Submissions

Electricity Authority

PO Box 10041

Wellington 6143

Consultation on More Efficient Distribution Prices

Thank you for the opportunity to submit on this important topic.

No part of this submission is confidential and I am happy for all of it to be published.

This submission supports the reform of distribution pricing but notes:

- The economic analysis is significantly flawed and vastly overstates the benefits;
- Low benefits favour simple low cost solutions;
- A daily fixed charge approach is likely to be the least cost approach;
- LFC regulations may be a barrier to a simple daily fixed charge; and
- The Authority should be proactive in supporting reform of the LFC regulations.

Economic Analysis Fatally Flawed - Observed Solar Uptake Massively Below Modelled

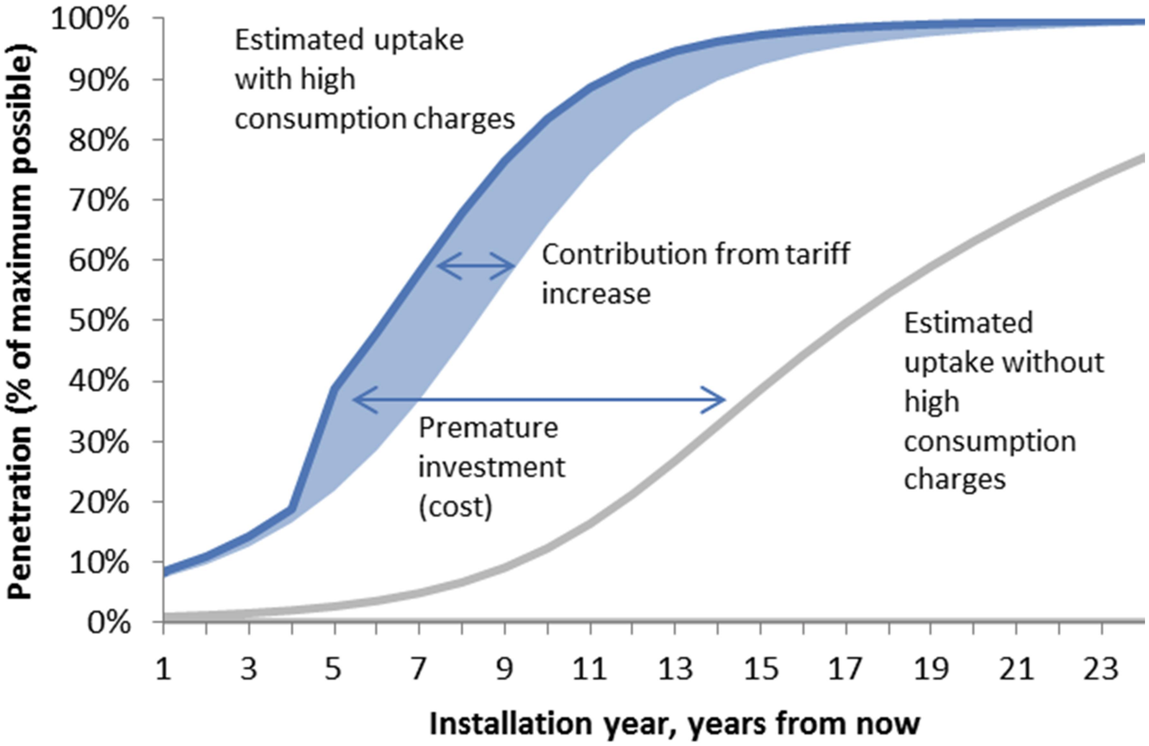
My key observation is that the proposed reform is underpinned by an economic analysis from NZIER in 2015 that is significantly flawed. It forecasts solar uptake, in the absence of distribution pricing reform, that is vastly higher than that observed. Compare the two graphs below, the first from the NZIER paper and the second from the EA's own information portal.

As can be seen the actual solar uptake is massively lower than that forecast by NZIER and the growth rate is lower and constant (not accelerating as forecast by NZIER).

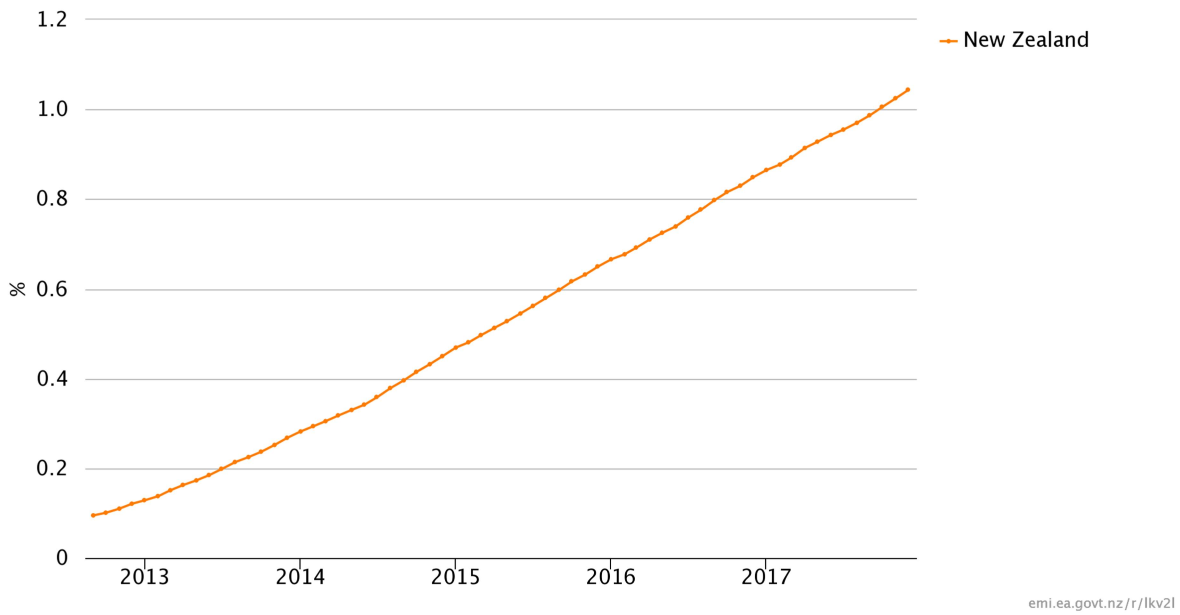
I am unsure of the exact nature of NZIER's error. However, using the same approach as NZIER, but with actual uptake rate I get the actual cost of premature solar investment, as roughly $45M (NPV), rather than the $2.7B to $5B calculated by NZIER and used by the Authority in the consultation paper. am happy to provide more detail of my calculation of benefits if you want.

10 Hataitai Rd, Wellington 6021
Mobile +64 21 626 851
www.NWCL.co.nz, Email: Neil.Walbran@NWCL.co.nz

Graph 1 - NZIER Effects of Distribution Charges on Household Investment in Solar - 2015



Graph 2 - EA Information Portal Actual Solar Uptake to November 2018



Low Cost Solutions Favoured - Daily Fixed Charge

Given that the benefits of any distribution pricing reform are likely to be massively lower than that forecast by the EA, low cost, simple to implement solutions are preferable. Also we have about 29 distributors about 45 retailers operating in N.Z Each one will need to make some changes to the billing systems. And any software system change has a certain minimum cost. So even $45M of benefits won't go far and we need to keep things simple.

The simplest change seems to be to put greater weighting on the daily fixed charge component of pricing. Section 4 of the consultation paper seems to correctly recognise this.

LFC Barrier - Authority Need to be Proactive in Supporting Change

The current LFC legislation is more of a barrier to implementing the simplest change to distribution pricing than the Authority has previously suggested. That is although there are other ways of implementing cost reflective charges they are likely to be more complicated and expensive to implement than a simple daily fixed charge. And thus unlikely to be justified in light of the low actual benefits. Therefore the Authority should take a more proactive approach to supporting changes to the LFC legislation.

Regards

Neil Walbran

Managing Director

Response to specific consultation questions

Q1	Do you agree that distributors need to reform their prices? What is the reason for your answer?	Yes, but in light of the low benefits any proposed change should also minimise the costs to implement for distributors and retailers.
Q2	How important and urgent are the issues identified by the Authority?	Only moderately important and urgent as the benefits of the change have been massively overstated.
Q3	Do you agree with the proposed Distribution Pricing Principles?	Not fully as it may be a mistake to remove the 'having regard to the extent practicable' clause. As any change needs to consider the costs to change as well as the potential benefits.
Q4	What if any changes would you recommend are made to the proposed Distribution Pricing Principles, and why?	No objection to the changes proposed by the Authority, subject to the retention of the 'having regard to the extent practicable' provision, or some similar test that recognises the costs of change.
Q5	What if any changes would you propose to the star-ratings to better reflect the relative efficiency of distribution prices?	I suggest the simpler options, such as static critical peak, fixed daily charge, and ongoing fixed charge be given greater value.
Q6	How long do you think distributors would reasonably need to introduce the different price structures discussed above?	I am unsure how long they might need but suggest, given the low benefits, the timing is less critical than keeping solutions simple.
Q7	Can you illustrate how and to what extent the LFC regulation hinders price reform?	They appear to make it difficult to implement the simplest, and least cost, fixed daily charge, option. And given the low overall benefits the simplest solution is best.
Q8	How accurately has the Authority categorised distributor revenues and costs? How could this be done more accurately?	No comment.
Q9	What if any would be better indicators of the efficiency of distribution prices, or the ambition of and progress being made by distributors on their price reforms?	The star rating and roadmap progress is fine. But given the low value of the change the Authority shouldn't invest too much time or cost in tracking. It might be simpler to track actual uptake of solar (as already done by the EA Information portal) and perhaps add uptake of electric cars (via NZTA?).
Q10	What assistance could the Authority (or other stakeholders) offer distributors in order to speed up the reform process, or help to remove or reduce barriers to distribution price reform.	The Authority should take a more proactive stance in supporting reform of the LFC legislation. This appears to be the biggest current barrier to implementing the simplest, and least cost, option.