



3 November 2021

Rob Bernau  
Director of Network Pricing  
Electricity Authority  
c/o [distribution.pricing@ea.govt.nz](mailto:distribution.pricing@ea.govt.nz).

Dear Rob

## **SUPPORTING REFORM TO EFFICIENT DISTRIBUTION PRICING**

Electra welcomes the opportunity to respond to the Electricity Authority's (Authority's) Consultation Paper '*Supporting reform to efficient pricing: a refreshed Distribution Pricing Practice Note*', September 2021.

The Distribution industry recognises the need for the reform of Distribution Pricing and support the Authority's goal of a 'Transition to a lower emissions economy at a lower cost'.

We see the Authority's primary role as an advisory one. Providing the Pricing Principles, feedback provided by the use of scorecards and benchmarking. An area that the Electricity Authority can play an important role is to support consumer education in the efficient use and conservation of electricity from both a price and energy perspective. The Authority would benefit from visiting Distributors across the country to understand individual challenges. The challenges faced by Distributors varies wildly across the country and even within each Distributors area there can be a significant difference between urban and rural network challenges.

The timed phase out of the LFC regulations commencing on the 1 April 2022 will allow the industry to make an important step towards the goal of more efficient pricing. However, the constraints imposed by the regulations will be in place for five years and this needs to be recognised by the Authority in its expected timeframe for reform. Guidance from the Authority on what good will look like within this transition period is required.

Distributors must continually make a trade-off between cost reflective pricing and bill shock to consumers. As a Consumer owned Distributor, we take this responsibility seriously. A truly cost reflective model if applied, would result in a significant financial burden to some of the most socially & economically challenged households.

It is in our opinion that the Authority needs to take a medium-term view on cost-reflective pricing. Consumers want certainty, visibility, and stability to assist them with their own investment decisions. They need consistent information in order to make informed future investment decisions. These decisions need to support the transition to a low emissions economy. Increased market volatility and regularly changing pricing (and pricing signals) will not support this. It is likely to lead to short term local optimal solutions rather than global ones.

The Distribution industry would like to see the Authority's roadmap, to confirm the expected timing for reform and have the opportunity to provide feedback where the timings do not align with the timing of business activities such as price setting for the following year.

Whilst many Distributors are not operating constrained networks, the rationale behind the implementation of Time of Use pricing has been to signal a change in behaviour that is required by consumers to avoid future constraints and resulting upgrades. Any short-term changes go against an already well identified lag in consumers reacting to pricing signals. There is a risk that the increase in confusion will lead to apathy, ultimately rendering all signals ineffective, protecting the benefit of price signaling is important and there should not be changes without fully understanding how consumers will view these changes over the longer term.

What 'good' looks like to the Authority relies on pass-through visibility via retailers, or at the minimum retailers weighting consumers benefits over commercial business outcomes in respect of both pricing signals and structure. This is currently a significant constraint for Distributors, as Retailers' capability and willingness to implement new pricing approaches varies across the retail sector.

These expectations of 'good practice' will result in more complex and disaggregated pricing structures, which will be a trade-off for Distributors. The example in the Practice Note refers to pricing per feeder, whilst we note the Authority's view, this is not realistic to put into commercial practice. Price structures need to provide signals that consumers can understand and respond to, as well as be able to be implemented by Retailers. We expect the structure to implement this well will continue to evolve over the coming years as the industry works together.

Price elasticity of consumers is low. The Practice Note assumes, more consumers than not, can (or even want to) change their demand profile. The reality is that this requires the availability of consumer technology coupled with an understanding of how to use it, neither of which are prevalent in NZ households at this moment. As is the case for many New Zealanders they are simply not able to invest in more efficient appliances or energy shifting technology etc. to gain the benefits available. The Distribution industry will continue to evolve its pricing to ensure cost reflectivity, however the Authority needs to be mindful in its expectations regarding speed and timing of this, the constraints imposed by the current LFC regulations.

Distributors will continue to make necessary trade-offs in the coming years ensuring customers are not overwhelmed with multiple pricing structures but are able to understand and adjust to the signal being sent by the Distributor.

Yours sincerely

P.P. 

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## A more detailed Distribution Pricing Practice Note – Electra Response to Questions

Please refer to our cover letter which addresses the core themes of our submission. We have provided further detail where appropriate within specific questions.

	<b>Suggested Questions</b>	<b>Our Response, thoughts</b>
1	Do expectations laid out in the updated Practice Note on what 'good looks like' for efficient pricing provide a useful guide?	The guide is useful as it sets out the Authorities rational – it is critical that this practice note provides instruction regarding correct process but also more importantly ensures that the required outcome is achievable. Please note our comments regarding pass-through visibility.
2	Do you consider any of the material to be incorrect, subjective or superfluous?	As noted in our cover letter, challenges remain with pass-through visibility via retailers including achieving consumer benefits over commercial business outcomes and consistency of approach.
3	Are there edits or further explanation that you'd suggest to improve clarity?	
4	Is there any material missing that would also be useful? <i>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.</i> <i>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.</i>	As noted, a road map detailing the Authorities targets and intentions would support adoption. Sound investment is required by Government, Industry and End Consumers in order to meet New Zealand's target of a low emissions future and provide the opportunity for industry feedback.
5	Are the expectations laid out in the updated Practice Note on timing for reform achievable?	As noted in our cover letter, reform timing needs to be balanced so as to reduce uncertainty and consumer bill shock. Electra notes the phased removal of LFC for example over 5 years, provides a longer time frame for planning and adjustment to occur.
6	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? <i>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.</i>	As the desired outcome of the Practice Note is to create outcomes it follows that this should be a living document. Electra recommends the EA leads a refresh every 24 months based on feedback from the industry.
7	Where questions of data access or use do not fall into the Updating regulatory settings for distribution networks consultation, is there	

	any specific pricing -related data concerns that the Authority should know, or be involved in?	
8	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-related data concerns that the Authority should know or be involved in?	Electra seeks to support the goals of the Practice Note, however as noted in our cover letter, price elasticity of consumers is low and mechanisms need to be in place to support price signals being received by consumers.
9	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?	As noted above, Price elasticity of consumers is low, Electra sees the Authority supporting consumer engagement as well as supporting mechanisms that support communication of pricing signals.
10	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 discussion on ensuring price signals reach consumers, taking into account the need to comply with the Commerce Act 1986?	As noted in our letter a current and significant constraint for distributors is retailers capability and willingness to implement new pricing approaches, which varies across the retail sector. The EA has a leading role in supporting this conversation in order for price signals to reach consumers.
11	Complexity in pricing structures could slow reform efforts. How do you see the Authority working with the sector to strike the correct balance?	
12	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?	
13	Are there aspects of LFC and its announced phase out that you see as an ongoing impediment to pricing reform?	
14	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 the Authority in addressing this area?	
15	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?	
16	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.	

17	<p>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?</p> <p><i>Note: Where you provide further issues, please provide as much detail as possible.</i></p> <p><i>Please also consider whether any additional issues are best addressed by industry, or if the Authority is best placed to address the issue solely.</i></p>	<p>Please see the supporting letter. An industry based working group would be well placed to work through these areas.</p>
18	<p>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.</p>	<p>We believe pricing objectives and pricing signals reform should be progressing in a collaborative manner. With industry working groups a great way to gain, gather information, share points of view and develop solutions. We would like to see the EA formalise working groups for pricing reform and Electra would welcome the opportunity to participate.</p>
19	<p>Please consider the role that you see appropriate for the Authority to be proactively involved in pricing evolution.</p>	
20	<p>How the Authority could engage more with industry, either individually or through more structured channels, and in formal and informal ways.</p>	
	<p>Any other feedback we would like to share</p>	