

3 November 2021

**Submissions
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CONSULTATION PAPER – DISTRIBUTION PRICING PRACTICE NOTE

Network Waitaki welcomes the opportunity to provide comments to the Authority on the consultation paper titled “*Supporting reform to efficient distribution pricing: a refreshed Distribution Pricing Practice Note*”.

We appreciate the intention of the Authority to support reform towards more efficient pricing and recognise that this is a priority area.

We are concerned however that efficient distribution pricing (as viewed by the Authority) may be economically efficient, and the design of pricing structures technically sound, however customers will demand simplicity and certainty of costs. Electricity is generally a low engagement service for most residential customers, and they want safe, reliable and cost-effective supply available when they want to use it.

Adding complexity to pricing structures, specifically implementing complex pricing structures to influence demand and consumption for some customers (where there may be little discretion to shift load – for example during winter peaks) may not yield the desired outcomes. Also as noted in the consultation paper, whatever distribution pricing structures an EDB may implement are then repackaged by energy retailers for the end user and so some aspects of pricing reform the EDB implements with a view to drive efficiency by customers may be lost in this process. More work is required by the Authority to make sure the whole ‘pricing chain’ from transmission and distribution through retail to the customer is well aligned.

Our detailed comments on the consultation questions are contained in Appendix 1, but in summary:

- The refreshed Practice Note is helpful as it provides more clarity around the expectations of the Authority and how the Authority view efficient pricing (Question 1).
- A more standardised approach across industry in pricing scorecard reporting requirements will be helpful. We appreciate the comments received from the EA as part of the scorecards but we are of the view that awarding scores is not helpful as it draws the attention more to “who got the highest score” and the “lowest score” and appears to be creating an incentive to spend money on obtaining expert support to assist in telling the story better even if there is not real price reform progress. (Question 4).
- A need for more clarity on the trade-off between bill shock and the urgency of price reform (Question 1).
- Constraints are covered in the paper, and it is vital that these obstacles be removed. For example, the availability of LV network data to assess the level of congestion on our LV network.

- The Authority's role in setting rules for consumers' notification to EDBs of energy intensive installations, such as EV chargers (Question 15).
- On the issue of complexity, importance of recognition that a distribution price signal (making up a quarter of the final bill) must be strong and understandable to affect usage behaviour, hence cannot be diluted with too many complex pricing components in a customer group's price structure.
- A big role for the Authority in communicating and supporting a consistent narrative on price reform to stakeholders and consumers.
- The need for energy retailers to pass through changes to pricing structures to ensure customers respond to, and (where appropriate) contribute to, or benefit from more efficient pricing structures.

As you'll note in our comments we welcome discussions with the Authority and as always, we welcome any opportunity to discuss with you our pricing strategy, plans and actions in transitioning to a more cost reflective pricing structure

For any questions or clarifications please contact our Regulatory Manager, Cornel van Basten or myself.

Sincerely

A handwritten signature in blue ink, appearing to read 'Geoff Douch', with a long horizontal flourish extending to the right.

Geoff Douch
Chief Executive

Appendix 1

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?

Network Waitaki (‘we’) appreciate the clarity on the Authority’s view regarding efficient pricing provided in the Practice Note. Overall, the refreshed Practice Note is helpful as it provides more clarity around the expectations of the Authority and how the Authority view efficient pricing. It makes sense that it is a living document that can be updated as circumstances change.

We appreciate the intention of the Authority to support reform towards more efficient pricing and recognise that this is a priority.

We also appreciated the workshop of 18 October and the overall message from the Authority that there is recognition that each Electricity Distributor’s (EDB) circumstances are not the same, but that the Authority wants to work with industry and consumers to achieve faster reform.

There is a clear conflict between the objectives of fast reform of pricing and managing the bill impact on consumers. It seems like this is an area that the Authority also finds challenging and does not have a clear solution. We find that the messaging is at times conflicting, e.g. “progress is too slow”, but when asked about the issue of bill shocks the response of “it is a trade-off and no real right answer”, except that the EDB “will have to do more work” to ensure the impact is not too much of an impact on consumers.

Another matter that remains unclear relates to the pace or timing of reform. On one hand it is stated that it is a journey, not a destination, but then it goes on to emphasise that this should not be seen as the Authority condoning an ongoing lack of urgency, or a period of inactivity. The confusion that is created is the Authority acknowledging that it will take many years for price reform but then disappointed that many EDBs seemingly do not display a sense of urgency.

As Network Waitaki we have a clear vision and action plan for our pricing reform within the bounds of constraints (i.e. LFC regulations and access to data). Our timeframe was developed balancing urgency and impact to our customers while keeping with the sense of urgency as portrayed by the Authority. As a local Consumer Trust owned business, we have to consider the impact of pricing changes on our consumers - irrespective of our sense of urgency, there is a trade-off namely “time to reduce/smooth the impact” and even then, there is still a pricing impact on consumers.

Par. 37 indicates that price shocks are not a desired outcome of pricing reform and we agree with this. It is also noteworthy that the Authority will have some patience and our conclusion of this issue in the paper is that the problem is not so much the speed of the reform but the concern that some EDBs seemingly have not started on the journey.

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

The Practice Note provides a well-balanced view, well-structured and to the point, as well as providing good illustrations of situations. For example, one of the issues in the consultation paper which we were puzzled by was what seems to be a general trend of transitioning to Time-of-Use pricing while this pricing structure conflicts with some of the objectives of efficient pricing, e.g. to provide appropriate signals for investment in emerging technologies.

The Practice Note is appropriately supportive of ToU in certain circumstances (e.g. to signal congestion), while recommending a cautionary approach to not embed ToU as the end goal.

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

We have no further comment.

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.

The Authority could consider providing a template of what it would like to see in a pricing methodology that would satisfy its requirements and encourage consistency across EDBs.

Our observation is that the recent pricing scorecard scores awarded to EDBs very much depended on the ability of an EDB to “tell the story” of the price reform journey well. It didn’t so much matter as to whether there was much progress on the efficiency of pricing structures themselves.

In Network Waitaki’s case, it was decided to keep the reporting at a high-level, whereas if we did provide a lot of detail in our assessment we probably could have achieved a higher score.

We have scanned through many of the network pricing scorecards and have noted where the Authority was complementary about a report itself, or a useful table that provided certain information etc. and we will use this in our next pricing methodology.

However, it will be useful if there is a standard template that can be used as a guide which we know the Authority would find acceptable and which will also make it easier for the Authority to assess progress from a more standardised perspective. It will also obviate the need for us to consider appointing an expert to assist us in “telling our story” better and more colourful which will ultimately be for our consumers’ account – to achieve a higher score, which is probably not the intent of the scores.

Network Waitaki also note the Authority’s reconsideration of the scorecard assessment process and its usefulness (par. 93). We appreciate the Authority’s feedback on our pricing structures through this process but contend that the scores themselves may not be so useful as it may lead to a competitive process among EDBs that could be costly for consumers. In the end the majority of EDBs end up with very similar scores.

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

We note that the Authority is careful to express a view on a final date of when it would expect to see fully reformed price structures and we understand and agree that this will depend on the specific circumstances of an EDB.

Our understanding from the timeline expressed is that the Authority expects EDBs to have clarity on their process and have undertaken the first steps in pricing reform from April 2022. This is achievable in our opinion.

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.

Yes, it is useful that it is a ‘living document’. However, we would hasten to say that this does not mean that there should during each review be changes to what is viewed as efficient pricing structures as this will create confusion. More simply put, we agree there should be review however the general direction should not change materially.

As reform continues and the industry evolves more information will become available and where updates are necessary it will be useful to make the necessary amendments to avoid the document become outdated and obsolete. It should thus rather be a periodic review or as material changes occur or come to light. We would however appreciate consultation beforehand so that it is clear what the potential amendments are and the reasons therefore and provide stakeholders an opportunity to give input.

For example, the expectation on the future state is only 2 years out, so it appears that the document will need to be updated relatively soon to capture the future expectations.

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-related data concerns that the Authority should know, or be involved in?

The data issue is covered in the “Updating regulatory settings” consultation paper and it is applicable to pricing-related data. We are also pleased to note that the issue of data access is under consideration by the Authority (par. 45).

As indicated above certain types of pricing structures will not be efficient without the required data and will not serve consumers’ interest. If data and technology were available however, it could have been an option. For example, more specifically in relation to demand-based pricing, peak demand signalling is related to at least half hourly (HHR) data being available real-time. If the demand measures used (e.g. Anytime Maximum Demand (AMD)) are a backward looking, assessed, calculated value and not based on actual real-time HHR data, demand-based pricing would be similar to volume pricing since these estimates are informed by volume data.

A calculated/assumed demand-based pricing structure will create uncertainty (as has been experienced in other networks), since it will be based on historical data and a customer can easily feel punished for past behaviour and will not be able to control the variable used for pricing. Therefore, it is essential for EDBs to gain access to near real-time data from retailers or MEPs in an efficient manner, if it were to implement real time demand-based pricing structures (as opposed to backward or retrospective demand-based pricing). Without this, capacity-based pricing is the nearest alternative which also brings more certainty to customers.

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?

Similarly, to Q7 we are pleased that the customer contact data access is an area being considered by the Authority. Any initiative to make the process around communication with consumers more accessible and easier will benefit the whole industry in terms of cost and time and improve the customer's experience.

In Network Waitaki's case contact with customers become applicable as we communicate directly with worst affected consumers on our network to inform them of the impact of our pricing reform and explain their options to them.

To achieve this, we firstly communicate with the retailers on our network to inform them of our intention to notify individual consumers. This makes the process time-consuming and cumbersome, but at the same time retailers have in general been supportive.

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?

We see engagement as an important aspect of both the initial reform journey, but also the ongoing engagement of customers to ensure they respond to pricing signals given.

In Network Waitaki's view the Authority has a big role to play here to help and support the industry to tell the story as to why price reform is necessary and needs to happen in an urgent manner and that there will be "winners" and "losers" during this process.

We see this communication happening in a combination of ways, including:

- Media releases with user-friendly simplistic graphical presentations of where we are now, what the risks are of no reform and what the end goal is. This will support an EDB like ourselves in explaining to our worst-affected customers that this is a national driven initiative.
- Visits to each of the 29 EDBs that could include a presentation to the local community to outline the Authority's vision.
- Acknowledgement of customers' preference for less complex and more understandable pricing structures as this will help with initial and ongoing customer engagement.

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 discussion on ensuring price signals reach consumers, taking into account the need to comply with the Commerce Act 1986?

Network Waitaki is of the view that moving to efficient pricing structures is a rather fruitless exercise if pricing signals are not passed through to end consumers by energy retailers. However,

at the moment that is ultimately up to traders to decide how they manage pricing signals in the competitive market probably in accordance with their customers' preferences.

Given the focus by the Authority on ensuring Distributor's pricing is efficient, we feel there should also be guidance provided by the Authority to energy retailers on this matter to ensure whatever EDBs implement is effectively reflected in retail pricing and tariff structures.

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

We agree that complexity could slow reform efforts.

The Authority can work with the sector by being an enabler and being open to trust EDBs that pricing structures will be developed by each EDB in accordance with their own unique characteristics, customer base and circumstances and also through collaboration as evident in the ENA's *Guidance on Pricing Reform* Where pricing structures do not work or are too simplistic or too complex it can be amended – a more flexible approach rather than mandatory requirements need to be the foundation in the future dynamic and changing world.

We are concerned that some concepts described by the Authority around efficient price signals, for example, par. 50 suggesting price signals could be achievable at zone substation level could lead to many hundreds (if not thousands) of sub areas across the country each with their own pricing signals (compared to regional or whole of network signals, or at least constrained region signals). This could be administratively inefficient for EDBs and could be challenging for retailers to correctly pass through to customers. These concepts work well at higher levels of the electricity system (e.g. GXPs) where there are fewer locations and fewer parties involved. Even as a small distributor, Network Waitaki has 19 zone substations across 4 GXPs. This could lead to 19 different pricing signals on our network alone which would then have to be correctly implemented by the large number of retailers trading on our network. We don't disagree with the concept, however successful implementation would need further consideration with regard to the complexity, and security of supply / cost trade-offs at different locations compared to the benefits obtained. We do note the last sentence of par. 50 that it should be done "if this seems useful for an efficient cost-reflective price signal" and acknowledge that this is an option to consider if necessary. We still contend though that a simple, single strong signal will be more effective than highly complex but very efficient price structures.

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?

This is a crucial matter with which we have wrestled with in the past few years as we are progressing on the price reform journey. As a 100% consumer trust-owned EDB we are an integral part of the community and management of bill shock is a real focus point for us.

Unfortunately, there will be "winners" and "losers" during the price reform and the "losers" do not appreciate reform even when there is in most cases an option to move to a different price plan.

The main reason for "bill shocks" in our case relates to customers being on a large connection with very little usage. We are moving towards installed capacity-based fixed pricing. This pricing

structure produces a long-term pricing signal related to the peak demand capacity and cost of our network that captures the long-term impact of each customer on the network peak demand. As part of our pricing strategy we are considering the feasibility of moving to more granular levels of price plans to provide smaller usage consumers with more options –but this will require network investment to ensure connections can be managed and monitored appropriately through smart meter type capability and consumers can be communicated with when capacity limitations are approached.

As alluded to earlier in our comments we have up to now been communicating with the worst affected consumers on our network and informing them of their options and assisting them to find a more efficient connection arrangement or tariff group.

In our view the best way the Authority can support this is:

- Through ensuring a consistent narrative with industry to ensure consumers become aware of the changes and drivers from a national perspective, the reasons why and also to motivate consumers to ensure they are on the right price plans in their communities.

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

Forty percent of our consumer base is on LFC plans and forty percent of these consumers use less than 5,000 kWh per annum. The impact on these very low usage consumers is an impediment that needs to be managed but the understanding is that these consumers could be assisted through the power credit scheme where they qualify.

We note that there is also a role for retailers to play in communicating and advising low usage customers and ensuring they are on the right plans (e.g. only domestic consumers' principal place of residence qualify for LFC, not holiday homes).

Another impediment is timing – final phase out will only be in FY27. Although pricing reform will continue in the meantime it can only be fully achieved in FY27 if all goes well.

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?

In terms of pricing, although lack of LV visibility is a constraint, it is not preventing us from continuing on our current price reform journey, as we are implementing capacity-based changes rather than demand based for our mass market customers (see response to Q12). We currently have no obvious distribution network capacity and congestion issues as we currently only have low levels of electric vehicles and Distributed Energy Resources (DER) on our network.

However, with the envisaged increase in uptake of newer technologies such as electric vehicles and other DER as well as decarbonisation real-time monitoring of the LV network will be critical not only for reliable and quality electricity supply but also to signal congestion where required through either pricing or demand response (load control) type initiatives. Without this ability we rely on crude methods to determine areas of congestion with potential suboptimal and inaccurate price signalling if any.

More visibility will help us in providing a more granular understanding of our network and areas of 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?

Yes, to minimise the effects of congestion from EVs we will need the ability to influence their charging patterns. Knowing the location, size and type of these devices will allow us to understand and model the effects on our network and we plan to incentivise EV users through demand response measures and load control over time.

The Authority can assist in setting rules to achieve this through a Code amendment.

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.

Network Waitaki welcomes engagement with the Authority and find the comments on the pricing scorecard useful but would not recommend pushing pricing reform harder than is currently the case.

As noted earlier in the document we are in favour of consistency and standardisation, e.g. guidance on a pricing scorecard reporting template that can be incorporated into the pricing methodology or attached. This will also help the Authority in their assessment if they decide to continue with these assessments. However as per our response in Q.4 we do not find that the scores itself add much value except for creating an incentive to obtain support to assist in conveying the reform journey message better which is not to the ultimate benefit of consumers.

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.

The Authority has comprehensively listed the constraints in a clear manner.

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.

We have no further comment.

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

We appreciate the Authority being proactive in the quest to get pricing reform in motion. Although the pricing scorecard method is relatively crude and the scores are awarded quite subjectively (refer our responses in Q4 and Q16), we recognise the intention of the Authority to drive the industry towards pricing reform.

The Authority in our view should play an enabling role, i.e. now that it has voiced its expectations:

- remove the obstacles that have been identified in the section about “acknowledging constraints and looking ahead”,
- assist in setting rules for EV notifications,
- be available to industry to discuss pricing matters where required,
- supporting the industry in communicating a consistent narrative on price reform to stakeholders and consumers and to listen and change where necessary.
- Acknowledging that for efficient price signals to have the required impact it cannot only be achieved through transmission and distribution price structures but needs to extend through the whole value chain to accomplish the desired effect of efficient price signalling that will actually impact end consumer behaviour. It is therefore necessary for the Authority to provide guidance and take steps to ensure retailers pass through efficient price signals to customers.
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Q20. How the Authority could engage more with industry, either individually or through structured channels, and in formal and informal ways.

Individual engagement is valued as it provides a platform to inform the Authority of local circumstances and reasons for the strategy around pricing reform. We encourage the Authority to engage with a wide range of distributors, including regional visits and gaining an increased understanding of the specific operating environment of each EDB. This will greatly inform Authority staff of how businesses actually operate and the challenges they face. As noted in previous submissions, we welcome the Authority to visit Network Waitaki and discuss any part of this submission, or any other matter of interest.

Structured engagement sessions that are preceded by a short questionnaire on the particular topic to be discussed will assist the Authority and industry as it provides a platform for the Authority to engage on a broader level and provide a better understanding of the different experiences and circumstances across industry before a session.