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Supporting reform to efficient distribution pricing

Submission to the Electricity Authority

From the Electricity Networks Association

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Introduction

The Electricity Networks Association (ENA) appreciates the opportunity to make a submission to the Electricity Authority (Authority) on *supporting reform to efficient distribution pricing*¹. This submission is on behalf of ENA's members (listed in the appendix to this submission), the electricity distribution businesses (EDBs) of New Zealand.

ENA supports the continued evolution of distribution prices

Before commenting on the Practice Note, ENA would like to thank the Authority for its engagement with the industry, the Minister's office, and the Ministry of Business, Innovation and Employment to assist the removal of the *Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004* (the LFC). Removal of the regulations will support efficient and cost-reflective pricing which is fairer to all residential consumers in the long term.

Turning to the Practice Note, ENA and its members recognise the need for reform of distribution pricing. We therefore welcome the publication of the Practice Note and its recognition that efficient pricing is not one-size-fits-all.

Over the past five years, ENA has been supporting its members in transitioning to more efficient distribution prices. This support has included the development of *pricing guidelines for electricity distributors*² and facilitating industry forums, and running working groups.

To reflect the evolution of the environment in which EDBs develop and implement their prices (e.g. the phase out of the LFC), the ENA intends to refresh its *pricing guidelines for electricity distributors*. It is hoped that this updated guidance will complement the Authority's Practice Note and improve consistency in the application of pricing structures, terminology, and network tariff codes.

Distribution prices are fundamental to efficient flexibility services

As highlighted in the ENA's 2021 submission on the Authority's *updating the regulatory setting for distribution networks*³ consultation paper, EDBs see distributed energy resources (DER) and flexibility services delivering benefits to consumers in coming decades. DER will grow to become a fundamental part of the electricity sector as it adapts to facilitate the low-carbon economy.

ENA members are playing their part in this evolution by taking the fundamental first steps in preparing for the ramp up of DER, and the introduction of flexibility services. In creating an environment conducive to DER and flexibility services, ENA and its members view distribution prices and an enabling regulatory regime are inextricably entwined, rather than being standalone pillars.

Sending the correct price signals, via distribution prices, will play a crucial role in enabling the efficient deployment of DER and adoption of flexibility services. However, it is unclear if cost-reflective distribution prices alone will support the financial viability of flexibility services beyond those which allow EDBs to avoid

¹ Electricity Authority, [Consultation paper - Supporting reform to efficient distribution pricing and appendices](#), 2021

² ENA, [Pricing guidelines for electricity distributors](#), 2016

³ ENA, [Submission updating the regulatory settings for distribution networks](#), 2021

network expenditure. It's important to note that congestion is temporal and, in many cases, transitory, which poses significant challenges to flexibility service provider business models, where they involve capital outlay for long-lived assets, (e.g. on-premise batteries).

Cost reflective or price signalling distribution prices?

Cost reflective prices by definition reflect their underlying costs. However, the Authority, in the Practice Note and accompanying workshop, has used the term 'interchangeably with price signalling'. The Authority has suggested that where a cost-reflective price does not result in the desired consumer response (as a result of price inelasticity or dilution by retailer pass-through) that the price signal be amplified in excess of costs to elicit a response. This fundamentally breaks the nexus between prices and costs they intend to reflect.

This disconnect between price signalling and cost reflectivity is amplified in the short term. ENA seeks clarity from the Authority as to what time horizon of costs should be reflected and/or signal in distribution prices. In other words, should prices reflect long-run or short-run costs/congestion.

The Practice Note pushes for detailed distribution prices that reflect the circumstances of each network. Examples abound of retailers taking these honed pricing signals and muting them to create nationwide product offerings including Contact Energy's Good Nights package, which offers free electricity for three hours each night, and Electric Kiwi's free hour of off-peak power. The ENA recognises the primacy of a retailer's role in attracting customers by offering prices that appeal to them. The Authority should have regard for this in the Practice Note by the inclusion of retailer actionability in the desired attributes of efficient distribution prices.

Smart meter data is critical to assessing the effectiveness of distribution prices

Lack of smart meter data and difficulties in attributing outcomes (behaviour change) to network pricing signals makes assessing the efficacy of cost-reflective or price-signalling distribution prices near impossible for EDBs. Without this feedback on the effectiveness or otherwise of distribution pricing in changing network use, EDBs are left dependant on more concrete actions, such as infrastructure upgrades or load control, to ensure they continue to meet consumer and regulator expectations on reliability and quality of service. The Authority should therefore re-engage with the sector to improve the interchange of smart meter data.

The low-fixed charge regulations will continue to shape distribution prices during its phase out

The phase out of the LFC is an important step that will enable more efficient distribution pricing. However, the constraints on EDBs' pricing imposed by the LFC will remain for the duration of a five-year phase out period. The Authority's Practice Note should therefore provide guidance on how it expects prices to be developed during the transition period and what prices represent good practice in the presence of the LFC.

EDB's social licence hinges on fair and understandable pricing

Distributors' social licence is premised on fair and understandable pricing. Highly complex and disaggregated price structures make pass-through and communication to users, especially to less sophisticated customers, extremely difficult, even when bundled by retailers. These price structures risk being perceived as unfair.

Distributors will therefore have to make trade-offs. Experience shows that without building and maintaining social licence, the potential benefits to consumers from pricing reform are lost. Therefore, pricing discussions need to focus on what they mean for end consumers and encourage consumers' active participation in the conversation around the development and implementation of more efficient distribution prices.

Price volatility and unpredictability are not pricing attributes desired by customers. Customers seek simple and predictable prices. The Electricity Price Review⁴ highlighted the extremely low level of engagement with electricity services and pricing. There is no reason to believe that this will change significantly in the foreseeable future. EDBs imposing and communicating highly complex and disaggregated prices will serve only to further disenfranchise customers.

In addition to overly dynamic price signals creating volatility in customer bills, there are downstream impacts on EDBs compliance with the Commerce Commission revenue caps. Much of the volatility in revenues from overly dynamic and peaky prices stems from winter temperatures, a factor totally beyond an EDB's influence.

Conclusion

ENA is committed to working with its members and the Authority to continue the evolution of efficient distribution prices. ENA looks forward to engaging with the Authority it updates the pricing guidelines for electricity distributors.

The ENA's responses to the individual consultation questions are set out in Appendix A below.

Please don't hesitate to get in touch with ENA if you'd like to discuss our submission. If you require anything further from ENA or its members, contact Keith Hutchinson (keith@electricity.org.nz, 021 0849 9419) in the first instance.

⁴ Electricity Price Review Hikohiko Te Uira, [Final Report](#), 2019 page 1

Appendix A

Supporting reform to efficient distribution pricing: a refreshed Distribution Pricing Practice Note

Q1. Do expectations laid out in the updated Practice Note on what ‘good looks like’ for efficient pricing provide a useful guide?

While the updated Practice Note outlines what good looks like in a future without the LFC regulations, the primary challenge for EDBs is getting to ‘good’ during the LFC phase-out period.

The Practice Note’s guidance on the application of the Authority’s preferred methodology (price signal, then customer group, then residual) assumes no restrictions on fixed prices. During the entirety of the LFC phase out, EDBs will be required, in the first instance, to comply with the regulations before any consideration is given to the efficiency of price structures.

Q2. Do you consider any of the material to be incorrect, subjective or superfluous?

The Practice Note ignores the reality faced by EDBs. In presenting what good looks like, the paper takes fully fixed prices as a given, which is an impossibility given the continued existence of the LFC regulations for another five years. Guidance on what good looks like during the transition out of the LFC is the key for EDBs.

Q3. Are there edits or further explanation that you’d suggest to improve clarity?

ENA would like clarity from the Authority on if it sees price signalling distribution prices being distinct from cost reflective prices. The Practice Note and Webinar suggested that where a price reflects the current or future cost of service delivery, but does not provide a signal significant enough to deliver the behavioural response sought (due to price elasticity or dilution via retailer billing), the price should be increased above the costs it reflects to achieve the desired response.

Our members also seek clarity on the time horizon over which future congestion should be considered and reflected in price design deliberations.

Q4. Is there material missing that would also be useful?

Note: Where you are asking us to include more material in the Practice Note, we would appreciate you explaining what you are seeking in as much detail as possible, to ensure that any further changes we make meet the need identified.

Please also consider whether any additional material is best developed and agreed with industry, or if the Authority is best placed to provide the directive solely.

EDBs welcome the phase out of the LFC. It will allow EDBs to plan for a future where they can implement the Authority’s preferred pricing methodology and structures.

However, it will be April 2027 before EDBs are finally in a position to fully implement this new pricing. The Practice Note should provide clear guidance on what a gold standard in price setting processes looks like during the transition period, and how this complies with the LFC regulations.

The Practice Note should include practical guidance on the shift from existing price structures to more efficient prices. This requires an explanation of the steps from current state (not fully fixed) to good practice.

EDBs prepare a range of pricing documents, including pricing methodologies, roadmaps, and pricing sheets. Without direction from the Authority on what best practice looks like in the structure and content of these documents, they may fail to include elements the Authority considers are critical, necessary, or containing superfluous content.

Q5. Are the expectations laid out in the updated Practice Note on timing for reform achievable?

EDBs will be able to achieve the bulk of the expectations set out in the Practice Note only if a number of constraints are overcome; foremost among these is the limited availability of LV network data on consistent and reasonable commercial terms. This information will be vital for assessing the level of congestion on networks, which in turn is a key determinant of what pricing structures are efficient.

The introduction of trial price structures⁵ is limited by the LFC regulations requiring a LFC equivalent of every trial price. The visibility of trial prices to end consumers is a significant barrier with many retailers' offerings not making it clear that opt-in prices are available. In general, retail prices based on opt-in distribution prices are not visible on price comparison sites and the customer must request them from their retailer.

Q6. Do you believe it is useful for the Practice Note to become a 'living document' that is refreshed regularly to update for the Authority and industry's understanding?

Note: Considerations include, the frequency of updates and the associated consultation with stakeholders being most useful; the level of detail that provides useful guidance, and what focus future iterations could have.

The electricity sector is undergoing a transition. Therefore, ENA supports the Practice Note being a 'living document' and evolving as the sector transitions.

For the Practice Note to become a useful living document it must reflect the realities faced by EDBs. This includes the practicalities of dealing with LFC regulation that go beyond the 15-cent fixed price cap and including the requirements for there to be an LFC version of residential prices offered.

Q7. Where questions of data access or use do not fall into the *updating regulatory settings for distribution networks* consultation, is there any specific pricing-relating data concerns that the Authority should know, or be involved in?

The collection and analysis of LV monitoring data for the identification of congestion on LV networks falls within the scope of the *updating regulatory settings for distribution networks* consultation⁶.

⁵ Electricity Authority, [Supporting reform to efficient distribution pricing 2021](#) p.9

⁶ Electricity Authority, [Updating the regulatory settings for distribution networks](#), 2021

ENA has made a detailed submission to that consultation and does not wish to repeat those submission points here, other than to re-iterate that kWh/kVa and other smart meter data is a critical input to making informed pricing decisions. It not only allows detailed analysis of customer impact but also allows for analysis of customer and feeder peaks.

Smart meter data is critical also for EDBs in quantifying if cost-reflective prices have had an observable behavioural impact, and ultimately the effectiveness of the prices. Without this crucial information, the feedback loop between prices, response to prices, and future price development is broken, and the developmental cycle for efficient prices hits a dead end.

Q8. Where questions of customer contact data access or use do not fall into the *updating regulatory settings for distribution networks* consultation, is there any specific pricing relating data concerns that the Authority should know, or be involved in?

EDBs have limited means of communicating with consumers. From a pricing perspective, this limitation can result in customers being assigned to less-than-optimal distribution pricing plans by their retailers.

The issue of lack of access to customer contact data is significant in the event of planned and unplanned outages. A lack of customer contact data means that EDBs must resort to untargeted advertising, mailbox drops, and untargeted Facebook and Twitter post to relay critical and time sensitive information.

The various reviews into the August 2021 outages have highlighted the material customer impact and reputational damage to the industry from distributors' lack of direct access to customer contact information.

Q9. Engaged customers are more likely to respond and in a more predictable manner than disengaged customers. What role do you see the Authority has in supporting consumer engagement on pricing?

The Electricity Pricing Review said that a majority of mass-market customers are not engaged with their electricity bills and the industry as a whole. It is unlikely that the Authority, as an economic regulator, will be able to directly influence the level engagement of this customer group. The best way the Authority can support customer engagement on pricing is to explicitly include customers' preference for simple, predictable and actionable prices in the Practice Note.

If the Authority is determined to take steps to increase engagement it should undertake its own independently facilitated, qualitative research (such as focus groups) around consumer preferences on pricing and, just as importantly, be prepared to listen to their views and alter regulatory proposals accordingly.

Q10. Ensuring that targeted pricing signals impact decision makers is important in distribution pricing reform. What role do you see the Authority has in supporting an industry Consultation paper: a refreshed Distribution Pricing Practice Note Page | 15 discussion on ensuring price signals reach consumers, taking into account the need to comply with the Commerce Act 1986?

While EDBs develop a significant number of prices, they broadly fall into two categories: mass-market, and commercial and industrial. In general, commercial and industrial customers are exposed to more direct price signals as many retailers pass-through these distribution prices without alteration.

It is the mass-market where the Authority can assist in ensuring that pricing signals are reaching decision makers. Mass-market retail offerings tend to be simple, bundled prices, often with peak/off-peak kWh rates. Distribution prices typically account for a quarter of a total bill, with retailers combining the distribution prices with other costs in their final offering.

To increase the likelihood of distribution pricing signals reaching decision makers, EDBs design mass-market prices that send a pricing signal which is readily translatable into retail prices. This is achieved primarily using kWh prices, which do not require significant translation by retailers into final retail prices. The Authority should in its guidance recognise that price readily applicable by retailers to end consumers is a desirable attribute of efficient distribution prices.

While EDBs would prefer that their pricing was passed through to all customers, they recognise that consumer preference will ultimately dictate the structure of retail offerings. This often results in retailer price structures being developed and implemented at a national level with locational differentiation, the two most significant examples of this are Contact Energy's Good Nights and Electric Kiwi's free hour of power.

Q11. Complexity in pricing structures could slow reform efforts. How do you see the Authority working with the sector to strike the correct balance?

EDBs are very aware that complexity reduces the effectiveness of the signal provided. A simple, actionable signal has greater effectiveness than a complex and purely efficient price (as exemplified by highly granular locational marginal prices).

The Authority should ensure that its Practice Note and distribution scorecards give simplicity, predictability, applicability, and actionability their rightful place alongside theoretical economic efficiency.

Q12. Can you provide feedback on how bill shock can be managed by industry and the Authority, to support ongoing reform of prices and not unduly impact on groups of customers?

Customer engagement and communication are primary tools used by EDBs to manage bill shock. EDBs are part of the fabric of the communities they serve. This commitment to their community is reflected in discounts and dividends paid to consumers and ratepayers and financial assistance for community organisations.

EDBs support their customers through energy hardship and efficiency programmes such as the Maru Energy Trust⁷ established by The Lines Company, and providing support through financial counselling services. Leaving these activities to one side, EDBs are generally of the view that the provision of a social safety net is a role best performed by Government.

Bill shock can be managed best by the Authority in supporting EDBs transition to new pricing structures rather than pushing for an instant move to fully efficient prices which will have material adverse impacts for some customers.

Customer bills are the result of a combination of factors. Ensuring that end-to-end the sector is fully coordinated and as frictionless as possible is the best way the Authority can ensure that customers are not unduly impacted by bill shock.

⁷ <https://maruenergytrust.org.nz/>

Q13. Are there aspects of LFC and its announced phase out that you see as an ongoing impediment to pricing reform?

The requirement that EDBs provide an LFC option for every pricing option means that EDBs are effectively duplicating every mass-market price even when the eligibility criteria for opt-in prices, such as EV specific prices, preclude low users. This leads to unnecessary complexity, adds to customer and retailer confusion, limits uptake of opt-in prices, and often results in customers being assigned to prices which are not the most appropriate for their situation.

Stepped and tiered prices are also prohibited under the LFC regulation. While at present there is little appetite from EDBs to implement prices of this type, the increased uptake of DER and introduction of flexibility services may result in stepped and tiered prices being desirable and efficient.

Q14. We are interested to better understand what ongoing limitations LV visibility issues might have that could constrain future pricing reform, how industry can respond to them and what, if any, role you see for the Authority in addressing this area?

The absence of standard meter data formats for non-kWh data poses challenges in the collection and analysis of LV data. This LV visibility is critical for pricing reform as, without it, EDBs cannot accurately design prices that signal congestion and network capacity.

The Authority should therefore consider establishing an electricity information exchange protocol (EIEP) for 30-minute power quality data from AMI meters. This will deliver standardisation and allow the design of prices which accurately reflect the cost of present and future congestion.

Q15. Currently, installation of energy intensive devices such as EV fast chargers are not required to be notified to distributors. Do you see this as an impediment to advancing pricing reform, and what role do you see the Authority having in this area, and how this could be done?

Visibility of both load and generation capability is critical to EDBs developing price-signalling distribution prices. Without visibility of each ICP's load and generation, EDBs may have to rely on broad or heavy-handed price signals to defer congestion and expenditure. More appropriate tools such as load control could deliver more efficient outcomes. This data will also be a key enabler for flexibility service providers and DER aggregators.

The Authority should expand the standing data requirements of the Registry to include energy storage systems and electric vehicle charges with a maximum capacity of 7kW or more. This will allow this pivotal information to be collated in a robust, consistent manner across the nation.

Q16. As we develop our thinking on further initiatives, tools or regulation, we will engage appropriately with the sector. We welcome any immediate suggestions you have regarding how we could better promote faster pricing reform.

No comment

Q17. Do you consider that the Authority has not properly understood any of the constraints listed in this paper, or has missed other issues that constrain efficient pricing reform progress and how they could be addressed?

Note: Where you provide further issues, please provide as much detail as possible. Please also consider whether any additional issues are best addressed by industry, or if the Authority is best placed to address the issue solely.

As discussed above, the obligations on EDBs imposed by the LFC regulations will continue to constrain reform during the LFC phase out. Rather than assume we have already arrived at 2027, the Authority should provide clear practical guidance on how it expects EDBs to comply with the regulations while delivering more efficient prices.

Q18. Please do not limit your feedback to the above questions - we also welcome feedback on any other ways the Authority could work constructively with industry and consumers to support and drive accelerated pricing reform.

No further feedback.

Q19. Please consider the role that you see appropriate for the Authority to be proactively involved in pricing evolution.

The Authority's role in the evolution of distribution pricing is to support and guide reform. The Authority in its guidance note has documented correctly that efficient distribution pricing is not one-size-fits-all. EDBs can and must make pricing decisions that reflect their individual circumstances. A single, mandated methodology (e.g. the Transmission Price Methodology) would be counterproductive, resource-intensive, and doomed to deliver poor outcomes for consumers.

Q20. How the Authority could engage more with industry, either individually or through structured channels, and in formal and informal ways.

Structured engagement should form the backbone of the Authority's engagement with industry. This provides known and reliable channels for communication, and builds trust and transparency. Structured engagement should be complemented with clear channels for informal contact such as a dedicated contact email address to seek practical guidance and clarifications.

Appendix B

The Electricity Networks Association makes this submission along with the explicit support of its members, listed below.

Alpine Energy
Aurora Energy
Buller Electricity
Centralines
Counties Energy
Eastland Network
Electra
EA Networks
Horizon Energy Distribution
Mainpower NZ
Marlborough Lines
Nelson Electricity
Network Tasman
Network Waitaki
Northpower
Orion New Zealand
Powerco
PowerNet
Scanpower
The Lines Company
Top Energy
Unison Networks
Vector
Waipa Networks
WEL Networks
Wellington Electricity Lines
Westpower