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**Re: Consultation Paper – More efficient distribution prices**

Nova Energy supports the introduction of more efficient distribution prices, and has been cooperating with EDBs that have been trialling new pricing constructs.

Nova believes most industry participants, including EDBs, would agree with the rationale behind the push for more cost reflective distribution prices. However, the transition to cost reflective pricing is complex; and both EDBs and retailers need to be confident that any new tariffs will gain consumer acceptance. EDB's need to determine the most appropriate pricing structure for their networks; and the industry needs to work together to achieve the best outcome.

Having noted this, Nova acknowledges the Authority's concern over the seeming lack of progress towards cost reflective pricing methodologies by some EDBs. EDBs do tend to be highly conservative, particularly in terms of their annual revenues and costs. Perpetuation of the GXP pricing methodology is symptomatic of this. While some EDBs are 'testing the water' with time-of-use of pricing, these trials tend to be for limited numbers or have negligible pricing advantage for consumers. The reality is that no amount of data and modelling is going to satisfy some EDBs that they can risk offering cost reflective pricing tariff on an optional basis for all residential ICPs.

This means the Authority needs to find a suitable balance between promoting change and ensuring any changes introduced are fit for purpose; remembering that consumer acceptance is critical to any solution being sustainable.

It is important that consumers are given some rationale for the changes, and that they understand the changes are designed to be fair for all consumers. Not all may benefit without having to change their behaviour or the way they consume electricity. The Authority needs to fully appreciate that many consumers will not understand the different pricing constructs and will simply be sceptical of any changes in the way in which charges are structured. This will be particularly challenging with Peak Demand and Booked Capacity style charges.

Lastly, Nova has suggested an alternative to the proposed star rating. This is detailed in response to Q9.

Please feel free to contact me if you wish to discuss our views further.

Yours sincerely



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## Nova submission

### Review of regulatory settings for official conservation campaigns Consultation Paper

Q No.	Question	Response
Q1.	Do you agree that distributors need to reform their prices? What is the reason for your answer?	<p>Yes, many distributors will need to reform their prices to some extent. Doing this will:</p> <ul style="list-style-type: none"><li>• avoid inappropriate cross subsidisation between consumers, and</li><li>• send the right signals to consumers on how they can minimise their overall electricity costs.</li></ul> <p>Nova notes that five networks have already moved to more cost reflective pricing methodologies (time of use) or will do so within the next few months.</p>
Q2.	How important and urgent are the issues identified by the Authority?	<p>Given issues such as the falling costs and growth in investment in PV systems, it is very urgent that consumers receive the right signals on how much they can expect to benefit from such investments over the long term. It is not in anyone's interest for consumers to find out after they have invested in PV that their connection charges are not going to drop as anticipated.</p> <p>For networks where there is minimal growth in peak consumption and more than adequate capacity, there may be less of a need for signalling the cost of servicing peak load, but the EDB's costs still need to be shared fairly across all ICP's.</p> <p>These issues are urgent, but equally they are complex, and it is important that all parties work together to get any change decisions right. It is therefore important that the Authority works proactively with the industry to help address the inevitable consumer reaction to structural price changes.</p>

Q No.	Question	Response
Q3.	Do you agree with the proposed Distribution Pricing Principles?	<p>Nova does not agree with the addition of sub-clause (iv):</p> <p>(iv) charging costs to a specific user or group of users where those costs can be attributed to that specific user or group of users.</p> <p>It is very difficult for retailers to identify how consumers intend using electricity, particularly if they are incentivised through price to not disclose their intentions. (This has been experienced with the current LFC tariff, where it is common for parties to claim the FCC rate for a holiday property or similar.)</p> <p>It can also become onerous to keep track of whether a consumer continues to meet the requirements of a particular 'group of users' or not, e.g. EV's are obviously mobile, easily transferable, and may be registered to a business address; and batteries may reach end-of-life and not be replaced. Nor is it appropriate to separate out PV systems for special charges (apart from reflecting any specific DG expenses).</p> <p>Charges should only be related to electricity demand as it occurs, and its quality where relevant, irrespective of how the electricity is used by the consumer.</p> <p>An additional item that should be addressed in the Distribution Pricing Principles is the treatment of vacant properties. It is inappropriate that the EDB should continue to charge the retailer for a vacant property where the retailer does not have an active customer.</p>
Q4.	What, if any, changes would you recommend are made to the proposed Distribution Pricing Principles, and why?	<p>The energy markets are somewhat unusual in that the distributor is charging for its services based on data that it does not pay for or collect, i.e. the retailer is either reading the meter or paying an MEP to provide the data. Given that, we already have EDBs using their</p>

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		<p>monopoly position to attempt to impose charges such as TOU pricing where the data is not available and cannot be accessed without significant additional investment by an MEP or retailer.</p> <p>It makes no sense for a retailer to spend a large amount upgrading the metering and comms for an individual residential ICP, when the consumer has no incentive to pay for the upgrade; and can simply switch to another retailer at any time. (For commercial and industrial customers, the metering arrangements are more bespoke and charges are understood.)</p> <p>Given the Authority's expects tariffs to be based on such measures as peak kVA, then it should consider more closely just how that is to be determined across 100% of consumers including those with legacy meters (due to high replacement cost) or locations beyond usual communications links. In doing so it should also consider which party should incur the initial costs of installation and how they might be recovered.</p>
Q5.	<p>What if any changes would you propose to the star-ratings to better reflect the relative efficiency of distribution prices?</p>	<p>Nova believes there is merit in the Authority clearly communicating the advantages of alternative pricing methodologies and providing EDBs with clear guidance on its expectations. Nova suggests (Q9) that Authority and Commerce Commission could work together with a focus on quantifiable results rather than inputs to achieve that same desired outcome as anticipated by the Star System.</p> <p>Further and specifically from the paper we note there is a suggestion that a capacity charge is favoured, using kVA as the measure. In response:</p> <ul style="list-style-type: none"> <li>Nova understands most Category 1 and 2 AMI meters that have been installed are not capable of recording reactive energy; so implementing a kVA charge, as opposed to KW, seems</li> </ul>

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		<p>problematic.</p> <ul style="list-style-type: none"> <li>• While kVA may be the more theoretically correct value to measure load, the difference between that and kW is unlikely to influence investment decisions at a residential level, and</li> <li>• consumers struggle with the concepts of reactive energy and power factor. Quoting a kVA peak load would add to complexity.</li> </ul> <p>There appears to be little to be gained therefore from using kVA instead of kW for measuring load.</p>
Q6.	How long do you think distributors would reasonably need to introduce the different price structures discussed above?	<p>Some distributors already have different price structures available, and these are being adopted by retailers.</p> <p>Generally, price changes are only introduced on 1 April each year, which would mean that 1 April 2020 is the earliest most EDBs would introduced cost reflective prices.</p> <p>It would be possible for retailers to adapt to prices earlier than that however as long as the new pricing structures could be adopted on an optional basis for each ICP.</p>
Q7.	Can you illustrate how and to what extent the LFC regulation hinders price reform?	<p>Under the LFC regulations Retailers must differentiate residential tariffs between low-user and high-user accounts if they are to recover their overall costs from residential consumers. This remains true even for those networks where an EDB has adopted a simple low fixed charge for all residential consumers. If they don't, or cannot do that, they stand to lose money from many residential accounts as the tariff structure cannot reflect the cost structure.</p>
Q8.	How accurately has the Authority categorised distributor revenues and costs? How could this be done more accurately?	

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Q9.	<p>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?</p>	<p>Either in addition to, or instead of the Star rating, the Authority could require EDB's to publish a table annually showing the number of ICPs that fall into different categories of cost recovery, i.e. the difference between actual revenue received and estimated costs for every ICP on the network. The table should summarise this by providing both number of ICPs and total revenues split out by the following categories: within 5% under-recovery or over-recovery; 5-15% under or over-recovery, over 15-25%%, over 25%. (These ranges are indicative only and would need to be considered in more detail.)</p> <p>The EDB should then be required to explain the numbers and show a trend over time towards zero under and over-recoveries. It would also require the EDB to carry out a full and thorough costing exercise, which presumably they would be doing in any case.</p>
Q10.	<p>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?</p>	<p>The measure outlined in Q9 could be linked to the EDBs regulated revenue base by the Commerce Commission. There could be several ways that could be applied.</p>