

The Treasury

Mixed Ownership Model for Crown Commercial Entities: Treasury Advice Information Release

4 September 2012

Release Document

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Key to sections of the Official Information Act 1982 under which information has been withheld.

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
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- [6] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice, or
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.



THE TREASURY

Kaitohutohu Kaupapa Rawa

Date: 19 December 2011

To: Minister for SOEs

cc: Minister of Finance

Aide Memoire: Electricity sector regulatory changes

You requested a summary of the electricity sector regulatory changes the Government has made, and the reasons for those changes.

Changes intended to improve retail competition

Virtual asset swaps (VAS) between the electricity SOEs	Completed, with effect from 1 January 2011. The VAS and Tekapo transfer have incentivised MRP and Genesis to compete for South Island customers and Meridian to compete for North Island customers
Tekapo A and B transfer from Meridian to Genesis Energy	Ownership transferred on 1 June 2011
Establish a liquid hedge market	Hedge market in place; liquidity is building towards the Government's target
Lines businesses allowed to retail electricity and build thermal generation	The Electricity Industry Act 2010 allowed this
Consumer switching fund (\$15 million). The "What's My Number?" information campaign was launched in May 2011	Fund is in place and being spent over 3.5 years. There has been a significant increase in consumer switching, and pressure on retailer margins
Standardising lines company tariffs and use-of-system business rules	Implemented with effect from October 2011
Support for current work programmes to improve market performance	A large number of items, which have either been completed or are in progress by the EA

Changes intended to improve security of supply

Abolish reserve energy scheme and sell Whirinaki	Sale to Contact recently agreed; reserve energy scheme will be abolished once the sale is complete
Require retailers to make payments to consumers in the event of a conservation campaign or dry year power cuts	Completed, with effect from 1 April 2011

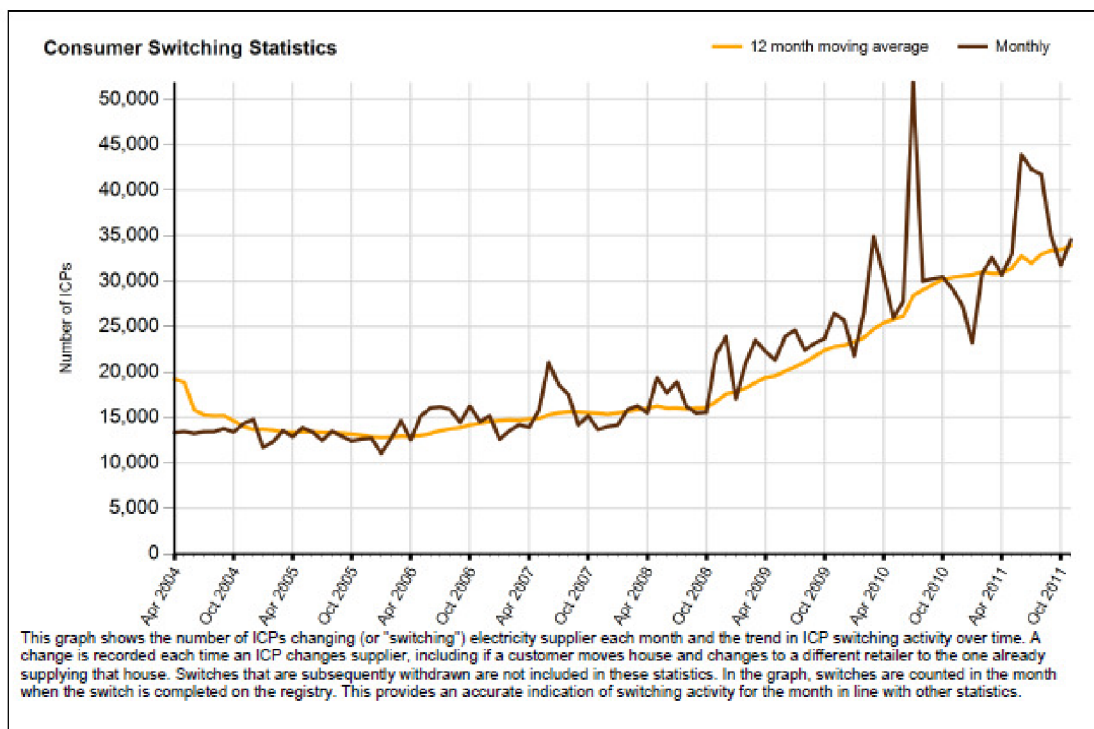
Put a floor on spot prices during a conservation campaign or dry year power cuts	Completed, with effect from 1 July 2013, although the EA decided not to introduce a floor during a conservation campaign, and instead introduced “stress tests” for retailers
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Changes intended to improve electricity sector governance

Replace the Electricity Commission with the Electricity Authority (EA)	Completed. The EA was established on 1 November 2010
Simplify the functions of the EA by transferring functions to other bodies	Completed with effect from 1 November 2010
Set up a Security and Reliability Council	The Council was established in December 2010. It is investigating the causes of the recent North Island power cuts

Impact of the reforms on electricity market retail competition

The graph on the next page (from the EA) shows the number of consumers switching electricity retailer has increased significantly in the last 2 years. Some of this switching would have been driven by the announcement and implementation of the VAS and Tekapo transfer (Genesis began competing for customers in the South Island in advance of the changes taking effect), and some would be the result of the “What’s My Number” information campaign.



* ICP means a point of connection on a local or embedded network which the distributor nominates as the point at which a retailer will be deemed to supply electricity to a consumer, and has the attributes set out in clause 1 of schedule 11.1 of the Electricity Industry Participation Code (2010).

* The switching total for July 2010 includes a change in retailer for approximately 21,000 ICPs which were not customers proactively switching retailers.

Switching numbers in the most recent two months are subject to change as further withdrawals or backdated switches may occur.

In addition, Contact Energy recently increased its "Online, Ontime" prompt payment discount from 12% to 22% (most other retailers offer prompt payment discounts of 10-12%). We believe this was in response to significant customer losses being experienced by Contact, which would partly have been the result of the consumer switching fund. Prior to the increase in the prompt payment discount, Contact was typically the highest priced or second highest priced electricity retailer in most regions. Following the increase in the discount, Contact has been gaining customers.

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