

3 November 2021

Northern Energy Group submission to the Electricity Authority

Response to the consultation on *Supporting reform to efficient distribution pricing: a refreshed Distribution Pricing Practice Note*

Introduction

The Northern Energy Group welcomes the opportunity to provide feedback to *Te Mana Hika / the Electricity Authority* (the Authority) on the consultation paper *Supporting reform to efficient distribution pricing: a refreshed Distribution Pricing Practice Note*. We view the paper as a useful and effective guide for pricing reform and appreciate the Authority's request for feedback.

The Northern Energy Group was formed in 2019 and consists of Counties Energy, Northpower, The Lines Company, Top Energy, Waipa Networks and Vector.

In this submission, we provide a summary of our collective views on the role the Authority can play to enable distributors to further promote the Distribution Pricing Principles.

We also consider that efficient distribution pricing is related to, and interacts with, the broader regulatory settings for distribution networks. The Northern Energy Group's submission on the Authority's previous consultation, *Updating the Regulatory Settings for Distribution Networks: Improving competition and supporting a low emissions economy*, should be read alongside this submission.

1. Reflecting consumers' voices

The consultation paper focuses strongly on the Authority's view of how electricity pricing should be structured to achieve the most efficient outcomes from an economic point of view, but we consider it could be stronger in considering the impact on consumers; how consumers might respond (other than in a perfectly economically rational manner); and what actions it and other stakeholders need



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to take to inform consumers, take them on the journey, and show them this will lead to better outcomes for everyone.

Recommendations

We recommend that consumers' voices and preferences be more strongly reflected in the Distribution Practice Note. As a group of consumer-owned electricity distribution businesses (EDBs), we share an interest in delivering future-ready electricity networks to consumers and a common belief that consumer voices need to be stronger in industry and government decision-making. This is particularly pertinent for the pricing of the services we provide.

We believe that consumers will shape the future of electricity pricing. The Authority should engage with consumers to understand their pricing preferences, and whether they understand and will respond to the changes that the Authority is proposing. If we want consumers to respond to pricing signals, they must be able to see and understand these signals and be able to make informed decisions to respond.

Workshopping the changes with consumers

The Authority also needs to engage with consumers to achieve buy in as to *why* change is needed, and to enable EDBs to communicate directly with consumers to achieve the same.

There is a risk of consumer backlash and loss of social licence from the implementation of new pricing structures where consumers are not taken on the journey and support the reform, as demonstrated by historical EDB experience from implementing pricing reform. In our experience, pricing needs to be explainable, predictable, and perceived as fair, to be supported by consumers.

We recommend the Authority run workshops with consumers to educate and understand their views on pricing reforms and roll out related public awareness campaigns. The workshops could also involve other industry participants (i.e., distributors, retailers, communities etc.). Bearing in mind that not all consumers want to be engaged in electricity pricing, there is an opportunity for the Authority to conduct consumer research to understand what they will respond to and how.



Public awareness campaigns could communicate to consumers the changes that the Authority is promoting, why the changes are occurring and how the changes can benefit them. EDBs and the Electricity Networks Association (ENA) could also play a role in supporting these public awareness campaigns.

Amending the Default Distributor Agreement

We also recommend that the Authority amend the Default Distributor Agreement (DDA) to enable EDBs to directly engage with customers to explain the rationale for pricing reform and how it will affect them. This would support EDBs to engage with consumers, solicit their feedback and ensure that consumers understand how their actions affect the price they pay for network services.

2. Ensure distribution pricing signals are passed through

We agree that cost-reflective pricing signals have the potential to increase efficient use of networks, reduce costs for EDBs, and thereby lower distribution costs for customers. In addition, they enable the transition to a low-emissions future for all New Zealanders.

While many distributors have implemented Time of Use (ToU) pricing as a first step in their cost-reflective pricing journey, for the most part retailers do not pass these price signals onto customers. This drives incremental costs to distributors and retailers to develop, manage, and bill cost-reflective pricing signals (costs which are ultimately borne by consumers), but the efficiency sought by the cost reflective pricing is not realised when consumers do not have price signals to respond to.

Recommendations

To enable consumer responses to pricing signals, we suggest some form of pass-through is required that is reflected in retail prices and communicated to consumers. This could be in the form of passing the distributor's pricing through transparently, so the consumer can respond directly to the price signal.

An alternative could be to require retailers to offer a pricing option to consumers that reflects the underlying price plans offered by EDBs, as well as alternate pricing options. This would provide consumers with the option to take up cost-reflective



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pricing plans while still providing retailers with the opportunity to tailor prices based on their preferences. Given that the average consumer may be indifferent about the cost-reflective and non cost-reflective options, the addition of a requirement for retailers would ensure that consumers are neither advantaged nor disadvantaged by choosing a cost-reflective retail offering.

3. Enabling greater access to data

Access to data is fundamental to establish new pricing structures and initial prices; and to manage ongoing price updates.

Some of our members have found that access to and the quality of supply of data varies across metering equipment providers (MEP) and retailers. This makes it difficult to source consistent data for use across a whole network for planning or operational purposes. There is also inconsistent meter functionality across MEPS.

Recommendations

We strongly recommend the Authority change the Code to enable access to data for pricing reform purposes, including the ability to combine it with other data, and to obtain it more frequently than every six months as set out the current DDA template. This data is required for both implementing and adjusting pricing reform; for example, it is required to enable EDBs to understand how a shift of our peak periods would impact on volumes and prices.

We encourage the development of low-cost approaches (i.e., not onerous on market participants) that would speed up access to smart meter data and provide distributors with greater visibility of their customers' energy usage patterns and the DER connected to their low-voltage (LV) network.

We recommend the use of application programming interfaces for providing and authorising data sharing.

4. Emphasising expectations for retailers

The Distribution Practice Note should include expectations for retailers. As discussed above, consumers should be able to see price signals and some form of



pass-through is required so that consumers can respond to price signals and generate benefits for networks and consequently consumers.

Currently, retailers have no incentive to pass on price signals as consumers have signalled to retailers that they do not want cost-reflective pricing, and retailer's lines charges are unlikely to materially change as EDBs are still collecting the same amount of revenue.

In addition, many retailers have not yet developed the technical ability or contractual relationships with MEPs to provide data to EDBs in the time-sliced format required to support ToU.

Recommendations

To achieve further uptake of cost-reflective pricing, the Authority either needs to ensure retailers develop the technical capability to support it or change the industry model so that consumption data is provided by MEPs directly to EDBs, circumventing the technical challenges some retailers are experiencing.

Some of our members have jointly consulted with retailers for the last three years on their annual network pricing changes and have aligned their pricing reform. This is creating consistency across the region, reducing complexity for retailers, and therefore driving reduced costs for consumers.

5. Enhancing LV network visibility

Greater ability to monitor performance on the LV network would enhance distribution networks' hosting capacity and ability to facilitate more efficient non-network solutions. For example, theoretically modelled available capacity could be supplanted with actual usage data, identifying the available capacity more accurately and reducing the quantum of safety margins required. This in turn would reduce the need to invest in potentially less efficient network solutions. These savings would ultimately be passed on to consumers through cost-reflective pricing.

Recommendation

We recommend the Authority develops a DER register to enhance LV visibility. A practical way to achieve this would be to extend the Electricity Registry to include



all forms of DER, especially EV chargers and battery storage. To realise the most value from a DER registry, it must be implemented as a priority. The information offered by a DER registry would be the most valuable in enabling more efficient network operations and planning, the sooner it is available. It is during our transition to the greater uptake of DERs – including EVs – that the technology is less common and its impact less certain, and, when the visibility offered by DER registry can add significant value. As uptake increases (that is, as EVs become more ubiquitous) – and as digital network solutions offer more visibility of DERs – the information offered by a DER registry is likely to be less impactful. A DER registry is a critical transitional tool – which we support being implemented as an urgent priority in order for it to best support an efficient transition to greater uptake of EVs and other DER.

6. Facilitating industry-based discussions

The members of the Northern Energy Group are part of the ENA. The ENA Distribution Pricing Working Group has collaborated on strategies to implement more cost-reflective distribution pricing, including mitigating the impacts on consumers. Collaborating and information sharing among industry participants and the Authority is fundamental.

Recommendation

We are keen to see cooperation and collaboration among EDBs and collaborate further with the Authority. We invite the Authority to continue engaging closely with the Northern Energy Group and other EDBs in implementing pricing reform and promoting the Distribution Pricing Principles.

Summary

The Northern Energy Group welcomes the updated Distribution Pricing Practice Note and agrees with the Authority that cost-reflective pricing is fundamental to reducing the cost of electricity to consumers and achieving New Zealand's zero-carbon emissions goals.



We want to support the Authority in ensuring distribution pricing sends the right signals about the cost of electricity and ultimately results in better use of the electricity network and improved outcomes for electricity consumers.

We strongly believe that these reforms need to be grounded in the reality of customer behaviour and have ongoing customer support if they are to be enduring and effective.

