# Distribution Pricing Practice Note: Consultation Paper

3 November 2021

## Overview

Northpower and Top Energy welcome the opportunity to provide feedback on the Electricity Authority's consultation paper *Supporting reform to efficient distribution pricing: a refreshed Distribution Pricing Practice Note.*

We agree that reform towards more efficient distribution prices will reduce network upgrade costs, offer more choice and flexibility for consumers, enable consumers to make informed technology investment decisions, help to deliver the benefits of new technology and innovation, and support an affordable transition to a zero carbon future.

Recognising the importance of pricing reform, we have prioritised and made significant progress on pricing reform over the last 3 years, which is reflected in our Scorecard results over that period.

In advancing pricing reform, our key submissions and recommendations are summarised below:

| Theme | Key feedback and recommended Options |
|---|---|
| **Locational Pricing** | • In the near to medium term the transaction costs of further pricing granularity exceed the benefits.<br>• On what basis therefore does the Authority expect distributors to implement these changes?<br>• Does the Authority have a CBA to demonstrate the benefits outweigh the additional cost to distributors and retailers? |
| **Pass-through** | • For price signals to effectively influence customer behaviour, retailers should be required to provide *a* price plan which transparently passes through distribution prices.<br>• Any other price plan that retailers offer for a group of consumers should result in the same average total electricity cost as the price plan that passes through distribution costs transparently. |
| **Communication** | • Distributors should be allowed to communicate *directly* with consumers (eg. via email/post, etc) with personalising messaging, to explain how their distribution charges are calculated, and why they are changing.<br>• This would apply even if retailers don't pass distribution charges through transparently. This enables consumers to understand how lines charges are made up, and encourages competition – they can change retailer to one passing through lines charges transparently if that would benefit them.<br>• Direct communications enables distributors to front foot the rationale for change with consumers, ensuring ongoing consumer confidence and social licence is preserved. |

| | |
|---|---|
| **Remove restriction on annual prices changes** | • A more flexible approach to pricing is warranted, as annual restriction on price changes prevents distributors from responding quickly to pricing constraints through pricing signals.<br>• It also increases the risk associated with new product and pricing innovation, and drives a risk based approach. |
| **Cost reflective pricing in a post-ToU world** | • The Authority is clear that it sees Time of Use pricing as a first step towards cost reflective pricing, but it is unclear on what comes next.<br>• To enable an informed dialogue with the industry around future pricing options, it would be useful for the Authority to outline where it sees pricing developing in 5, 10, and 20 years (acknowledging that evolving technology will mean this might change). This would provide a useful "strawman" to test assumptions, scenarios and engage the industry in the benefits of future pricing options. |
| **Fix access to data** | • Mandate minimum capability for meters<br>• Implement default terms for distributors to obtain data from MEPs directly<br>• Subject MEPs to Part 4 regulation<br>• Implement standardised communications protocols for transfer of data from MEPs to distributors and retailers. |
| **Engagement** | • The Authority should engage directly with consumers/consumer groups, including via a public awareness campaign, on the rationale for change.<br>• Distributors must also be enabled to communicate directly with end consumers. |
| **Time of Use** | • NZ cannot shift to more complex pricing structures until we have successfully finished the migration to ToU. To enable full adoption of ToU the Authority should:<br>o Compel the 29% of retailers/participant codes not yet on Time of Use (ToU) pricing to contract with MEPs and/or complete system upgrades so all of their customers with communicating smart meters can move to ToU for network billing purposes.<br>o Compel retailers to complete their smart meter rollouts. |

## Q1-Q5: Feedback on the updated Practice Note

We have reviewed the Practice Note and broadly agree that it is a useful guide that provides further detail to guide pricing reform. We have the following specific feedback:

**Location and congestion targeting**

The Authority's suggested price setting methodology requires distributors to identify pricing regions where there are substantial differences in economic costs to serve, and where a targeted congestion-related pricing signal is desirable. In other parts of the paper, the Authority indicates that pricing for the whole network should be calculated at a feeder and substation level. However, the pricing principles also require us to consider transaction costs and the impact on consumers, and therefore a judgement decision is required to balance these factors.

With 29 distributors and some having multiple pricing regions, there are already more than 30 pricing regions across New Zealand reflecting material differences in cost to serve. Retailers have expressed concern about the transaction costs of dealing with even the existing number of pricing structures and regions. Adding more pricing granularity will drive more cost for both distributors and retailers, which will ultimately be borne by consumers.

Distributors have in many cases assessed that the benefits of further pricing granularity does not outweigh the costs of managing these price signals, and therefore have not implemented them.

However, the Authority continues to push for these signals. To understand the reasoning behind this we would like to know:

- Whether the Authority expects distributors to implement these signals even if the transaction costs outweigh the benefits?

- If so, has the Authority carried out analysis that shows the benefits materially outweigh the transaction costs?

- Has the Authority considered the impact on retailers, and the retailer's ability to provide data to distributors to support billing of additional pricing regions and price signals?

We note that there is a separate issue around customer equity and fairness issues in adopting locational pricing, which we are concerned about on behalf of our consumer owners. This is particularly relevant given the socio-economic challenges of regional and rural Northland. Adding an additional burden of higher distribution prices due to a higher cost to serve in rural areas will only exacerbate energy hardship in our regions. This is not in line with Government moves to address energy hardship, nor would it be welcomed by our communities.

**Pass Through**

The development, management, and billing of more complex pricing structures will drive incremental costs to distributors, which will ultimately be passed through to consumers. Yet to date retailers for the most part don't pass these signals through to consumers, so consumers can't respond to them. As a result, distributors do not get any benefits from cost reflective pricing, in the way of reduced or deferred asset costs from consumers responding to the price signal. The net effect is that consumers are worse off.

There is clear evidence that price signals are currently not changing customer behaviour, as they are not being passed through to consumers. An example of this is that consumption on Top Energy's ToU pricing bands which has not changed since implementation of ToU pricing:

| | 2021 | Estimated pre TOU pricing |
|---|---|---|
| **Peak** | 19% | 20% |
| **Shoulder** | 54% | 54% |
| **Off-peak** | 27% | 26% |

Furthermore, most retailers have signalled to us that they do not intend to pass through existing price signals. As the market is dominated by 4 major gentailers who have a substantial cross-section of the consumer base, and we are only collecting the same amount of total revenue, the amount that each of those gentailers pay in lines charges does not materially change through the implementation of cost reflective pricing. Their large consumer base effectively self-hedges or averages out. This enables them to avoid passing through the price signals to consumers with no impact to their bottom line.

There seems to be little value to consumers in developing more complex price signals, and incurring more cost to do so, if the existing price signals are not being passed through and are therefore not generating the desired response?

We recommend that:

- ➔ Retailers should be required to offer a price plan to consumers that passes through distribution costs transparently
- ➔ This pricing option must be no more expensive than any other pricing option which the customer could select.

This is how Northpower and Top Energy's pricing structures are currently built. If a consumer has a legacy meter and are charged a non ToU rate, there is no penalty built into that rate – it results in the same rate as the ToU rate based on consumption at the average peak/shoulder/off-peak ratio.

## SRMC vs LRMC

The paper is not clear on whether the Authority considers we should use SRMC or LRMC to determine the economic cost to reflect in prices set to recover signalling revenue. However, in the paper it appears to lean towards SRMC, suggesting that congestion should be signalled until it exits. A similar view was taken in our scorecard review meetings with the EA.

While we agree that in an ideal world we should use SRMC, from our discussions with consumers, they look at electricity prices infrequently and in little detail. Rather, they need a long-term view of where prices are going and why, so they can consider the impact on their learned behaviours such as when they plug in their electric car, investment in energy saving or time shifting devices, and on how it might impact their long-term investments such as in solar and batteries.

The EA has stated that "one caveat here is that good price signalling by a distributor takes account of trends that could see congestion arising, and so pre-emptively signalling to customers to become accustomed to a future price structure is prudent". We expect that most distributors will look to pre-emptively signal the risk of future congestion as a result of electrification and de-carbonisation, and we encourage the Authority to retain this principle as we go forward. This is critical as distributors invest in long life assets that need to meet the needs of an intergenerational consumer. Relying only on a short-term view will cause poor investment decisions.

In implementing pricing reform, both distributors and the Authority need to consider retaining consumer confidence through the period of change. Consumers don't consider their electricity prices and signals frequently, and need certainty and consistency, as has already been demonstrated where customers are exposed to spot prices. Rapid changes in price from using a SRMC approach will result in unexpected outcomes for consumers who might find their DER investments become uneconomic in a short space of time. LRMC is essential for distributors and the Authority to indicate the path of future prices, giving consumers certainty and predictability, and thereby maintaining consumer confidence.

## Bad price signals

We are concerned that, after three years of focus on pricing reform, the Authority states in section 45 that there is no need to implement ToU if your network has no congestion and "We acknowledge that for distributors that do not face congestion now (and don't expect it soon), reform may simply mean moving to higher fixed charges and reducing variable charges, once LFC regulations allow". In other words, for the majority of our consumers, our pricing was perfectly cost reflective in the eyes of the Authority three years ago and there was no need to change.

We think that there *is* a need to change. While from a pure economic view it is technically correct that we shouldn't signal congestion if there is none, consumers might only check in on what lines charges are doing every couple of years, if ever (particularly given distributor's charges are in the most part not passed through transparently by retailers).

As consumers start investing in DER we need to signal where prices are going in the long term, so they can take this into account in their purchasing decisions.  Already we expect there is a significant cohort of consumers with solar panels whose purchase was uneconomic and may not have been made had retailers passed through our existing cost reflective price signals, and had the LFC regulations already been repealed.

This section ties to the points made in the SRMC vs LRMC cost section above.  Consumers need long term signals so they understand where prices are going, and can factor this into their DER investments (eg. purchase of solar panels) and learned behaviours (when they charge their car).  They are not going to constantly monitor distributors' price settings and identify when a price suddenly shifts if distributors take a SRMC approach.  If consumers are caught out due to sudden and material price changes through a SRMC approach, there is a strong risk that distributors and the Authority will lose consumer confidence, negatively impacting their social license.

**Communicating with Consumers**

The Authority acknowledges that managing the increases and decreases in network charges as they are re-balanced involves distributors engaging with consumers.  We are currently limited in our ability to do this and are required to use indirect methods such as newspaper advertisements.

Pricing reform creates winners and losers.  A lack of transparent pass-through means that there is often uneven communication of pricing changes; specifically that increases are attributed to distribution costs whereas decreases are combined with other changes and not specifically attributed to distributors.  If pricing reform is to be successful, consumers need to see that it is a re-distribution of costs, not a revenue increasing exercise, and balanced and informative communications is a key part of this.

Some recent examples are below:

| Northpower | Top Energy |
|---|---|
| Northpower recently implemented new cost reflective pricing structures for Large Commercial & Industrial consumers, where key parts of the messaging relating to our transition methodology (and the way in which consumers could mitigate their lines charges) were omitted from retailer communications to customers.<br>However, customer complaints were subsequently referred directly to us by the retailers. | In 2021 Top Energy reduced its line charges by 12%. Over half of our consumers' prices did not change to reflect this at the time and customers were not informed. |

We think that the Authority needs to do more than simply expect a collaborative approach from all parties.  Distributors need to protect their social license to operate in order to successfully implement cost reflective pricing.  Therefore we recommend that the Authority change the DDA to enable us to communicate *directly* with consumers to explain how and why prices are changing, to demonstrate that pricing reform results in winners and losers, but the overall effect is that the distributor will not be collecting any more revenue than they otherwise would have, or allowed to under price path regulation. This would include advising the consumer what the distributor is charging the retailer and how this is calculated, even if the retailer is not passing this through transparently.

Support from the Authority in this area would encourage distributors to get on board with pricing reform, by giving them the ability to tell the story as to *why* change is needed - a critical part of any successful change management.

**Increase the frequency of pricing changes**

The restriction to annual pricing changes slows pricing reform because changes can only be implemented once a year, which means that you have to get your product development timed to include it in consultation which occurs approximately 6 months before the pricing year starts, and if you miss this window the pricing reform will not occur until the next pricing year starts 18 months later.

With annual price changes, if a distributor gets their pricing reform wrong, they have to wait a whole year to change it, with potentially significant revenue or consumer impact. This requirement makes distributors risk averse and can limit willingness to approach pricing reform at pace with an agile approach.

Therefore, we recommend that prices can be changed more frequently than annually. Outside of regulated entities, what other industries can only change their prices once a year?

**Transmission Charges**

We would like to see more guidance on how to determine how much of the fixed transmission charges should be applied to each customer, in all cases but particularly in the case of large industrial customers.

In particular, on the Northpower network we have large industrial consumers who in a normal year drive circa 39% of the peak load on our network and consume 47% of the energy conveyed on our network. In some cases we are contractually obliged to pass these costs through transparently, and as such would like to understand how the BBC charges from the original 12 pre-2019 investments are calculated and could be broken down to apply them to the consumers who drove them in a cost reflective manner.

**Taking a flexible approach to future pricing structure**

The Authority sees ToU as a justified first step in pricing reform, but its view on what the next steps are appears to be unclear. While it lays out a number of pricing options other than ToU, it is not clear on where it sees that we go from here and what the stepping stones and timeframes are.

We agree that pricing in 5 to 10 years may evolve again from a standard ToU plan, and may include an element of capacity or demand based charging. How it evolves and the timing may also depend on the pace of the uptake of new technologies and customer behaviour. Rather than the Authority outline firm expectations around future pricing structures, it is important that we collectively work together as an industry to learn what is most effective, test new structures, and adjust as required.

**Equity and fairness issues**

The Authority suggests that if one particular feeder is constrained, their pricing should be increased to signal that they should reduce load. While this may be economically correct, in the wider picture is it *fair* that those consumers pay a higher price, while consumers in other parts of the network may have had their capacity upgraded just a few years ago prior to the implementation of cost reflecting pricing and not suffered a higher cost?

## 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?

Yes. Both the Authority and Distributors' approach to pricing will need to evolve as technology develops and we progress down the path towards DER and de-carbonisation through electrification. It's not possible to have all the answers now, and it's important we make progress while continuing to keep an open mind to the future.

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

We submitted extensively on data access under the *Updating Regulatory settings for distribution networks* consultation, but that submission was focused on the data required to efficiently plan and operate a network.

From a pricing perspective we need data for two purposes:

1) To establish new pricing structures and initial prices

2) To manage ongoing price updates

We currently have data for (2) but not (1). Northpower introduced ToU *without* any data to set the prices, because we could not get it from retailers. One retailer told us they would give us data for billing, but not pricing. Although Top Energy did receive some data it was of limited use as it was anonymised and for a limited subset of customers.

From a practical perspective, to continue to update ToU pricing, we need access to HHR data. For example, we can't change our peak periods, because we don't have access to

HHR data so we don't know how much for example a half hour shift would change the volumes we receive into each time-slice, to set prices.

To change from ToU to whatever pricing structure comes next, we will need data to support that move. For example, if we switched to a peak demand model, we would need this data to flow from MEPs. The current data template (which is deficient and not suitable for pricing for various reasons laid out in our regulatory settings submission) only applies to EIEP3 data which is HHR.

To address future network pricing needs we recommend the following:

**a. Mandate minimum capability of meters installed**

Meters installed should be required to meet minimum capability standards so that they can supply data which meets network requirements for future pricing structures, such as demand, 5 minute intervals, etc.

**b. Default Terms for MEPs**

We suggest consideration be given to default metering agreements to govern the relationship between retailers, MEPs and EDB's.

The EA recently implemented Default Distributor Agreements governing the relationship between retailers and distributors, on the basis this would provide a level playing field, and reduce the time and cost for retailers and distributors to negotiate with each other.

We consider similar rationale could apply to introducing default terms upon which distributors can obtain data from MEPs to support the operation and planning of their networks. These terms could limit use of the data to network purposes only to address concerns about the data being used for other commercial purposes.

Once a meter is installed, it is very difficult, expensive, and inefficient to replace it with another MEP's meter. Furthermore, distributors do not have the ability to select the MEP at an address. While distributors could look to overbuild smart meters, this would be inefficient asset duplication.

As such, once a MEP's meter is installed at an address, the MEP effectively has a monopoly over providing services at that address. For that reason, we consider the MEP has excessive negotiating power, in the same way that the Authority was concerned that distributors did over retailers. As such, a DDA equivalent is appropriate to level the playing field.

An alternative to a DDA between retailers and MEPs would be to broaden the existing Data Template (which includes the requirement for retailers to induce MEPs to provide data to distributors which the retailer does not hold) to include non-consumption related data (e.g. load, voltage, etc), but we consider it would be simpler for distributors to contract directly with MEPs.

### c. Amend Part 4 regulation to include MEPs

As outlined above, once a meter is installed at an address, the MEP effectively has a monopoly over that address.  Part 4 regulation is used in markets where there is little or no competition, to regulate price and quality of goods and services for the benefit of consumers.

MEPs are essentially asset owning companies, in the same way that distributors are.  There is a risk that, without effective regulation, MEPs could over-recover on their investment, not invest in appropriate meters, or not provide services, to the detriment of consumers.  As such, information disclosure and/or default price path regulation could ensure that this does not occur. Information disclosure could cover key metrics such as uptime, communications timeliness, % smart meters, % communicating smart meters, and ensure that MEPs are continuing to improve these metrics and increase their rollouts year on year.

Given MEPs already recover their costs, the cost of their assets, and a return on their investment from retailers, additional revenue received from third parties (e.g., distributors) should be limited to incremental costs. This will ensure that consumers only pay for this once and obtain the maximum benefit the meter investment can offer.

### d. Communications protocols

Supporting access to metering information requires effective data exchange, which is scalable (e.g. increasing real time data exchange from 30 minute blocks to 5 minute blocks), and suitable for use by all distributors, MEPs and potentially other industry participants (e.g. aggregators).  It is essential that this information exchange is standardised so that it is efficient and supports a transition to a digitised and automated future.  We are agnostic as to how this is achieved (e.g. whether by API or centralised data repository) and recommend MEPs and distributors work with the Authority to determine an optimal solution.  We see this as a high priority action.

## 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?

Yes – see our earlier comments regarding customer contact.

## 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?

To support consumer engagement and acceptance of pricing reform we think the Authority should:

➔ Run workshops with end-use consumers and/or representative groups (particularly residential and SME businesses) to understand their views on pricing reform.

- ➔ Create a public awareness campaign of the changes which they are promoting, *why* they need to occur, and demonstrate the tangible benefits to consumers which will occur as a result.

- ➔ Support distributors when they are having these hard conversations, particularly with large Commercial & Industrial consumers, which as identified by the Electricity Pricing Review, have often historically been cross-subsidised by residential consumers. Unwinding these subsidies will create challenging conversations for all parties.

- ➔ Support at least some form of pass through. Consumers will not respond to, or become engaged with, pricing signals that they do not see.

- ➔ Enable distributors to communicate with customers directly to inform them and engage with them.

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

We don't think this needs an industry discussion. If the Authority wants consumers to receive price signals that they can respond to, they will need to regulate to ensure that these prices signals are passed through. If the Authority does not, price signals will not be passed through in any meaningful way for the below reasons, and as much as distributors reform pricing, there will be no response to the signals and the targeted benefits will not be achieved:

1) Because distributors collect the same amount of revenue, and the market is dominated by 4 major gentailers who have a substantial cross-section of the population, the amount that each of those gentailers pay in lines charges does not materially change through the implementation of cost reflective pricing. This enables them to avoid passing through the price signals to consumers with limited impact to their bottom line.

2) Retailers have told us consumers do not want cost reflective pricing, and therefore they are reluctant to force it upon them.

3) Retailers have told us that they intend to use Vector's price signals in other areas in order to achieve a national marketing proposition. What is the point in coming up with feeder and substation level pricing signals if retailers won't even pass through distributor level price signals?

4) The retailers which are interested in new products and innovation cannot gain traction due to high spot prices, and are no longer accepting new consumers. There are therefore limited options for consumers who want to shop for a different retailer.

We recommend at a minimum, that retailers should be required to provide *a* price plan which transparently passes through distribution prices, and any other price plan that they offer for a group of consumers should result in the same average total electricity cost as the price plan that passes through distribution costs transparently.

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

Distributors have been careful to develop pricing signals that are not so overly complex, that they cannot be passed through transparently. We are wary of complex price signals that have created issues with consumers, such as those experienced by The Lines Company. To assist retailers further Northpower and Top Energy have implemented the same pricing structures for mass market customers.

We are extremely concerned about the complexity of feeder and substation level pricing in the event this is passed through. Imagine buying a new house and then finding out the lines charges are higher on this side of the road than the other side – this is too complex for consumers to be expected to understand, it would be perceived as arbitrary, unreasonable and unfair. Such perverse outcomes will quickly result in a loss of consumer confidence and social license.

Location based pricing is already inherent through 29 distributors and multiple pricing zones within those where warranted. We consider excessive granularity by location will result in excessive transaction costs and complexity and also erode consumer support and confidence.

In the long run we see that there may be value in more dynamic price signals however these should not be implemented until technology is readily available to respond to them, rather than consumers having to consciously understand and respond to them. For example, signalling your EV to start charging later *automatically* on high congestion nights, but not on other nights even at peak times.

## 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?

Currently there is no risk of bill shock, as retailers are not passing through the price changes. Northpower is considering abandoning its phasing approach (implemented to mitigate the impact on consumers) because there is no risk of bill shock for this reason.

Location based pricing, if it were to be passed through (which would be necessary to drive a response and derive the efficiency outcomes the Authority seeks) where there are material differences in charges across a distributors' area, will inherently drive bill shock. A consumer could move across town and receive a bill which is more expensive, because the line is more heavily loaded. We don't know how this bill shock can be managed and consider it would result in a The Lines Company style fundamental loss of consumer confidence. For this reason, we are not supportive of it.

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

**Timing of new regulations being released**

The government has not yet released the wording for the proposed change in the LFC regulations. To enable us to meet our obligation to communicate prices to retailers prior to the Christmas break (for effect from 1 April 2022), we consult with retailers in September and get Board approvals through October and November. As such, certain assumptions about how the regulation changes will work have been made, such as assuming that the requirement for Low User and Standard pricing to result in the same total lines charges at 8,000kWh p.a. will remain.

If the regulations once released are not as expected, there is a risk that we will have insufficient time to re-work both our pricing structures and final prices, and the increase from 15c to 30c for the first year will have to be deferred.

**Existing LFC requirements result in perverse outcomes as we transition**

Assuming the requirement to match Low User and Standard User total lines charges at 8,000kwh remains, this is a challenge for Northpower (because we have separate Uncontrolled and Controlled rates) to continue to meet. In particular, as we lift fixed rates on our Standard plan, we are forced to lift our Controlled rate on the Low User plan to ensure that this pricing option remains compliant at 8,000kWh. This is not cost reflective, as consumption subject to the Controlled Rate does not lead to congestion and therefore should remain low.

An option that would make pricing reform easier would be to simply require that the average lines charges paid by a residential consumer on Low User and Standard user at 8,000kWh is the same, without requiring every pricing permutation (e.g. every combination of possible metering configuration) to match at 8,000kWh. This would remove the complexity while still achieving the same goal, and avoiding controlled rates increasing in conflict with cost reflectivity.

## 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?

As outlined in the data section, data is required to establish and reform pricing, and currently we only have access to our existing billing data. In other words, we have the volume of consumption split into peak/shoulder/off-peak – but we can't even run scenarios, e.g. shift the peak times by half an hour, because we don’t know how much it would impact on volumes.

To implement the pricing reform the Authority suggests, we require as a minimum access to HHR smart meter data to:

- split feeder level consumption into consumer groups to set feeder level pricing
- make any changes and further development to our ToU pricing structures.
- implement new pricing structures such as capacity and demand based pricing.

In addition, we also need access to other types of data for operational purposes, which lead into pricing. For example, voltage data from smart meters tells us if we have a constraint that then might be addressed through a pricing signal.

**Currently, installation of energy intensive devices such as EV fast chargers are not required to be notified to distributors. Do you see this 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, see our earlier submission on *Updating Regulatory Settings for Distribution Networks*. A DER register which captured the installation of these devices would be an effective solution, however some consideration would need to go into how this data could be captured and updated effectively without being unduly burdensome on consumers (e.g., by installers or retailers).

**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.**

Top Energy and Northpower have the following feedback:

➔ We request that the Authority works with the Government to ensure regulation is passed by the end of November 2021 to ensure that the 5-year LFC transition can commence on 1 April 2022, with no additional unexpected requirements that might delay implementation.

➔ Simplify the existing requirement in the LFC regulations for the Low User and Standard User plans to result in the same total lines charges at 8,000kWh, so that this is only required on average rather than at every pricing permutation.

➔ Enable distributors to have fair and efficient access to the data required for pricing. This includes information to understand constraints as well as consumption and demand data.

➔ Enable distributors to communicate with end customers to enable better information dissemination, change management, and ongoing consumer confidence and engagement in the rationale for changes.

- ➔ The Authority to engage with consumers on the rationale for change through public awareness campaigns, ensuring it obtains a wide cross section of consumer views.

- ➔ Ensure there is some form of pass-through of price signals, as it is hard to rationalise further price reform when existing price reform has had no effect due to no pass through. We suggest that at minimum, retailers should be required to provide *a* price plan which transparently passes through distribution prices, and any other price plan that they offer for a group of consumers should result in the same average total electricity cost as the price plan that passes through distribution costs transparently.

- ➔ Change the focus of the review process from what is or isn't in the Pricing Methodology, to the actual pricing reform delivered. Actual reform delivered combined with pass-through is what will drive consumers to react to price signals, and thereby deliver the targeted efficiencies.

## 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?

**Retailer data**

Under the current industry construct, retailers provide consumption data to distributors. Distributors can then 'estimate' if they disagree with the retailer's data, but the primary source of billing data for distributors is retailers. This is in effect a self-declaration system, similar to how our tax system works.

Three years after we begun engaging with retailers on ToU, and 2 years after we rolled it out, we still have 29% of participant codes on the Northpower network with exemptions because they either do not have agreements with MEPs to obtain the necessary data to provide us with time-sliced consumption to bill ToU, or their system is not capable of calculating and sending us the time-sliced data. This includes one of the major gentailers.

| | % of ICPs with communicating smart meter | | % of ICPs on ToU | |
|---|---|---|---|---|
| | Residential | General/ Commercial | Residential | General / Commercial |
| Northpower | 87% | 64% | 69% | 44% |
| Top Energy | 75% | 63% | 46% | 30% |

Before we think about moving to what lies beyond ToU, we need to finish the implementation of ToU. To do this properly, the Authority needs to:

- Compel retailers to finish their smart meter rollouts

- Compel retailers to finish updating their systems to be able to supply time-sliced data, or enable distributors to bill based off raw smart meter data provided directly by MEPs (including facilitation of this via the initiatives discussed in this paper) including allowing distributors to estimate to fill in the gaps in raw smart meter data.

How can we consider shifting to more complex structures, while the onus remains on retailers to supply billing data, if they can't even supply data for ToU being the most simple of cost reflective pricing structures?

**Complexity and poor quality data**

We have issues with retailers providing poor quality data, sometimes knowingly. Their rationale is that they have 14 months to wash up the data. However, poor quality data which feeds into billing impacts on the cash-flow of EDBs, particularly where a material refund is required, and also often flows into our price setting for the following year's pricing before the wash-up occurs and so impacts multiple financial years' revenue.

There is no obligation on retailers in the DDA to even make a best endeavours effort to supply accurate data – merely supplying data means they are complying with the DDA. There are no penalties on retailers for supplying poor quality data.

Many of the recent errors have been material and relate to errors inputting data relating to pricing reform. This reinforces the previous section – retailer capability needs to be examined in order to complete ToU implementations, and progress to more complex types of cost reflective pricing. Alternatively, distributors could be allowed to source data directly from MEPs.

**Standardise Time of Use**

Retailers have highlighted to us the transaction costs of implementing cost reflective pricing, both to supply us with the required data to bill them, and to change systems to pass-through these charges to retailers (in the event that retailers wished to do so).

The Authority could consider working with distributors via the ENA to develop a standard ToU Pricing structure. This structure would have standardised terms, but with the distributors able to vary the start and finish times of peak/shoulder/off-peak and the seasons to which they apply.

Retailers would be required to build this standardised product into their systems, with a table based system so different start and finish times of peak/shoulder/off-peak and seasons could be entered into the table for each distributor, but how the product works is otherwise absolutely consistent. If a retailer didn't want, for example a shoulder period, they simply wouldn't assign any times to that period.

This would address concerns about cost, and enable the building of a standardised product module by all retailers which enabled them to deliver billing data to retailers, and also to pass-through ToU pricing in an efficient standardised way to consumers.

**Flexibility Services**

If distributor prices are cost reflective, distributors should not need to engage flexibility providers – consumers would flex their demand (potentially via flexibility providers) in response to the price signal.

For example, if you have a congested network in during peak evening periods, the price signal would indicate to a customer that they should consume from their battery, or export onto the grid from their battery. As such, there is no need for the network to go and pay the flexibility provider for that service, as this would double the signal. The flexibility provider should contract with the customer to take advantage of the price signal offered to the customer.

Otherwise, we have to put up prices to consumers to pay the flexibility provider – is this not excessively complicated? Nor is adding additional costs in consumers' interests.

### 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.

**Timing**

We encourage the Authority to consider the timeframes distributors need to meet to implement new prices. For us to communicate prices to retailers prior to the Christmas break (for effect from 1 April 2022), we consult with retailers in September and get Board approvals through October and November. As such, it is too late for us to consult on and implement any changes that might result from the finalised version of this Practice Note for the year beginning 1 April 2022, and the earliest we can look to implement changes is 1 April 2023.

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

See earlier comments.

### Q20. How the Authority could engage more with industry, either individually or through structured channels, and in formal and informal ways.

The workshop on this consultation was a positive start to improve engagement between the distributors and Authority. We look forward to seeing the feedback from the surveys completed and an action plan based on that feedback going forward, as well as ongoing dialogue with the industry (including consumers) on future pricing options.