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Distribution Pricing Team
Electricity Authority

By email: distribution.pricing@ea.govt.nz

Issues Paper – Targeted Reform of Distribution Pricing

Ecotricity welcomes the opportunity to submit the Electricity Authority’s Issues Paper – “Targeted Reform of Distribution Pricing”.

In general, we are in agreement with the issues as described in the Paper and are encouraged to see the Authority taking a proactive approach. We agree that the current speed of change is insufficient to ensure New Zealand meets both its 2030 and 2050 targets.

Ecotricity has taken a strategic decision to develop and deploy our flexibility platform, connecting to and controlling a number of hardware devices. We firmly believe that the lack of an effective customer value proposition (EDB pricing structures and flexibility payments) is a barrier to the further uptake of these important technologies.

We are continuing with our programme, and absorbing the associated costs, as we believe in the broader outcomes for New Zealand, namely the transition to a genuine, low-carbon energy sector in the broadest sense.

The remainder of this document details our responses to the specific questions contained within the Paper.

We welcome further discussion and are happy to coordinate more closely with the Authority should it be required.

Best regards
Ecotricity

Al Yates
CEO

Submitter

Ecotricity

Questions

Q1. Are there any other options that you think the Authority should consider?

No, we believe these are three well-considered options.

Q2. Do you have any comments on the options outlined?

We have the following views of the three options:

1. Continuation
 - As mentioned by the Authority, the status quo has failed to deliver the rate and extent of change required and we have not seen anything that would convince us that a continuation of current approaches would deliver anything different. We do not believe this option should be considered;
2. Control
 - While we do not recommend regulatory control lightly, we believe we have reached the point where it will be required to drive the outcomes required for New Zealand to reach its transition targets
3. Call-In
 - While this may be appropriate in some circumstances, we believe the administrative and procedural burden would be onerous and time-consuming. There is an additional risk that targeted approaches for individual EDB's will create inconsistencies across New Zealand that will act as barriers to both retailers and new technology providers looking to enter the market

Q3A. Do you agree that a combination of TOU tariffs and load control (appliance) tariffs would be useful for the smart management of peak demand?

Yes. These should be the minimum requirements for EDB pricing structures but are unlikely to drive the required level of technology adoption required to meet transition targets.

The procurement of flexibility services must also be considered and viewed in the context of the deferral of c. \$1b of estimated network expenditure each year for the next three decades. That is to say, EDB pricing structures and flexibility procurement that may ostensibly carry a cost of millions annually should be seen as a positive investment rather than purely through a cost-lens.

Q3B. Do you consider that TOU pricing could have unintended consequences for congestion on the LV network?

No, at least not in the short to medium term and, if managed appropriately, not at all. There are enough learnings that can be taken from other jurisdictions (e.g. South Australia) to inform our approach to congestion.

Incentivising storage, and its associated flexibility, should result in a system that can effectively manage any potential constraints. For example, as more EV's enter New Zealand's fleet, particularly with V2x functionality, customers will effectively have storage and flexibility in the region of 100kWh at their premises. When linked with effective hot-water control, these can act as energy sinks during times of high renewable generation and as distributed generation during times of peak demand.

Q3C. Do you consider that use of shoulder pricing as part of the TOU price structure could be an effective way to mitigate this risk? What other ways could be effective?

No. Shoulder pricing could be effective in some cases but we believe pricing should be simple for customers to understand and Peak / Off-Peak pricing achieves this. As mentioned in Q3B, ensuring incentives are in place for energy storage will be critical to ensuring robust sub-transmission networks.

Q4. Do you agree with the assessment of the current situation and context for peak period pricing signals? What if any other significant factors should the Authority be considering?

Yes, we agree with this assessment. We recommend the Authority remains mindful that peak period pricing signals should create incentives and not 'punishments' i.e. a reduction in off-peak rates shouldn't be directly added to the peak rate as that is likely to cause harm to consumers who do not currently have the ability to purchase assets (e.g. solar / battery / EV) that would allow them to offset peak price increases.

Q5. Do you agree with the problem statement for peak period pricing signals?

Yes, we agree. The delta between peak and off-peak must be material enough to provide the appropriate incentives for end consumers to not only shift existing load where possible, but also to incentivise their uptake of newer technologies that will ultimately benefit the network.

Q6. Do you have any comments on the Authority's preferred pricing for peak periods?

Yes, we agree with all of the Authority's suggestions. We are happy to see the inclusion of energy hardship as a key consideration, as simply passing additional costs onto those with little to no ability to flex their load is not appropriate.

As mentioned previously, pricing incentives need to be viewed not only through a short-term cost lens, but also in the context of the \$20b that would be required over the coming 30 years. Any deferral of this amount should be considered during pricing discussions and approaches.

Q7. Are there other options you think the Authority should consider for improving peak period pricing?

Although it may not be appropriate to this section, we feel it is worthwhile to remember that EDB pricing is part of the solution, but the procurement of flexibility services by EDB's should remain in-focus.

Q8. Which if any of the above options do you consider would best support distribution pricing reform around peak signals and why?

We believe that control, applied uniformly, is likely to deliver the best outcomes for New Zealand. The status quo is unlikely to deliver anything new, and targeting each EDB separately is likely to be slow, onerous and create material inconsistency across New Zealand.

Q9. Do you agree with the assessment of the current situation and context for off-peak pricing signals? What if any other significant factors should the Authority be considering?

Yes.

Q10. Do you agree with the problem statement for off-peak pricing signals?

Yes.

Q11. Do you have any comments on the Authority's preferred pricing for off-peak usage?

We agree in principle with the Authority's preferred pricing approach.

Q12. Are there any other options you think the Authority should consider for improving off-peak pricing?

No.

Q13. Which if any of the above options do you consider would best support distribution pricing reform around off-peak pricing signals and why?

Consistent with our other comments, we believe that option 5.25 is the only one likely to create the paradigm shift required to accelerate New Zealand’s transition. The other options are unlikely to do so because:

- As the Authority has mentioned, scorecards and practice notes have failed to deliver material change in the past;
- Descending caps will simply serve to slow the rate of change required; and
- A call-in approach will be slow, onerous and create inconsistency across New Zealand that will serve as a barrier to transition activities.

Q14. Do you agree with the assessment of the current situation and context for target revenue allocation? What if any other significant factors should the Authority be considering?

Yes.

Q15. Do you agree with the problem statement for target revenue allocation?

Yes.

Q16. Do you have any comments on the Authority’s preferred pricing?

No specific comments, except to note that AMD calculations should be tied to other EDB pricing structures and be flexible enough that, if material changes are made during a pricing period, then these can be factored in.

Q17. Are there any other options you think the Authority should consider for improving target revenue allocation?

No.

Q18. Which if any of the above options do you consider best support distribution pricing reform around targeted revenue allocation?

We believe that a multi-faceted approach is likely to deliver the best outcomes i.e. control should be implemented where appropriate and backed with technical and commercial support where required.

We do not believe a lack of internal capability or capacity is an appropriate reason for EDB’s keep doing things ‘the way we’ve always done them’. The energy transition will require all parts of the value chain to upskill and be prepared to change.

Q19. Do you agree with the assessment of the current situation and context for connection pricing? What if any other significant factors should the Authority be considering?

Yes.

Q20. Do you agree with the problem statement for connection pricing?

Yes.

Q21. Do you agree with the Authority's preferred pricing approach for connection charges?

Yes, we agree in principle with this approach. We would add that we believe an additional incentive layer should be considered i.e. given the anticipated rapid electrification, particularly of large industrial load, connection incentives should be provided to those who specifically include flexibility assets in their capital plans.

For example, simply moving from gas / coal boilers to electricity can create material challenges to the network. If those customers added battery storage, then this could be used to offset peak period issues and result in better outcomes for everyone. Our view is that these should be incentivised through lower connection charges at a level of materiality that allows businesses to develop a robust business case for including a storage solution.

Q22. Do you have any thoughts on the complementary measures mentioned above and to what extent work on these issues could lead to more efficient outcomes for access seekers?

We agree with both suggestions i.e.

- In the electricity system of the future, real-time visibility of the LV network will be critical and is no longer a 'nice-to-have'. EDB's should be incentivised to invest in this technology as a matter of urgency. Given their natural monopoly status, there is no reason why all LV data should not be in the public domain once systems are in place; and
- A larger pool of service providers should be encouraged, ensuring that high standards are upheld but where certification to work on networks is not unreasonably withheld.

Q23. Are there any other options you think the Authority should consider for connection pricing?

No.

Q24. Which if any of the above options do you consider would best support distribution pricing reform in the area of connection pricing?

We agree that both the status quo and extending practice notices are unlikely to produce the desired outcomes. We believe that control will be required, potentially with some call-in availability, while being mindful to avoid inconsistency across New Zealand.

We reiterate our view that those seeking connections that include, or could include, material levels of flexibility, should be incentivised to do so.

Q25A. Do you agree with the assessment of the current situation and context for retailer response? What if any other significant factors should the Authority be considering?

Yes. We note that Ecotricity has a direct pass-through policy of distribution and transmission charges, and our customers have full transparency of how these affect their invoices.

Q25B. What plans do you have for responding to distribution pricing signals as distributors reform their price structures? What barriers do you see to responding efficiently?

We are currently responding to EDB pricing signals through our VPP programme, particularly within the Vector network, where a zero-rated off-peak component was recently added. We are in a position to respond immediately on any network that introduces effective peak / off-peak pricing signals.

We agree with the Authority's previous comments that the marginal cost of off-peak consumption is effectively zero and believe that off-peak rates should reflect this. It is not acceptable, however, to simply load the difference onto the peak rate as this will directly contribute to energy hardship.

We agree that deemed and residual profiles for retailer billing are no longer appropriate where AMI exists and should be phased out.

We also make the following general comments:

- Just as EDB's should be required to invest in the systems and personnel to enable the shift to the energy system of the future, so should energy retailer i.e.
 - AMI penetration is such that all retailers should be able to collect and manage this data effectively;
 - Software systems exist in the New Zealand market that facilitate the effective creation and management of more complex pricing structures e.g. transparent pass-through of distributor charges. Having an outdated

system should not be an acceptable excuse, particularly for organisations majority-owned by the government

Q25C. What plans do you have to increase the proportion of your customers that fact time-varying charges (for example, making TOU plans mandatory for retailers whose end-users have an AMI meter installed?)

N/A

Q26. Do you agree with the problem statement for retailer response?

Yes.

Q27A. Do you have any comments on the Authority's preferred pricing?

We agree with the Authority's preferred approach.

Q27B. What use do you make of deemed and residual profiles? Please explain the reasons for this. What barriers do you see to phasing out the use of deemed and residual profiles?

As mentioned previously, not having the software systems required to effectively manage AMI data should not be an acceptable reason as we look to accelerate the energy transition.

The only real barrier we see to the phasing out of deemed and residual profiles is how to effectively deal with the remaining c. 10% of legacy meters in the field.

Q28. Are there other options you think the Authority should consider for retailer response?

No.

Q29. Which if any of the above options do you consider would best support distribution pricing reform in the area of retailer response?

Retaining the status quo is unlikely to deliver the outcomes required. Effective monitoring, combined with expectation guidance on when changes should start to be seen may be appropriate for now.

Note that if we require EDB's to improve their pricing structures, then retailers should have some obligation to support them. Given the high levels of market concentration in the retail sector, some form of Authority intervention may be required in the future, and in this case a call-in approach is likely to be most appropriate.