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19 February 2019

Submissions
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CONSULTATION PAPER – MORE EFFICIENT DISTRIBUTION PRICES

Opening comment

Centralines welcomes the opportunity to submit on the Electricity Authority's (Authority) consultation paper: *More efficient distribution prices*.

Centralines supports the Authority's general overall aim to promote distribution price reforms that are in the long-term interest of consumers. Key to ensuring that the outcome of reform is efficient and durable prices is the need for carefully designed transition plans to allow customer preparation, changes to operational matters and review of the Low Fixed Charge Regulations.

We have contributed to, and support, the submission from Electricity Networks Association (ENA). We have not sought to replicate the submissions made in the ENA submission, but focus on points relevant to Centralines' network and consumers.

Network distribution prices need reform

Do you agree that distributors need to reform their prices? What is the reason for your answer?

Centralines agrees that improvements need to be made to the structures of network charges to better reflect the costs and benefits of consumers using the network at different times. Over the longer term, this will assist with ensuring efficient investment in the network to meet consumers' needs, although it is important for the Authority to recognise that the quantum of benefits available is likely to vary materially by network. Centralines' key challenge is in meeting the needs of consumers over a sparsely populated region, with relatively low energy density.

Centralines is acutely conscious that it must balance affordability with meeting consumers' electricity needs. Care needs to be taken to ensure that new pricing structures do not lead to unintended consequences. The Low Fixed Charge Regulations are highly problematic in this regard, as it requires EDBs to set high variable charges for the significant majority of customers who are low users. High capacity or demand charges may encourage customers to unduly restrict

their use by switching to alternative fuels or simply not consuming. Accordingly, while price reform is important, it must be undertaken with great care and strong levels of customer engagement and support.

Centralines is a strong supporter of the industry processes currently being undertaken to promote common approaches and to reduce the overall costs of implementation to distributors and retailers alike. Centralines also seeks to align with Unison's pricing approach to ensure consistency of pricing in the Hawke's Bay region. Where necessary, however, Centralines takes a targeted approach to address particular network challenges. For example, Centralines has a specific tariff for irrigators reflecting their particular uses of the network, whereas this is not a material factor for Unison.

How important and urgent are the issues identified by the Authority?

Centralines considers that the issues are important, but the need for immediate change on Centralines' network is likely to be less urgent than on other networks. Social, demographic and market attractiveness factors mean that it is less likely that Centralines would be highly susceptible to rapid uptake of new technologies such as roof-top solar or electric vehicles.

That said, because of low customer and energy density, Centralines variable prices are in the upper quartile of EDB prices, so there is a stronger incentive on consumers to respond to Centralines' prices, (as reflected by retailers).

In Centralines' view, speed of reform is less important than taking the time to establish a durable, stable long-term price structure that appropriately reflects the value of Centralines' network to consumers.

What, if any, changes would you recommend are made to the proposed Distribution Pricing Principles, and why?

Centralines agrees with recommendations provided in the ENA submission.

Centralines prefers the old principles, and notes these are founded in strong economic principles, appropriately reflect a customer focus, and do not result in the confusion that the Authority's proposed principles create.

In particular, Centralines is not clear what the proposed requirement for location and time-based prices means in practice. If the Authority wants to see strong differentials between urban and rural pricing then this is an important policy decision, which appears to be contrary to Government policy. We suggest that a more robust justification and quantitative analysis would be required for this to be an acceptable principle. Centralines is also unclear why prices must be time-based, as it would appear to rule out some forms of highly efficient pricing approaches.

Concluding comments

We agree that timely price reform is needed. Price reform is, however, not simple and if poorly executed or without appropriate transition could be unduly disruptive to customers.

Customers and other important stakeholders such as retailers, must support changes. Pricing reform therefore needs to focus on the end consumer and encourage consumers' active participation around new pricing options. Pricing structures that retailers can transparently pass-through to consumers, should they wish to do so, are more likely to effectively promote efficiency in practice.

The support of the Authority with communications that demonstrate the value of new pricing, and the review of the LFC Regulations will greatly support the achievement of a timely reform process.

For any questions relating to this submission, please contact Amanda Watson, Senior Regulatory Affairs Advisor by phone (06) 873 9372 or email Amanda.Watson@unison.co.nz.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Nathan Strong', written in a cursive style.

Nathan Strong
GENERAL MANAGER, BUSINESS ASSURANCE