermine competition is essential. We must disclose and use consumer data responsibly if we are to retain a social licence to innovate to deliver benefits for consumers.

8. Improving the regulatory system

Genesis supports a certain and stable regulatory framework that allows the market to work to deliver innovation for consumers, but is responsive to potential market failures. This is especially true as DER continues to change the way we generate, store and consume energy.

We support confirmation that the Authority should regulate the conditions for use of transmission and distribution networks, including having flexibility to tighten current arms' length rules (F1). Those rules should be clarified now so that industry participants can be confident to invest in DER, knowing there is a level playing field for competition. This would enable all parts of the sector to collaborate more effectively to provide greater choice and innovation for consumers. It would also make it easier to agree data sharing principles as per (E6).

Increasingly, regulators are having to be agile to respond to complex issues and strike the right balance between setting conduct rules and allowing markets to develop. We consider a right to appeal regulatory decisions is important to reduce the risk of errors or poorly reasoned decisions that undermine confidence and increase investment risk (F4). The Authority's decisions should be able to be appealed on their merits in a similar manner to that available to challenge decisions of the Commission.

We do not understand why the Authority should be given the scope to gather any information for any review directed by the Government 'regardless of whether the request related to the Authority's statutory objectives' (F5). Little justification is given for supporting this option and to us it appears to be a significant extension of powers beyond the Authority's mandate and expertise that should not be undertaken lightly. In the absence of clear rationale, Genesis opposes this option.

9. Preparing for a low-carbon future

New Zealand ranks in the top ten globally for balancing the reliability, sustainability and affordability of its energy system. This must remain the focus as we transition to a low emissions economy. We support a review of the security and resilience of the energy system (G2) that takes this focus and considers the impacts of all targets, policies and reviews currently underway that will affect the electricity sector.

It is important that the (G2) review does not duplicate work already underway. Accordingly, we suggest it is delayed until after the completion of key existing work programmes e.g. the Interim Climate Change Committee's project, and support more coordination between all government and regulatory agencies to ensure silos that exist do not persist (G3). The (G2) review should consider questions yet to be examined such as whether the current energy-only market structure will be fit for purpose in a high-renewables energy system, or whether firm-energy or capacity markets might be necessary.

We do not support an innovation fund (G1) as there are already funding options available to the industry for research and development. We would be concerned if EDBs were provided access to a fund such as this to trial DER in the absence of ringfencing rules (that would provide assurances they would not use this to get an artificial leg up in what should be a contestable market).