

Submissions
Electricity Authority
Level 7, Harbour Tower
2 Hunter Street
Wellington

Via email distribution.pricing@ea.govt.nz

28 October 2021

Mercury submission on ‘Supporting reform to efficient distribution pricing: a refreshed Distribution Pricing Practice Note’ (“Paper”)

Thank you for the opportunity to provide a submission on the Authority’s consultation Paper.

We support the Authority’s objective to see “faster progress with distribution pricing reform to realise consumer benefits and to facilitate an efficient transition to a low emissions economy”. It is apparent from the Authority’s distributor pricing scorecards that the sector is not where it needs to be yet. A clear articulation of “what good pricing looks like” in the Pricing Practice Note will give distributors confidence to invest in the technologies that will help manage the increase in demand for electricity as a result of the transition. Consumers will also benefit from greater choice in retail prices and the ability to reduce their electricity bills by responding to clear price signals.

Mercury supports ERANZ submission – pass through of price signals

Mercury supports the Electricity Retailers Association of New Zealand (ERANZ) submission in its entirety. We would like to emphasise the importance of retailers’ discretion to pass through distribution pricing in response to consumer demand. Our key points as per the ERANZ submission are as follows:

- Consumers’ preferences, as expressed through the pricing they choose to purchase, is an important signal to the market. It is the role of retailers, who are most exposed to consumer preferences, to design different pricing and product packages to appeal to the cross section of consumers.
- We agree with the Authority¹ that there are multiple ways in which a retailer can reflect peak pricing to their customers, for example, through peak tariffs, flexible load demand, or just higher average prices. In addition, there are multiple ways for the sector to manage periods of peak demand, for example, through use of ripple controls, the entry of flexibility traders, or ‘smart’ technology than can flex supply or demand.
- Distributors do not need to discourage demand from all consumers during periods of congestion. Distributors just need to discourage enough demand to ensure it remains within their capacity to supply, while providing them with the revenue they need to improve infrastructure capacity over time in response to market forces.
- Customers who choose to be highly engaged and seek the lowest possible prices can do so², but others may choose not to engage and accept higher than usual average prices. This is their choice and reveals

¹ Paragraphs 57-59 of the Paper

² Paragraphs 52-56 of the Paper



their preference for alternative priorities such as quality of service, ease of use, or the ability to consume electricity at any time.

Limit variable pricing to congested areas of networks and used fixed pricing to recover costs

Mercury supports the Authority's expectation that "where there is no (actual or anticipated) congestion the price signal should not be influencing how consumers use the network. A peak signal could create a distortion that is inefficient and harms consumers (eg, if it incentivises people to turn down, or off, heating), if there is actually no congestion. Instead, efficient pricing for a network with a flat or falling demand and no constraints would be a fixed daily charge that simply recovers the invested capital without influencing network use."³

We agree with the Authority that distributors should undertake "no regrets" work now in relation to understanding the flows on their networks, the context of current prices on their networks and trialling reformed price structures. Once Low Fixed Charge regulations allow, pricing reform for networks that do not face congestion might simply mean moving to a higher fixed charge and reducing variable charges. This would help distributors recover their target revenue without influencing consumer behaviour.

Thank you for undertaking this review into distribution pricing guidelines. Please don't hesitate to contact me on 0212882276 or at jo.christie@mercury.co.nz if you have any questions in relation to our submission.

Yours sincerely



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³ Paragraphs 11 and 12 of the Paper

