

28 November 2016

Submissions
Electricity Authority
PO Box 10041
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By email: submissions@ea.govt.nz

**SUBMISSION on
"Review of the customer compensation scheme" consultation paper**

1. Introduction

Thank you for the opportunity to make a submission on the review of the customer compensation scheme consultation paper. This submission is from Consumer NZ, New Zealand's leading consumer organisation. It has an acknowledged and respected reputation for independence and fairness as a provider of impartial and comprehensive consumer information and advice.

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2. Answers to discussion document questions

Consumer NZ strongly supports the retention of the customer compensation scheme (CCS). We agree its objectives remain valid and its design remains generally fit for purpose. However, we think the Authority should consider some changes to the CCS. These changes are outlined below in responses to selected questions in the consultation paper.

Question 1 – Do you agree the objectives of the CCS remain valid and contribute to an efficient security of supply?

Yes – we agree the CCS's three objectives remain valid. In particular, we support the scheme's intent to avoid a recurrence of the issues observed during conservation campaigns in 2001, 2003 and 2008.

Of particular concern is the incentive for retailers to lobby for an official conservation campaign (OCC) to limit their exposure to high spot prices during dry years. In addition, growing public fatigue with campaigns has been seen, to the point where the 2008 campaign had little to no effect. We think the CCS is a useful response to these issues and remains an essential tool to promote the reliable supply of electricity for the long-term benefit of consumers.

We also share concerns that recent market developments could heighten risks to the security of supply, including the withdrawal of a number of thermal and dual-fuel generation units, combined with uncertainty around demand growth, particularly the future of the New Zealand Aluminum Smelter (NZAS) at Tiwai Point. In our view, this adds to the importance of retaining the CCS as a way of rewarding consumers for conservation efforts if and when demand outstrips supply.

Emerging technologies such as electric vehicles, solar PV and battery-storage may also increase, soften or time-shift future demand, further emphasising the need for the CCS as an important tool to safeguard security of supply. That said, we believe the CCS may require modification so as not to unfairly penalise/reward early-adopters of emerging technologies.

Question 2 – Do you agree with the Authority’s conclusion that we should not modify the CCS at this time? If you disagree, please explain your reasoning in terms consistent with the Authority’s statutory objective in section 15 of the Electricity Industry Act 2010.

We believe the current design of the CCS is largely fit-for-purpose. However, there are three areas where its design could be improved to ensure it continues to support the Authority’s statutory objective in a rapidly-changing market.

- 1) **We are concerned a default minimum weekly amount (MWA) of \$10.50 is currently, or may soon be insufficient, and the current triennial review period is too long.** While we agree in principle that compensation should be cost-neutral to the retailer and thus reflect as accurately as possible the value of a customer’s electricity-saving efforts, we are concerned the current three-yearly review of the MWA is unsuited to New Zealand’s rapidly-changing electricity market.

Section 3.1 of the consultation paper raises concerns demand could outstrip supply due to decommissioning of thermal and dual-fuel generation, and doubts over the future of the NZAS at Tiwai Point could lead to uncertainty over new capacity investment. Section 3.3 also highlights concerns over unpredictable demand growth/reduction from the uptake of electric vehicles, solar PV and battery storage.

All the above developments could rapidly alter the electricity market in a short time. For example, the sudden emergence of more affordable electric vehicles (EVs) through the entry of a large-scale supplier to our market and/or greater EV support from government would be likely to suddenly increase the electricity consumption (EC) factor in the MWA calculation. If this occurred in mid-2017, it would take three years for the MWA to be revised based on the current triennial review period. We think the Authority should review the MWA annually or otherwise add a mechanism to engage a special review if market conditions suggest it is no longer set at an efficient level.

- 2) **There is potential for the CCS to unfairly penalise/reward early-adopters of emerging technology.** The methodology used to determine the MWA takes into account the average pre-OCC consumption of each customer in winter. However, if a customer purchases an EV shortly before an OCC is enacted, and endeavors to charge this EV mostly at night, it’s unlikely they will be rewarded for any conservation efforts despite the fact that while their consumption has increased, it’s occurring at a time (overnight) when spot prices are low so the retailer still enjoys the benefits of any conservation efforts during peak periods. This is neither efficient

nor does it promote industry operation to the long-term benefit of consumers.

One option could be to integrate time-of-use data from advanced metering infrastructure (AMI) to allow the CCS to place a higher value on conservation during peak periods, though we acknowledge this may be difficult to implement in practice.

Similarly, consumers who invested in a grid-tied solar photovoltaic (PV) system shortly before an OCC may be unfairly rewarded for lower consumption even though their peak usage remains the same. However, we think this issue is likely to be better addressed through changes to distribution pricing arrangements.

- 3) **The CCS's cut-off energy consumption level of 3000kWh over the preceding 12 months may risk unfairly penalizing some consumers.** For example, homeowners who have been overseas, in medical care, or for any other reason haven't been occupying their homes full-time over the preceding year could appear to have increased their consumption during an OCC. Therefore, they would be ineligible for compensation, even if they were to make significant conservation efforts. We believe there should be some mechanism for households in this situation to apply to have their consumption during earlier years used as the benchmark to ensure they're rewarded for their conservation efforts.

Question 3 – Are there ways in which the CCS hinders new forms of retail pricing or demand response schemes that could otherwise promote the Authority's statutory objective?

Not currently. We agree with the Authority's view that the CCS's design should be broad, but also neutral and not favour a particular retail product. We fully support the exemption for 100 percent spot-exposed tariffs. However, we believe regular reviews of CCS exemptions are essential to take into account new demand response schemes and emerging technologies.

Thank you for the opportunity to make a submission on the consultation paper. If you require any further information, please do not hesitate to contact me.

Yours sincerely

Sue Chetwin
Chief Executive