

27 February 2020

Hon Kris Faafoi
Minister of Commerce and Consumer Affairs
Parliament Buildings
WELLINGTON

Dear Minister

RE: MINISTERIAL EXPECTATIONS FOLLOWING THE ELECTRICITY PRICE REVIEW

1. Thank you for your letter dated 10 December 2019 setting out your expectations of the Commission following the Electricity Price Review (EPR).

Our intentions are in line with your expectations

2. We are pleased to confirm that our intentions following the EPR are consistent with your expectations. In particular, in line with your expectations following the EPR, we will:
 - 2.1 Review our consultation and stakeholder engagement processes relevant to our electricity sector regulation work under Part 4 of the Commerce Act 1986 (**Part 4**), to identify options for collecting the views of electricity consumers and addressing their needs through our work.
 - 2.2 Continue to implement Part 4 regulation in a way that encourages innovation among electricity distributors, thereby contributing to the Government's objective of decarbonisation through greater electrification.
 - 2.3 Contribute to the work of the Ministry of Business, Innovation and Employment (**MBIE**) and the Electricity Authority in responding to EPR recommendations, as appropriate.
3. The attachment to this letter provides information on how we intend to implement these activities. Importantly, we recognise the need to work effectively across the energy markets regulatory system, including with MBIE, the Electricity Authority, and the Energy Efficiency and Conservation Authority (**EECA**), in order to deliver changes that will deliver long-term benefits for consumers.

Funding implications

4. You also wished to understand the funding implications associated with your expectations, and our view is that consumer engagement is the only area likely to have funding implications.
5. We meet the cost of our existing consumer engagement initiatives from existing funding. We also expect we will be able to meet the cost of reviewing our consumer engagement practices from our existing funding. However, it is possible that some of the options for engagement that we identify through the review will have funding implications for Part 4 levies.
6. These costs were not specifically considered as part of the baseline review. However, we will be able to update you on the different options for consumer engagement and the associated costs later this year once we have completed the review of our engagement practices. We expect the options will then inform our consultation on Part 4 levies toward the end of this calendar year.
7. We note that other EPR recommendations relating to Part 4 and the institutional arrangements for energy policy and regulation are still being considered by the Government. We will continue to participate in these reviews as they progress, including advising on any possible funding implications for the Commission.

Further information

8. I would be very happy to discuss this with you further or to provide more information on this letter or any of the areas outlined in the attachment.

Yours faithfully



Anna Rawlings
Chair

Attachment: Further detail on our intentions following the Electricity Price Review

1. This attachment expands on how we intend to deliver on your expectations following the EPR.

Strengthening the consumer voice

2. The EPR has helped identify some of the challenges that electricity consumers face in making their voices heard in matters affecting them in the electricity sector. We are committed to listening and taking into account the views of electricity consumers, as well as incentivising better consumer engagement by regulated businesses.

Reviewing our consultation and stakeholder engagement processes

3. We have commenced a review of our consultation and stakeholder engagement processes relevant to our electricity sector regulation functions under Part 4 of the Commerce Act. Our decision-making under Part 4 always aims to promote the long-term interests of consumers. The review of our stakeholder engagement processes will focus on ensuring that our decision-making is well informed by the views of consumers, particularly households and small businesses. This includes ensuring we are listening to electricity consumers' views on preparing for a low-carbon economy, and considering how those views relate to our decision-making powers under Part 4.
4. Through the review, we will consider our stakeholder consultation and engagement processes against relevant international practices for electricity network regulation, aiming to identify options for improving our processes that are likely to be most effective in a New Zealand context. We expect to identify a range of options for measures we could take, ranging from options that could be implemented within our existing funding, to others that would likely require additional funding.
5. For example, close to home, the Australian Energy Regulator (**AER**) uses a combination of the following stakeholder engagement practices and tools:
 - 5.1 Relatively low-cost options, such as developing a service charter, developing a stakeholder engagement framework, and developing consumer engagement guidelines for regulated suppliers.
 - 5.2 Higher cost options, such as establishing standing or one-off consumer consultative committees and reference groups, establishing consumer challenge panels (currently under review), and a collaborative customer forum model being trialled by the AER along with Energy Consumers Australia and Energy Networks Australia. One of our staff members was recently seconded to the AER to work on and learn more about that trial.

6. Cost implications will tend to be higher as options move through the International Association of Public Participation's consumer engagement spectrum: from informing and consulting with consumers at one end, to involving, collaborating with, and empowering consumers at the other.
7. Once we have reviewed our existing processes and canvassed the options for enhancement, we will update you on any options we consider might work well in the New Zealand context and what the likely funding implications and benefits would be. We are aiming to complete this step in time to inform the Part 4 levy funding consultation to be commenced toward the end of this calendar year. Following that, we will make any appropriate improvements to our existing consultation and stakeholder engagement processes, and document and publish any new processes.
8. Finally, in the course of reviewing our stakeholder engagement processes to identify options for collecting consumers' views and addressing their needs through our work, we will also consider:
 - 8.1 How we can further incentivise regulated electricity suppliers to engage with consumers better, particularly when it comes to understanding local price-quality trade-offs. This is especially important for those suppliers intending to apply for a customised price-quality path (such as Otago-based Aurora Energy, which has established a Customer Advisory Panel to inform its customised price-quality path proposal).
 - 8.2 What we can learn from our existing consumer engagement activities in other regulated sectors and in our competition, fair trading and consumer credit work. For example, in our telecommunications work we have recently reached out to consumers through videos, Facebook surveys, Ministry of Social Development and Aged Concern newsletters, and other channels, to seek their views and inform them about important matters affecting them. We recently recruited a Senior Stakeholder Engagement Adviser to lead our telecommunications consumer engagement, in light of our new responsibilities to provide information to consumers to help them when choosing their telecommunications services. We will look to draw on her expertise when reviewing our electricity stakeholder engagement processes under Part 4. As you know, we have an established history of direct consumer engagement and advocacy relating to our fair trading and consumer credit work and the Commission is strongly focused on expanding and improving consumer engagement in these areas, as well as in telecommunications and electricity regulation. We will draw on consumer engagement expertise and processes currently employed, and under development, across the full range of the Commission's work as our review progresses.

- 8.3 How we can effectively work with other sector participants to engage with consumers. These include: other government agencies (such as the Electricity Authority, EECA and MBIE); electricity sector supplier representative bodies (such as the Electricity Network Association, Energy Trusts of New Zealand, Electricity Retailers' Association of New Zealand); electricity sector suppliers (many of which are owned by consumer-elected trusts or local councils); supplier-created consumer representative groups (such as those established by Transpower, Aurora Energy, and the Electricity Network Association); and consumer representative bodies with a particular interest in the electricity sector (such as Consumer NZ, the Major Electricity Users' Group, and the BusinessNZ Energy Council).
9. As an example of our work with other sector participants on stakeholder engagement, we recently joined the Electricity Authority in trialling empathy-based interviewing techniques to gain insights into consumer views on the electricity market, and we participated in meetings with consumer representative groups convened by Transpower and Aurora Energy.

Consumer Advocacy Council

10. We welcome the planned establishment of a Consumer Advocacy Council. We expect that the Council will have a valuable role in strengthening the consumer voice by providing input to our regulatory decision-making processes on behalf of residential and small business electricity consumers.
11. We have found that our processes are improved when appropriately resourced participants with a consumer perspective can provide considered and well-informed input into our work. This is particularly the case where our decisions relate to highly technical matters, such the methodologies for determining regulated suppliers' cost of capital, or for valuing the assets used to supply regulated services.
12. We will continue to liaise with MBIE as it establishes the Consumer Advocacy Council, including on the timing of its proposals to establish the Council, and any relationship with the Commission's plans and processes. Once established, the Council will be a key stakeholder for us and, when reviewing our stakeholder consultation and engagement processes, we will consider how we can most effectively engage with it.

Other work underway to better engage with consumers

13. Your letter complements your annual letter of expectations for the 2019/2020 year. That letter outlined your specific expectation that we maintain strong and trusted relationships with stakeholders, including by making information about the performance of regulated suppliers available to consumers in an accessible form.

14. Consistent with your 2019/20 letter of expectations, last year we took some steps to improve access to information of interest to electricity consumers by:
 - 14.1 Releasing the second version of our Performance Accessibility Tool, which provides online access to stakeholders about key performance data and metrics of electricity distribution businesses.
 - 14.2 Live-streaming a presentation announcing key regulatory decisions impacting electricity consumers.
15. We appreciate that this information may be more useful to some consumers than others and we will continue to examine how we can make information available in a way which helps consumers and other stakeholders understand how the sector and relevant businesses are performing.
16. Last year we also initiated a consumer outreach programme to start building relationships and make connections with consumer representative groups with whom we previously have not had much or any interaction in our regulatory work. To date we have met with Aged Concern, Rural Women, Salvation Army and Citizens Advice Bureau. We want to continue to understand how to best work with the groups we have contacted so far, and to engage with more groups this year.
17. Aurora Energy's application for a customised price-quality path in June 2020 will be a major focus for the Commission in 2020. The Commission is looking to hold meetings with consumers and key local stakeholders in Dunedin, Central Otago and Queenstown Lakes to ensure they have opportunities to participate in the process and feel heard. The Commission would also like to re-engage Aurora's Customer Advisory Panel to get targeted consumer feedback on key issues and we will prepare consultation documents that are easy for everyday consumers to engage with.

Preparing for a low-carbon future

18. We are mindful of the need to encourage innovation in the electricity sector to meet the challenges of decarbonisation, as well as to meet the changing needs of consumers and to deliver value for money. The purpose of Part 4 of the Commerce Act refers to regulated suppliers having incentives to innovate for the long-term benefit of consumers, and we must promote the Part 4 purpose when making decisions about regulated electricity lines services. We must also promote incentives, and must avoid imposing disincentives, for suppliers of electricity lines services to invest in energy efficiency and demand side management, and to reduce energy losses.

19. We also recognise the link between this topic and consumer engagement. It is important that through our stakeholder engagement we listen to electricity consumers' views on preparing for a low carbon future and work to reflect their voice and their needs in our work.
20. As acknowledged in MBIE's December 2019 discussion document, *Accelerating Renewable Energy and Energy Efficiency*, the Commission's recent default price-quality path decision includes a number of features relevant to encouraging innovation by electricity distributors in a way that contributes to the Government's objective of decarbonisation through greater electrification. Our decision includes:
 - 20.1 An allowance for electricity distributors for innovative projects.
 - 20.2 Equalising incentives on electricity distributors for operating expenditure and capital expenditure, to incentivise non-wire alternatives like demand side management where it is more cost effective.
 - 20.3 A shift to a revenue cap (from a price cap), allowing electricity distributors more freedom to adjust their pricing structures to support demand side management and the adoption of new technologies, such as electric vehicles.
 - 20.4 Provision to "re-open" an electricity distributor's revenue cap to allow for the costs of large distributed generation and large unforeseen industrial connections, such as due to the electrification of process heat.
21. We consider there is still more that could be done by us and by electricity lines businesses to encourage innovation in the sector. This year, we intend to:
 - 21.1 Continue working with the Electricity Authority to understand better the risks and benefits associated with the supply of emerging contestable electricity services by electricity distributors. More generally, we will also support the Authority and MBIE as they implement the findings of the EPR, including in relation to any changes to the Authority's powers.
 - 21.2 Initiate a targeted review of our information disclosure requirements for electricity distributors. This will include following up on recommendations by the Authority's Innovation and Participation Advisory Group intended to improve the use of distributed energy resources, such as rooftop solar.

Other Electricity Price Review recommendations relating to the Commission

22. We have had preliminary discussions with MBIE officials about proposals to strengthen our Part 4 powers for regulating electricity distributors and to review institutional arrangements for the sector. We will continue to participate in these reviews to help ensure that the outcomes are workable and effective, and to advise on any possible funding implications for the Commission.

23. Finally, we welcome the EPR's recommendation for the Boards of the Commission and the Electricity Authority to share a member. We will also support the Authority's examination of the security and resilience of the electricity sector.