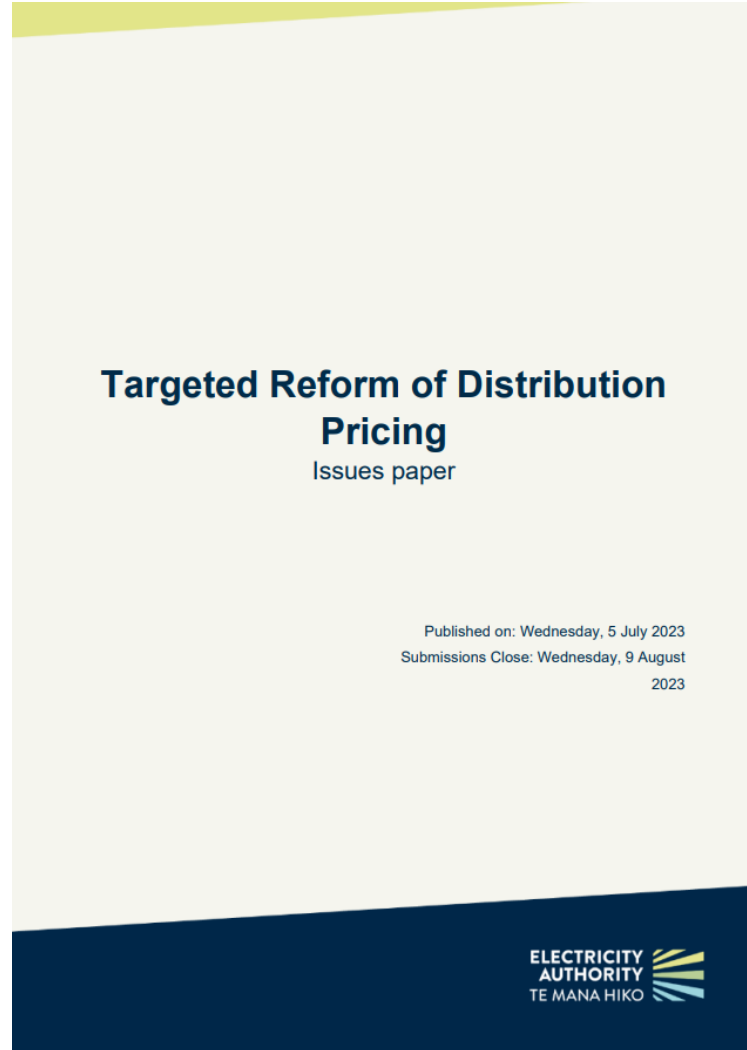


Targeted reform of distribution pricing

Information session – 21 July 2023

Introduction



Agenda

- **Introduction**
- **Background**
- **Targeted reform approach, options**
- **Focus areas:**
 - Peak period price signals
 - Retailer response
 - Off-peak price signals
 - Target revenue allocation
 - Connection pricing
- **Process timelines**
- **Non-price regulatory settings**

Background

Drivers for change

- Transition to low-emissions economy at the least cost to consumers
 - Encouraging efficient network use and investment
 - Some success from industry-led reform, scorecards and guidance
 - Acknowledge challenges
 - Concerns re consistency and pace
-
- Other workstreams (eg, non-price regulatory settings for networks)

Targeted reform approach, regulatory reform options

Targeted focus areas:

- Peak period price signals
- Retailer response
- Off-peak price signals
- Target revenue allocation
- Connection pricing

Regulatory reform options:

- Continuation: principles, guidance, scorecards
- Control: mandate / prohibit
- Call-in

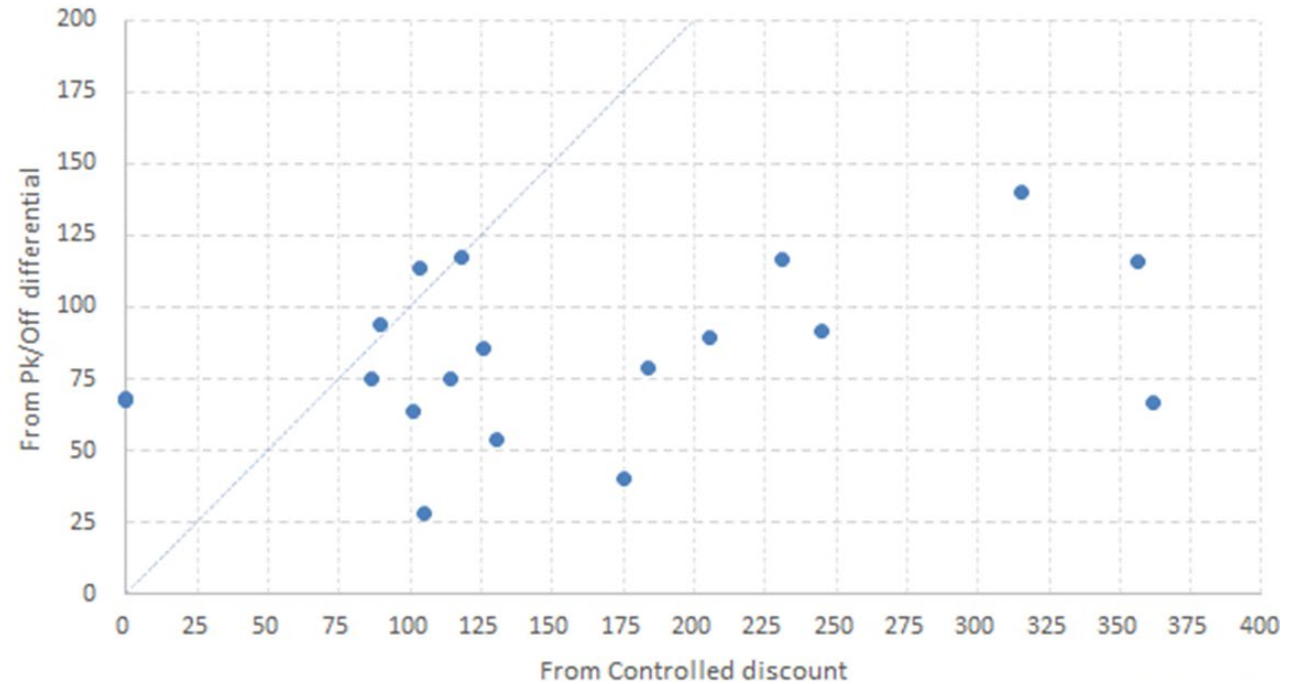
Peak period price signals

- Prices should reflect the impacts of network use on economic costs
- Many consumers remain on uniform distribution tariffs
- Not clear that strength of signal tied to cost consequences of usage

Peak pricing signals - preferred pricing approach

- ToU tariffs
- Differentials linked to cost consequences
- Prices to signal value of flexibility
- Signals consistent: tariffs, consumer groups

Comparison between implied LRMC signaled though controlled hot water discount and peak/off peak TOU differential



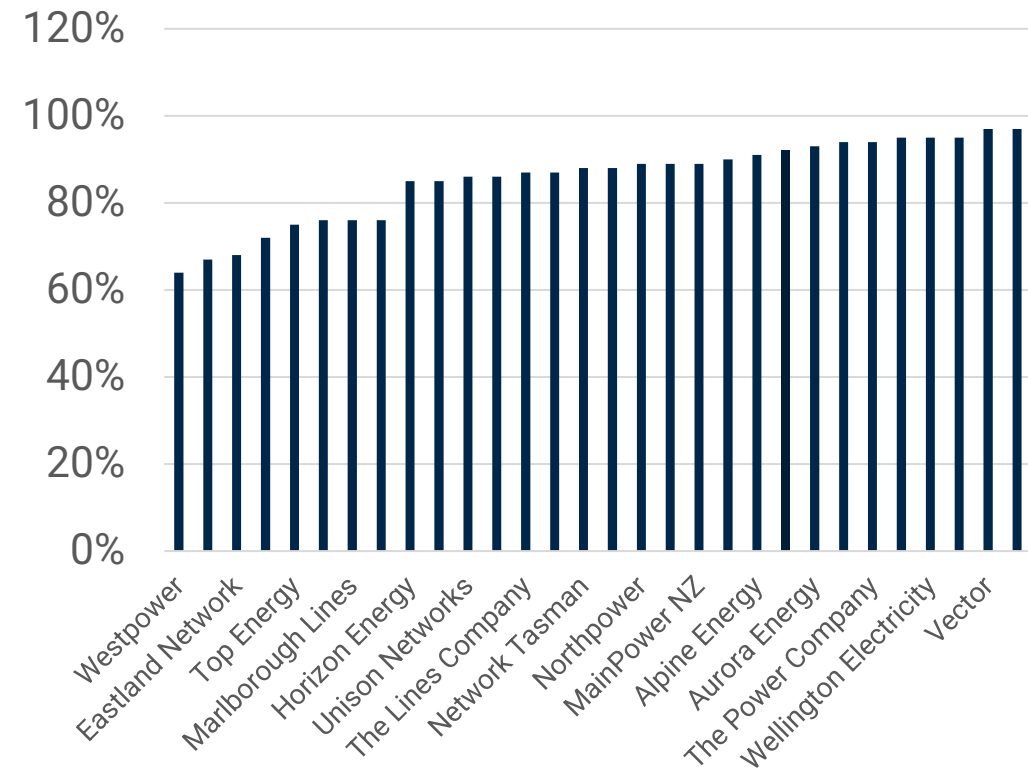
Peak pricing signals - options

- **Do nothing**
- **Continuation** - expand practice note to include; 'how to, LRMC info and workbooks. Adjust scorecards
- **Control** - mandate or prohibit specific approaches – examples might include:
 - prohibit uniform usage charges (where congestion)
 - mandate tariff assignment policies
 - mandate analysis and disclosure of peak signal strengths incl. differentials
 - mandate availability of appliance tariffs structure and availability
 - mandate use of actual half-hour data for all smart meters
- **Call-in option** - provide for calling-in pricing methodologies for review by the Authority

Retailer response

- Some distributors cite lack of retail pass-through as a reason to delay reforming their own pricing
- Possible retail responses:
 - information
 - control
 - pricing
- Retailer incentives weakened by:
 - use of deemed and residual profiles
 - assignment policies

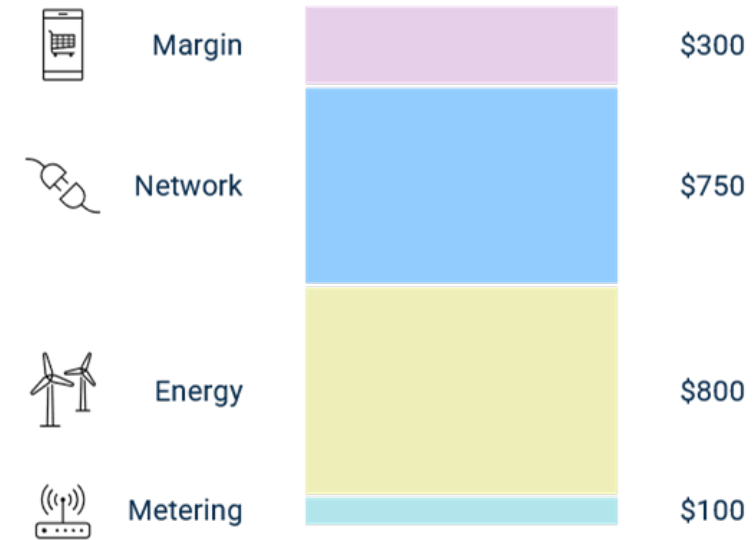
Smart Meter Penetration by Distributor



Retailer response - preferred pricing approach

- distributors billing retailers on actual half hourly usage for energy and network costs for all ICPs with capable meters
- distributors providing very limited (or zero) grounds for opting out from non-uniform tariff options
- Retailers responding efficiently:
 - information
 - control
 - pricing

Input costs and Margins for a \$1,950 retail bill for an 8,000kWh home



Breakdown of a \$1,950 annual retail bill for an 8,000 kWh home

Notes on estimates: Input costs and margin based on averages across retailers as reported by the Authority

Retail response - options

- Do nothing
- Continuation - expand practice note. Adjust scorecards
- Support transition to billing on actual data
- Control or call-in distribution pricing
- Monitor retail pricing
- Control or call-in retail pricing

Off-peak price signals

Signals when the cost of network use is low.

If distributors set materially high prices in off-peak periods:

- deter the efficient usage of the network
- inefficient investment signals for key electrification technologies

We observe material off-peak usage charges

- LFC regulations a relevant factor until phase-out complete
- use of customer AMD to recover residual costs

Preferred approach:

- very low charges for off-peak usage
- use of fixed charges to recover residual costs

Off-peak pricing signals - options

- **Do nothing**
- **Continuation** - expand practice note & scorecards
- **Control** - mandate or prohibit specific approaches, eg:
 - prohibit uniform usage charges (for networks facing capacity constraints)
 - cap off-peak usage charges
- **Call-in**

Target revenue allocation

Allocation of target revenue to pricing areas and between consumer groups.

Allocations should be:

- actively managed to promote efficiency
- requires clear understanding of subsidy-free range

Our current preference :

- limited application of accounting cost allocation approaches
- simpler metrics
- robust subsidy-free range estimates for each consumer group
- consideration of promoting efficiency by least influencing usage decisions
- testing of the efficiency of any signals created by relativities between consumer groups

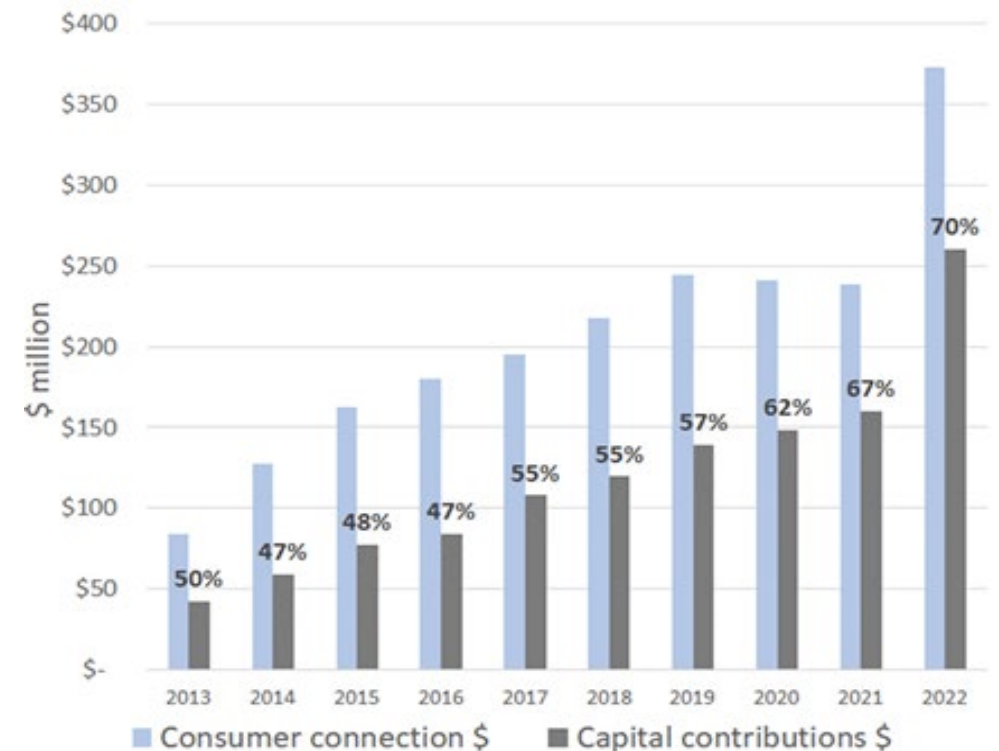
Target revenue allocation - options

- **Do nothing**
- **Continuation** - expand practice note & scorecards
- **Control** - mandate or prohibit specific approaches:
 - specify allocation metrics
 - specify subsidy-free range methodologies
 - proscribe considerations that must be documented
 - require distributors to have a residential consumer group
 - set bounds on allocation outcomes
- **Call-in option**

Connection pricing

- up-front cost of network connection
- electrification means a material increase in connections
- aim to encourage efficient investment
- also an issue for decarbonization
- presents challenges for distributors

Spending has increased and the proportion recovered by Capital Contributions



Source: Commerce Commission Data.

Connection pricing

Key stakeholders have expressed concerns on connection charge:

- High costs
- Timing slow
- Variation across networks and within networks
- Lack of transparency & flexibility to explore options

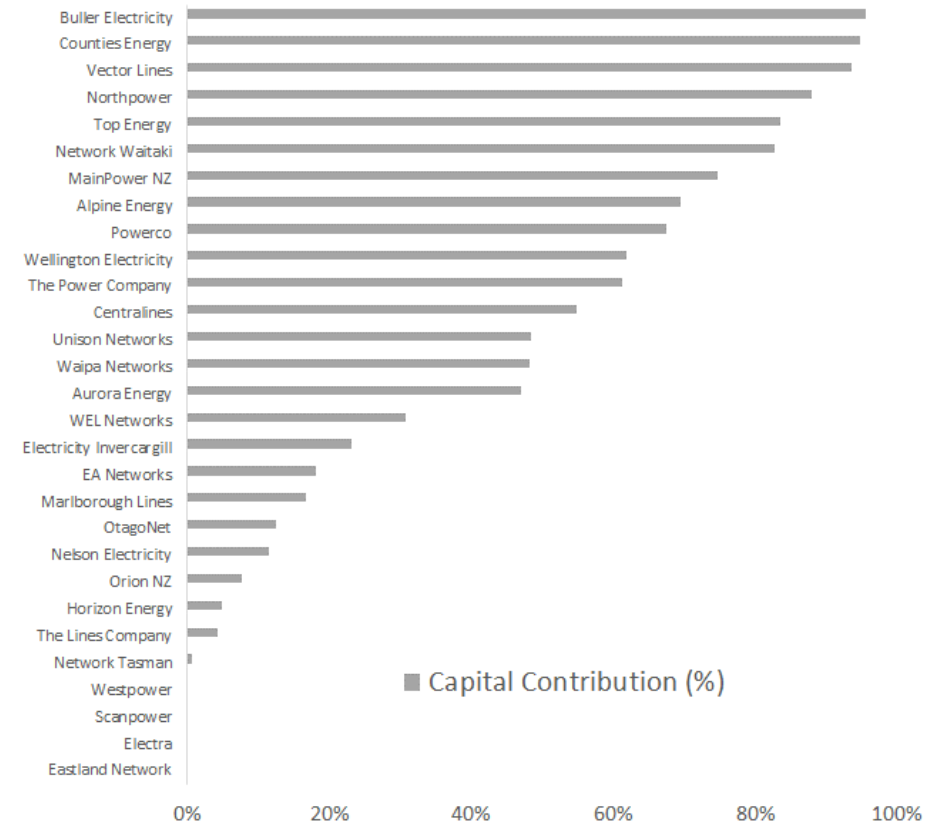
We are also concerned with:

- Variation in connection pricing practices
- Weak incentives to ensure costs are efficient

We would prefer:

- new connections occur efficiently
- balanced approach that incentivises efficient costs
- more standardisation and transparency

Variation % Connection cost recovered by capital contribution



Source: Commerce Commission Data.

Regulatory options for connection pricing

Options

- Do nothing - let EDBs progress voluntarily improve towards consistency
- Continuation - expand practice note scorecards to include connections pricing
- Control – for example:
 - prohibit overly deep contributions / contributions to anticipatory capacity / overly high contributions to general system growth
 - set caps on fees
 - mandate particular approaches / require standardised charges
 - mandate implementation of the Authority's guidelines on transmission pass-through
- Call-in option

Links and complementary measures

- Potential impact on DPP4: requires working closely with ComCom on any proposed changes
- Information on assets location and process changes
- More flexibility with 'approved providers' to undertake works

Process Timelines

- Issues paper published - 5 July
- Information session - 21 July
- Submissions close - **15 August** (*extended*)
- Cross-submissions close **30 August** (*extended*)
- Stakeholder workshops early September - timing to be confirmed

- *Other opportunities for engagement*
- *Scorecards process*

Distribution network regulatory settings workstream

Authority working on non-pricing issues that may be of interest:

- Work on how and what kind of data MEPs provide to distributors and flexibility traders (the goal is to improve the availability of information on low voltage network congestion)
- Clarifying the Authority's position on when it will consider extending the current arm's-length rules (support a deeper market for non-network solutions)
- The scope of a Part 6 review including to explicitly consider include connection of distributed energy resources (updating standards to ensure they support a competitive, reliable, and efficient electricity system for the long-term benefit of consumers)
- Consideration of how distributors can best deal with new demands on their networks – eg EV charging and distributed generation load

The Authority is considering these matters further as part of its work on regulatory settings for distribution networks – not through the current Issues Paper process

QUESTIONS?

THANK YOU