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**Submission of PowerNet Limited  
To the Electricity Authority  
On the Distribution Pricing consultation**

**3 November 2021**

**1. Introduction**

- 1.1 In September 2021 the Electricity Authority (the Authority) published a refreshed guidance on efficient pricing: Distribution Pricing Practice note 2<sup>nd</sup> edition (draft for consultation).
- 1.2 PowerNet Limited (PowerNet) appreciates the opportunity to make a submission to the document
- 1.3 PowerNet is an electricity management company with head offices based in Invercargill. We manage the non-exempt electricity distribution businesses (EDB's) of Electricity Invercargill (EIL) and OtagoNet Joint Venture (OJV), the exempt EDB of The Power Company Limited (TPCL) and the non-grid connected Stewart Island Electric Supply Authority (SIESA). PowerNet is a joint venture company, owned (50/50) by TPCL and EIL.
- 1.4 PowerNet manage an asset base and investment in excess of NZ\$1 billion. It provides services to over 72,000 customers through more than 14,100 circuit kilometres and manage the fourth largest suite of EDB assets in New Zealand. TPCL operates in Southland and West Otago, EIL in Invercargill and Bluff, OJV in Frankton, Cromwell and Wanaka and the rural and coastal Otago region that surrounds Dunedin City and SIESA on Stewart Island.
- 1.5 This PowerNet submission is on behalf of EIL, TPCL, and OJV and provides feedback with respect to the preliminary views in the paper.

**PowerNet Contact**

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## PowerNet Distribution pricing consultation submission

### 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?**

PowerNet welcome the Practice Note. We acknowledge the recognition that efficient pricing isn't one size fits all. We however have a number of concerns that the Practice Note does not provide sufficient clarity on priorities; nor does it provide sufficient recognition of challenges relating to access to clear and consistent customer data, or how efficient pricing is implemented during LFC regulation phase out.

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

The Practice Note's guidance assumes no restrictions on fixed prices – ignoring the fact EDBs are required to comply with LFC regulations. Guidance on what good looks like during the transition out of the LFC is key for EDBs.

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

Clarity on whether prices should reflect long-run or short run costs and congestion would be beneficial.

The Authority suggest that price signals should be amplified to elicit a response when they do not appear to be providing the desired consumer response – however there is insufficient clarity on the priority timeframes for considering consumer responses.

#### **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.*

On behalf of the EDBs that PowerNet manage, a range of pricing documents, including pricing methodologies, roadmaps and tariff sheets are developed for each individual network. Without direction from the Authority on what best practice looks like in the structure and content of these documents, they may fail to include elements the Authority considers are critical.

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

Timely and consistent visibility of customer usage information is vital to assessing the level of congestion on networks. The lack of consistent and timely smart meter data results in difficulties attributing behaviour change to price signals. Therefore efficacy of cost-reflective pricing is near impossible.

Additionally, expectations regarding retailer capability and willingness to implement new pricing approaches and ensure these are visible to customers appear over ambitious.

## PowerNet Distribution pricing consultation submission

**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. The Practice Note should be a living document – reflective of the transition the electricity sector is currently undergoing.

As an example, the removal of the Regional Coincident Peak Demand mechanism from the TPM will remove a pricing signal. Until TPM is confirmed and implemented, uncertainties remain regarding the true impact.

**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?**

Collection and analysis of LV network data falls within the scope of the *Updating regulatory settings* consultation. PowerNet have already provided feedback on this issue in our response to the *Updating regulatory settings* paper.

**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?**

Lack of access to customer contact data creates significant challenges in relation to communication pre-, during and post power interruptions – both planned and unplanned. All EDB’s, including PowerNet EDBs are reliant on retailers, and/or the use of untargeted media / promotion. This has proven to fall short of customer expectations in a number of situations.

**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?**

Sending clear pricing signals to customers is considered a crucial component to support enabling the efficient deployment of DER and adoption of flexibility services. However the Electricity Price Review highlighted extremely low levels of customer engagement with electricity services and pricing. The ability for EDBs to engage directly with consumers would be welcomed as an additional tool to support customer engagement and understanding.

**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 Consultation paper: a refreshed Distribution Pricing Practice Note discussion on ensuring price signals reach consumers, taking into account the need to comply with the Commerce Act 1986?**

All EDBs develop a significant number of tariffs however these are generally restricted to mass-market tariffs that can be readily transferable into retail tariffs. This is a result of a lack of certainty that retailers will pass-through distribution tariffs without alteration. More focus on expectations relating to pass-through should be on the Authority’s work programme. For example, do the Authority consider EDB development of tariffs that can be easily applied by retailers a desirable attribute? Or will clearer requirements be placed on retailers to reflect distribution pricing signals in products offered to consumers?

## PowerNet Distribution pricing consultation submission

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

Complexity adversely impacts the effectiveness of the signal provided. Accordingly the Practice Note should recognise that simplicity, predictability, applicability and action ability are desired attributes.

**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?**

Customer engagement and communication are primary tools used to manage bill shock. Bill shock is best managed by the Authority supporting EDBs to transition to new pricing structures rather than pushing for instant move to fully efficient prices.

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

The Authority need to provide guidance on how it expects prices to be developed during the LFC transition period. Currently EDBs are effectively replicating mass market tariff even when the eligibility criteria for opt-in tariffs preclude low-users. This leads to unnecessary complexity and customer confusion.

**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?**

The absence of standard meter data formats poses challenges for collection and analysis of LV data. LV visibility is critical to tariff reform.

**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?**

Visibility of both load and generation capability is critical to EDBs developing price signalling tariffs. We currently rely on broad price signals and assumptions. The Authority should expand the data requirements to include energy storage systems and EV chargers to provide robust and consistent data regionally and nationally.

**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.**

We have no particular comment in this space as we do not necessarily believe that faster reform is practical in the current environment.

**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.*

## **PowerNet Distribution pricing consultation submission**

Constraints to pricing reform progress are highlighted throughout our response above.

**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.**

No further comment.

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

Retailers generally create nationwide products that mute distribution pricing signals. How will the Authority support EDBs implementing more complex pricing structures to get across the line with retailers?

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

Structured engagement with the industry is critical to build trust, transparency and shared outcomes.