



3 November 2021

Submissions
Electricity Authority

By email: distribution.pricing@ea.govt.nz

Supporting reform to efficient distribution pricing

Meridian welcomes the opportunity to comment on the consultation paper *Supporting reform to efficient distribution pricing* and draft updated Practice Note. References to Meridian in this submission are to both the Meridian and Powershop brands. We have read and support the ERANZ submission. The points made below relate more specifically to our business and the impact that the proposals may have.

We think that there is value in maintaining flexibility for retailers to structure pricing to suit customers

The consultation paper seeks feedback on the ways in which important and targeted pricing signals can be effective in signalling to consumers. It also notes the ongoing debate around the idea of requiring retailers to directly pass-through changes in distribution pricing.

We submit that there is value in maintaining flexibility for retailers to structure pricing to suit customers, rather than having strict rules such as a requirement for direct pass-through. In our business, we tailor our pricing to customer needs. Input prices (including, but not limited to, distribution pricing) form the basis of our rates. However, in our experience, many customers value stability and consistency in pricing. This allows them to be able to budget effectively. We also find that many customers prefer simple bills that are easy to compare.

We generally pass on cost reductions in network charges, although this can vary according to specific plans and customer preferences. In our view, strict pass-through rules would come at the expense of being able to adapt to customer needs and pricing innovation. Mandatory pass through of network costs would also result in more volatile billing and limited consumer options, which many customers would not appreciate. We agree with the point made in the consultation that if there were many customers who did value more variable pricing structures, they would seek this out and the market would provide it. We develop plans based on input costs, but ultimately the market influences the shape of plans too.

Distribution pricing structures are complex and varied, and consideration should be given to a simplified structure

Pricing structures are highly variable across the 29 distribution networks. This complexity should not be underestimated and it increases the cost of doing business as a nationwide retailer.

We think that there would be value in increased standardisation of the pricing structures and mechanisms used by distributors. While we appreciate some differences are inevitable given the varied characteristics of different networks, one option to increase standardisation without unduly constraining distributors could be to develop a regulated pricing toolbox with a small number of defined structures and pricing mechanisms to be applied in each network. This would greatly reduce complexity and the cost to serve retail customers.

Retailers like Meridian and Powershop operate nationally. We market and offer new pricing plans to consumers through nationwide channels, for example, our websites or national television advertisements. The diversity of distribution pricing structures and mechanisms means that it can be challenging to develop compelling pricing plans that work on a national level. For example, Meridian's electric vehicle plan is available for residential customers who own a plug-in electric vehicle. It provides rates designed specifically for electric vehicle charging, with cheaper overnight prices in certain networks, guaranteed rates for three years, and a free smart meter install (where the customer doesn't already have this in place). There is a lack of day/night pricing in some network regions (e.g. Aurora Energy in Dunedin, meaning in order for us to create a compelling night rate for customers we may have to set the night rate below the cost incurred over this period). The variability in network charges makes it difficult to develop compelling pricing plans that work on a national level. The effect is that either we may be reluctant or unable to make the offer, as it could be at a loss to Meridian.

If time of use pricing signals are to be used, the signals should be meaningful to consumers

A key driver of the proposals is the need for distribution pricing to send the right signals about the cost of electricity that is being provided to consumers. Better pricing signals should see more efficient use of networks.

To the extent that distributors choose to offer time of use pricing structures, Meridian encourages meaningful price differences between time periods. Some of the distribution price signals currently in the market are too weak to be a basis for consumer pricing as the signal is not worth a behavioural response. This is difficult for retailers to pass-through in any meaningful way.

There is a lot of potential for networks to develop pricing that incentivises the use of new technologies. We agree with the analysis undertaken by Concept Consulting and Retyna¹ that indicates while there is some merit in simple time of use structures with broad geographic coverage (i.e. peak vs. off-peak structures) these are likely to be an interim step for encouraging demand response. Time of use tariffs have limitations because they may cause a spike in demand at the end of the peak period and are poorly suited to dealing with geographically-varying distribution network stress and are not able to coordinate a renewable generation firming response. According to Concept and Retyna, the best long-term option may be managed appliance tariffs that grant a third party the right to control an appliance in a way that is non-disruptive and minimal effort to a consumer (similar to ripple control). This could be offered in return for the consumer receiving a discount reflecting the value of such flexibility. We note that some networks in other countries are providing incentives for flexibility, such as Electricity North West in the UK, which is calling for 259MW of flexibility between 2022-24 with over £2 million of incentives available.² We look forward to working with networks on this opportunity and expect that controlled appliances will mean less need for exact pass-through of time of use signals to manage network congestion – this has the potential to be a win-win for retailers, distributors, and most importantly consumers.

¹ https://www.concept.co.nz/uploads/1/2/8/3/128396759/ev_study_rept_2_v2.0.pdf

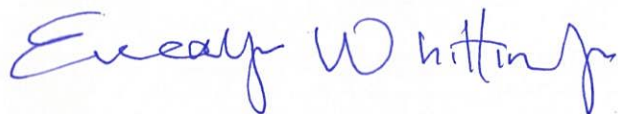
² [ENW issues call for 259MW of local flexibility | Current News \(current-news.co.uk\)](https://www.current-news.co.uk/news/259mw-of-local-flexibility-called-for-by-enw)

Conclusion

We support the aims of the consultation paper, and the move to more efficient and cost reflective pricing structures for the distribution of electricity. We support retaining flexibility around pass-through of distribution charges, so that the market can provide the services that customers want, and pricing innovation can continue.

Please contact me if you have any queries regarding this submission.

Nāku noa, nā



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