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Submissions  
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**SUBMISSION ON THE 'MORE EFFICIENT DISTRIBUTION PRICES. WHAT DO THEY LOOK LIKE? CONSULTATION PAPER'**

WEL Networks Limited ("WEL") welcomes the opportunity to provide a submission on the Electricity Authority's ("Authority") more efficient distribution prices. What do they look like? Consultation paper published on 11 December 2018. Detailed answers to the Authority's questions are appended.

A key point we would like to note is: WEL strongly believes that customers will not respond efficiently to a signal they neither see nor understand and considers that the Authority's preferred price structure may have unintended adverse consequences on customers.

If you have any questions regarding WEL's submission please contact Michelle Allfrey on 07 850 3143 or by email [Michelle.Allfrey@wel.co.nz](mailto:Michelle.Allfrey@wel.co.nz).

Yours sincerely

Michelle Allfrey  
**REVENUE MANAGER**

## Appendix One – Detailed answers

### **Q1. Do you agree that distributors need to reform their prices? What is the reason for your answer?**

Yes, we agree that pricing reform needs to occur. Pricing needs to better reflect the cost to serve due to the increasingly changing electricity environment, new technologies and changing customer needs. Customers should be able to benefit from efficient investment in new technologies or by reducing their impact on the network.

It is however important for the Authority to note that customers will not respond efficiently to a signal they neither see nor understand.

WEL is concerned that the Authority's preferred price structure of dynamic critical peak demand charge (that is not considered complex by the Authority) may have unintended consequences. The average customer will find this pricing structure complex. For complex pricing structures a retailer will more likely offer a bundled price plan as they are driven by what customers want. Complex distribution pricing, when bundled by a retailer, adds risk to retailers which will likely be passed onto customers through increased pricing.

### **Q2. How important and urgent are the issues identified by the Authority?**

Whilst it is important to move ahead with a certain level of urgency WEL believes there will be little impact on networks in the next 5 years from new technologies, in particular from EV's. The urgency is more around trying to form habits by customers (if a signal is seen by a customer) prior to any level of impact being seen on networks. Pricing reform is also important to enable efficient investment in new technologies by customers.

### **Q3. Do you agree with the proposed Distribution Pricing Principles?**

WEL's preference is for principle based regulation over prescriptive as this allows for more innovation within the increasingly changing electricity environment. Some of the proposed principles are more prescriptive and are covered holistically within other principles. An example of this is the proposal (a) (iii) being time and location specific. WEL argues that this is already covered under (a) (i) being subsidy free.

WEL also notes that the Authority has added that prices should be responsive to the requirements and circumstances of users and potential users. Being responsive to the requirements of potential users in practice is almost impossible.

WEL also questions the ability of a distributor to fulfil the principle (e) Consumers should be able to know or predict prices they will face when making decisions to connect to or use the network. In practice retailers charge customers, and distributors cannot control what prices they pass on. In many cases it would also be very difficult for a customer to be able to "know or predict" the cost to connect, this is based on the customers' requirements for capacity and location to existing network assets impacting the actual spend required to connect them. Assigning actual, and situation specific costs (which vary) is in line with the Authority's Connection costs under their preferred pricing structure.

### **Q4. What, if any, changes would you recommend are made to the proposed Distribution Pricing Principles, and why?**

WEL does not believe that the change is necessary, pricing reform is advancing with the current principles.

**Q5. What if any changes would you propose to the star-ratings to better reflect the relative efficiency of distribution prices?**

WEL is unsure as to whether a star rating will achieve the Authority's aim of "distributors to put a sharper focus on price reform", WEL suggests that meetings between the Authority and relevant EDB Management and Boards would potentially produce more meaningful discussions, greater understanding, and ultimately better results.

**Q6. How long do you think distributors would reasonably need to introduce the different price structures discussed above?**

We have no specific timeframe to give the Authority, as EDB's will potentially have different resource constraints impacting this. WEL notes however that it takes a reasonable period of time to thoroughly research, analyse, consult, and implement new pricing structures, especially when it impacts a lot of customers.

**Q7. Can you illustrate how and to what extent the LFC regulation hinders price reform?**

The LFC does not stop pricing reform, but restricts the efficiency of the signal we can give. In the paper it is noted that distribution is a largely fixed cost business, and we agree, however under LFC we are restricted to a maximum on 15 cents fixed per day for the majority of our residential customers. An approximate 6% fixed for a low user vs cost structures closer to 80% fixed is evidence of the LFC hindering the cost reflective efficiency of distribution pricing. WEL is forecasting next year to receive only 30% of revenue from all residential customers via fixed charges.

**Q8. How accurately has the Authority categorised distributor revenues and costs? How could this be done more accurately?**

WEL agrees that the majority of costs related to distribution are largely fixed. WEL also notes that the LFC limits how much revenue we can gain from fixed charges for the majority of our residential customer base.

**Q9. What, if any, would be better indicators of the efficiency of distribution prices, or that ambition of and progress being made by distributors on their price reforms?**

Ultimately the efficiency of pricing reform should be based on whether customers are responding to price signals, if the customer chooses to. This however is outside the control of distributors as retailer's price to customers and retailers are driven by what customers want.

**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?**

If EDB's are having issues accessing data for the purpose of pricing reform it would be of benefit if the Authority could assist to ensure progress is not stalled. It would also be advantageous if the Authority would add their support to the removal of the LFC to enable more efficient price signals that better align to cost structures.