

3 November 2021

Submissions
Electricity Authority
PO Box 10041
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via email: distribution.pricing@ea.govt.nz

**Consultation paper: Supporting reform to efficient distribution pricing:
a refreshed Distribution Pricing Practice Note**

1. The Lines Company Limited (TLC) thanks the Electricity Authority (Authority) for the opportunity to submit on the Authority's proposal to replace the Distribution Pricing Practice Note, published August 2019.
2. TLC has also provided input into submissions by the Northern Energy Group and the Electricity Networks Association.
3. TLC welcomes the updated Practice Note and agrees with the Authority that cost-reflective pricing is fundamental to reducing the cost of electricity to our communities and achieving New Zealand's zero-carbon emissions goals.
4. TLC provides our submission using the Authority's *Distribution pricing consultation submission template* on the following pages.

If you have any questions about this submission, please contact Craig G. Donaldson (Craig.Donaldson@thelines.co.nz).

Yours sincerely

A handwritten signature in black ink, appearing to read "Saba Malik".

Saba Malik
Compliance and Revenue Assurance Manager

Question	Comment
<p>Q1 Do expectations laid out in the updated Practice Note on what 'good looks like' for efficient pricing provide a useful guide?</p>	<p>TLC welcomes further guidance by the Authority to assist distributors with applying the 2019 Distribution Pricing Principles and on what 'good looks like' for efficient pricing.</p> <p>The Authority, in the past, has stated that Low Fixed Charge Regulations (LFC) have not been a barrier to pricing reform. However, the Authority has recently acknowledged the constraints that LFC posed. With the transition to remove LFC now certain, distributors are now able to move ahead with certainty.</p> <p>The Authority, however, must recognise that the Cabinet decision came through late in the year. For most distributors, this will be too late to model and implement meaningful reform for prices effective 1 April 2022. TLC is likely to adjust LFC prices to what the updated regulations allow and continue the strategy that we have outlined in our roadmap and pricing methodology.</p> <p>TLC will reassess, thereafter, and update our pricing strategy.</p>
<p>Q2 Do you consider any of the material to be incorrect, subjective or superfluous?</p>	<p>TLC would appreciate guidance from the Authority on what good looks like during the LFC transition.</p>
<p>Q3 Are there edits or further explanation that you'd suggest to improve clarity?</p>	<p>TLC is of the view that the Authority should explicitly include an allowance for and promote 'peak' pricing to include future costs and signal expected behaviours with technology for our communities.</p> <p>For example, the education of communities is a tough process and can take time. Communities do not take kindly to radical, rapid reform and need time to learn, modify behaviour if they chose to and feel a part of the process. Allowing peak pricing now, where constraints do not currently exist and are not economically pure, may help education and positively influence behaviour in the future.</p>
<p>Q4 Is there material missing that would also be useful?</p>	<p>Discussed elsewhere.</p>
<p>Q5 Are the expectations laid out in the updated Practice Note on timing for reform achievable?</p>	<p>TLC believes that the Authority needs to be cognisant of the required LFC transition and industry requirements to educate, provide information to and bring along their communities with any reform.</p>
<p>Q6 Do you believe it is useful for the Practice Note to become a 'living document' that is refreshed regularly to update for the</p>	<p>TLC agrees that as distribution pricing reform progresses, the Authority should update the Practice Note regularly for it to become a 'living document'.</p>

	Authority and industry's understanding?	This would enable reforms to be monitored and allow industry, regulators and our communities to evaluate what is working and what is not. This would require collaboration between the Authority, distributors and retailers which TLC is supportive of.
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?	Discussed elsewhere.
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?	Discussed elsewhere.
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?	<p>TLC is a strong advocate for educating, engaging and being transparent with our communities. Unfortunately, many communities do not understand New Zealand's electricity sector and the different participants and their roles. For example, many people do not know that distributors 'exist' and are separate businesses to retailers.</p> <p>Not only does the Authority have a role in community education and engagement, so does the Government, the Commerce Commission, the Ministry of Business, Innovation and Employment, the Climate Change Commission, Transpower, electricity retailers, distributors, generators and other players such as solar installers etc.</p> <p>All parties need to work together collaboratively to educate, inform and achieve buy-in from communities to instil trust in our industry to achieve engagement.</p> <p>This is what will drive efficient pricing and deliver long term benefits to our communities.</p> <p>TLC makes another observation that just because a community is engaged, that doesn't mean that the community can benefit from pricing changes. It can depend on the community's ability to afford e.g. customers who are engaged and have the financial resources are more likely to be in a position to react and will benefit. However, communities that are engaged but have fewer resources may have fewer options - often being large families living in cold homes.</p>

		A community's ability to respond may not only be about education and 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 Consultation paper: a refreshed Distribution Pricing Practice Note Page 15 discussion on ensuring price signals reach consumers, taking into account the need to comply with the Commerce Act 1986?	<p>TLC is completing a project transitioning from 20 years of direct billing to retailer billing. TLC has chosen to have a conveyance agreement with retailers where retailers bill as an agent for TLC and TLC maintains a contractual relationship with our community.</p> <p>TLC was very impressed with the work and efforts of retailers throughout this project, especially regarding pricing. Some retailers have implemented TLC's TOU pricing, ensuring TLC's price signals reach our community, while others seriously looked at it but are currently constrained by other workstreams and/or required system changes. TLC's understanding is that some retailers will look to transition in the future to better reflect TLC's price signals. Overall, TLC thanks retailers for their cooperation and forward-looking views through our project to assist TLC's community and ultimately, with distribution pricing reform.</p> <p>This is a significant change for the industry from three to four years ago and it is reasonable to acknowledge that the system changes required by retailers are not insurmountable but are, in many cases, significant, can come at quite some expense and are resource hungry.</p> <p>TLC thinks that the Authority should encourage retailers to help price signals reach our communities. TLC will work with the ENA's Distribution Pricing Working Group to help update pricing guidance to assist distributors and retailers including further standardising where practicable and possible.</p>
Q11	Complexity in pricing structures could slow reform efforts. How do you see the Authority working with the sector to strike the correct balance?	<p>Some complexity in pricing structures is inevitable, reasonable, and expected. New Zealand, small compared to other countries, is diverse with climates, land uses, community engagement, education, and different communities' ability to afford.</p> <p>TLC, for example, has a large asset base, vast geographical footprint, and operate in some of the most challenging terrains in the country to deliver a reliable electricity supply to the communities we serve.</p> <p>TLC's northern points of supply (Hangatiki and Whakamaru) is a mix of farming, industry, residential and holiday homes. TLC's southern points of supply (National Park, Ongarue, Ohakune and Tokaanu) are predominantly residential and holiday homes. Ohakune and National Park, especially, have many holiday homes as well as accommodation to provide for winter sports, resulting in low consumption in summer, but peaky consumption in winter - peaks drive costs and</p>

		<p>infrastructure investment. It is imperative that pricing is reflective of costs and ensures that connections contribute to costs and any cross-subsidisation of connections is minimal.</p> <p>TLC is supportive of information disclosure requiring commentary of cross-subsidisation and commentary as to why a distributor does so. TLC is only one of few distributors that do not have a city to enable costs to be 'shared'. Accordingly, our pricing is required to be somewhat more complex to ensure that costs are not lumbered onto our local communities. TLC notes that Aurora has been required to disclose costs with its CPP application and TLC sees no fundamental issue with that.</p> <p>Therefore, TLC has rural/urban pricing as well as different pricing categories for different installation types. For example, we have a residential pricing plan to reflect costs we ask our local residential community to cover, but a different pricing plan for temporary accommodation installations that have a very different load profile, being low kWh volumes but high peaks.</p>
Q12	<p>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?</p>	<p>Affordability is a key concern for TLC and our community. TLC has experience in transitioning pricing methodologies and structures. In October 2018, TLC moved from capacity and kW Load and pricing to daily and TOU kWh pricing. A key focus for us through that transition was the impact on our community and bill shock – especially as we direct billed, hence there were no pass-through considerations.</p> <p>The original intent was to keep pricing simple and limit the number of pricing plans. After extensive analysis, it became evident that this was not possible i.e. the extent of the changes and bill shock was not acceptable for TLC and our community. This resulted in TLC amalgamating transmission and ACOT costs (TLC has eight points of supply for our 24,000 connections), but retaining customer groupings, introducing capacity bands, retaining rural/urban pricing and offering a discount for load control installations. We also offered a discount for the transition where a customer's bill varied a lot through the 12-month transition.</p> <p>TLC notes that understanding bill shock requires detailed (non-aggregated) metering and customer data. TLC had both and could therefore consider bill shock across its diverse customer base, but other distributors may not be able to access this information. TLC is supportive of the Authority making access to metering and customer data more accessible for that purpose.</p> <p>TLC has worked hard to identify customers in need in our community, establishing the Maru Trust and providing significant support and sponsorship for community</p>

		<p>organisations. Also, TLC is supportive of the industries power credit scheme to support households struggling with power bills adversely affected during the LFC phase-out.</p> <p>But, ultimately, affordability is not purely about electricity prices. This last quarter has seen CPI increase nearly 5%, petrol prices continue to increase, and food prices make it hard for some in our communities to get by. The ongoing effects of COVID-19 have seen communities and local businesses suffer. The Government, communities, iwi and other leaders need to work through and propose solutions for the growth, prosperity and well-being of our communities – this is not the role of electricity distributors but TLC, as a community-owned business, has and will continue to contribute.</p>
Q13	Are there aspects of LFC and its announced phase out that you see as an ongoing impediment to pricing reform?	The transition of the LFC regulations poses an issue but does provide certainty for the future and allows distributors to signal reform and implement.
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?	TLC is one of few distributors that have access to metering data for all connections on its network.
Q15	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?	<p>TLC is of the view that it would be useful to have visibility of the energy-intensive devices which exist behind the meters, not only for efficient pricing but also for operational and network planning and we support the development of a DER registry.</p> <p>Having visibility of EV fast chargers and other energy-intensive devices is also significant for demand-side management and we see demand-side participation and management (especially regarding EV fast chargers) as an important component in managing future supply volatility.</p> <p>However, we also note that mandating information disclosure, particularly for consumers, does not ensure compliance, but instead can create perverse outcomes. Our own experience is that consumers are generally apathetic and find electricity supply complex. Our view is that the Authority needs to apply a consumer lens and develop a framework that encourages (rather than enforces) compliance on information disclosure. In other words, make it easy and beneficial to do the right thing, rather than threatening penalties for non-compliance. We do not consider that changes to regulation by itself will be successful.</p>

		<p>Most distributors already require a significant capacity increase to an installation to be notified and TLC would expect to be notified; however, having this explicit in the Code would set expectations for relevant contractors, the community and industry which TLC supports.</p>
Q16	<p>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.</p>	<p>TLC notes that many distributors have commenced reform and the Authority acknowledges this:</p> <p>“Distributors are implementing the pricing principles to varying degrees. Most distributors have established actionable roadmaps, many have undertaken pricing trials and implemented reforms to their pricing structures that indicate progression towards more efficient and cost-reflective pricing structures, but others appear to have made little progress. The 2021 scorecards indicate that for many distributors there is no, or limited, urgency being applied to reform progress.”</p> <p>TLC recommends that the Authority tailors its communication going forward to focus on distributors where the Authority perceives there is little progress and acknowledge distributors where progress is underway. The scorecards are an attempt to allow this identification.</p> <p>TLC encourages further engagement and appreciates the Authority’s proactive approach. TLC recommends the Authority initially works with the ENA Distribution Pricing Working Group and has discussions and provides individual guidance to distributors where the Authority has concerns. A blanket letter to all distributors is not helpful and puts up barriers between distributors and regulators.</p>
Q17	<p>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?</p>	<p>Discussed elsewhere.</p>
Q18	<p>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.</p>	<p>We appreciate that the paper includes a discussion on the economics of pricing and guidance for distributors on the pricing principles: however, we note that it is just one side as the customer psychology of pricing is important. A community’s response to pricing reform and signals is dependent on its level of energy literacy.</p> <p>TLC proposes that the Authority establish an Energy Literacy Working Group with representation from the industry which would focus on energy literacy and education.</p>

		<p>By energy literacy we do not mean to focus only on knowledge, as the knowledge and access to it does not necessarily determine an effective behaviour change. By energy literacy, we mean a three-dimensional concept that includes knowledge, attitude, and behaviour.</p> <p>Knowledge: We believe that the knowledge needed to make informed energy-related decisions will have to include some basic financial concepts including the understanding of the price-setting, demand/supply, and \$ savings (energy-related financial literacy).</p> <p>Attitude: The other component will be developing the right attitude which goes beyond the numbers. It will include customers having an awareness of the individual electricity consumption (pattern, timing), motivations to respond to pricing signals, understanding the significance of an individual's role in efficient/inefficient network usage and the consequential environmental and wider economic impacts.</p> <p>Behaviour: The third component is the sensitivity to energy issues and the willingness to change energy consumption habits, willingness to adopt power-saving behaviours, efficient network utilisation by the customers and willingness to access and provide information related to power use.</p> <p>We believe that increased energy literacy will not only contribute to the reception and response to pricing signals but will also increase demand-side participation and management.</p>
Q19	Please consider the role that you see appropriate for the Authority to be proactively involved in pricing evolution.	Discussed elsewhere.
Q20	How the Authority could engage more with industry, either individually or through structured channels, and in formal and informal ways.	TLC acknowledges the engagement that the Authority initiated and encourage this. TLC would like the Authority to continue with this, and in the first instance, meaningfully engage with the ENA.