ENA submission on Targeted Reform of Distribution Pricing issues paper

Submission to the Electricity Authority

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1 Introduction

ENA represents the 27 electricity distribution businesses (EDBs) in New Zealand (see Appendix A) which provide local and regional electricity networks. EDBs employ 10,000 people and deliver energy to more than two million homes and businesses.

ENA welcomes the opportunity to respond to the Electricity Authority's (Authority's) targeted reform of distribution pricing issues paper. This submission is not confidential, and ENA welcomes its publication in its entirety.

2 Executive Summary

The reform of distribution prices in New Zealand is a process that is vital for EDBs and New Zealand's transition to a low-emission economy, but which cannot be completed overnight. EDBs have delivered progress on key issues, including the implementation of the Authority's preferred peak pricing. ENA welcomes the recognition in the issues paper of the progress made by EDBs to date.

The Authority has a critical role to play in facilitating and driving the continued reform of distribution pricing. ENA believes that the best way this can be achieved is by the Authority prioritising issues that deliver benefits for consumers and providing clear actionable guidance to individual EDBs on how to address each issue. Only once EDBs have had an appropriate opportunity to understand and implement this guidance should further regulatory intervention be considered.

Guidance and perseverance key to reform

The Authority has released high-level distribution pricing guidance as recently as early 2023. The issues paper raises issues not previously discussed between the Authority and the sector and indicates the Authority's views on these key matters for the first time. Reflecting any Authority views or guidance into EDB pricing decision-making processes and the resulting prices, including appropriate transitions mechanism, takes time. EDBs only have the opportunity to change their prices once a year. Developing and transitioning to efficient cost-reflective pricing requires patience and certainty. EDBs are turning round the ship.

ENA is concerned that the threat of regulatory intervention via the Authority's proposed control or call-in options may lead to delays in pricing reform. If EDBs perceive that the Authority is likely to act either via changed guidance or regulatory intervention, they may delay reform until they have certainty over the reform path to avoid having to backtrack if the Authority guidance changes.

The purpose of price signals

For EDBs, a vital consideration when developing prices that signal the cost consequences of usage is the certainty of response to the signal. The value for EDBs of 'passive prices' that send a signal to consumers and rely on the unknown response to that signal is likely to be of lower value than 'active prices' where the response is known i.e. direct load control of hot water. This difference in value is subsequently reflected in the price or reward (via lower prices) offered to consumers by EDBs.

For distribution prices to be efficient and cost-reflective, they must reflect the level of current and future constraints on their networks. For some EDBs network constraints are not likely to occur in foreseeable future due to demographic and industrial changes within their service areas. For these networks, the introduction of peak signalling prices would not be cost-reflective or to the benefit of consumers.

ENA is eager to work with the Authority, and the sector more broadly, on technical matters such as the calculation of LRMC and the subsidy-free band.

The Authority's intention to monitor the retail market and consumer preferences is timely and supported by ENA.

Lowering barriers to pricing reform

ENA strongly support the removal of barriers to retailers being billed more cost-reflective prices. Using actual ICP data for market reconciliation and distribution billing is vital for the electricity sector's continued evolution. Concerted action by retailers, MEPs and the Authority is key to unlocking the potential and removing barriers from the industry's and broader economy's evolution towards an electrified and decarbonised future. ENA is confident these barriers can be overcome and encourages the Authority to work with retailers and MEPs to deliver this.

ENA is cognisant that the protocols (EIEPs) and systems that underpin the exchange of data between EDBs and retailers, and the sector more broadly, rely upon the exchange of CSV files, which is no longer considered good practice for information exchange. The Authority should undertake a review of the industry's data exchange processes.

3 Context

To ensure the benefits of cost-reflective distribution prices are achieved, the Authority should examine closely and take steps to remove the barriers that prevent retailers from being able to accommodate TOU-based distribution prices.

In the issues paper, the Authority comments on "mandatory" TOU prices, noting that often these are not mandatory due to metering issues and retailers' abilities to accommodate them. ENA's view is that EDBs should not be criticized for matters over which they have no control and are prescribed by the Code as retailer responsibilities.

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

The Authority should consider providing more detailed guidance to individual EDBs, on how their pricing can or should be reformed. EDBs are often left second-guessing the Authority's generic guidance on distribution pricing reform. This proposed detailed individual guidance differs from the "call-in option" as there would not be a pricing approval mechanism. This approach would not require any Code amendments and therefore can be implemented immediately.

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

Distribution pricing reform is a work in progress. The removal of the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 (LFC) is ongoing. It is still a critical influence on pricing for the bulk of connections to distribution networks with flow-on effects for those customers not covered by the LFC.

The Authority should not pre-empt the reform enabled by the LFC phase-out by overreaching and taking steps under the proposed control option. These heavy-handed regulatory interventions will be hard to reverse and risk the type of unintended outcomes brought about by the LFC regulations.

The continuation option is the only viable option in the short/medium term as broad and complete distribution pricing reform, particularly in respect of the key issues set out below, is held back by the LFC regulations which continue to act like a ball and chain for EDBs.

However, this option would benefit from more detailed guidance and much clearer feedback from the Authority. Through the scorecard process, individual EDB feedback is scarce; the reasoning behind the scores for each category should be provided, as well as recommendations from the Authority as to how to improve scores. If the Authority expects EDBs to respond to feedback it should also ensure that the feedback is timely.

The proposed control option is blunt and troubling. The sector's experience of the tortuous TPM process, which took over a decade and came at the cost of tens of millions of dollars, legal wrangling, and industry-wide frustration, should preclude its use.

The call-in option has the potential to provide the Authority with a greater range of tools to promote pricing reform. However, it should be a graduated process, rather than jumping straight to review and approval of EDB prices. These graduated steps could include the use of warning notices in the first instance and three

strikes (such as those outlined in the Commerce Commission's enforcement criteria). Opportunity should be given first to the ENA to work with its members collectively to progress change, as the first step in any pan-EDB call-in.

ENA is concerned, however, that the call-in option with backstop regulatory interventions could become the default response for the Authority, leading it to overlook less interventionist approaches. The call-in option also carries with it a materially higher risk of unintended consequences.

The Commerce Commission's (Commission) Input Methodologies review and Default Price-quality Path (DPP) reset are underway. From a practical perspective, any control options from the Authority will come too late to be reflected in price paths and revenue allowances determined by Commission for the 2025-2030 regulatory period.

ENA would like to have visibility of the ongoing dialogue between the Authority and the Commission to ensure the overlaps between the DPP and this workstream on distribution pricing are understood (see 53V of Commerce Act). The outcomes of this engagement should be clearly documented in both parties' consultation papers.

4 Peak period price signals

The Authority has, to date, not provided a clear indication of what it sees as the ultimate objective of more cost-reflective, peak signalling prices. This lack of clarity boils down to if the objective is either :

1. explicitly ***elicit response*** from consumers, with the clear purpose of reducing peak demand growth, over time. Therefore, if consumers do not respond, and/or are not engaged by retailers to respond, the objective will not be met.
2. to **inform the choices** made by consumers as to whether to change how and when they consume and/or generate electricity. In this case, if consumers are aware of the cost implications of their actions but still actively choose not to respond, or elect to stay on a uniform tariff even if it results in higher costs than if they had responded, the objective will still have been met.

The issues paper implies the Authority's objective is the latter – they are pursuing efficient use of, and investment in, network capacity while allowing and promoting consumer choice. ENA seeks confirmation from the Authority that this is indeed their objective.

The price elasticity of demand is overlooked in the Authority's analysis. The high price inelasticity of electricity (for most customers) means that prices needed to influence demand and elicit a response, are far in excess of the long-run marginal cost (LRMC) of network expansion.

In order to defer upgrades of infrastructure, EDBs would require sufficient certainty of consumer behaviour to manage against the risk that too many consumers in one area consume significantly more than the desired level. Direct control of consumer devices (i.e. DER) could mitigate this risk and deliver the certainty EDBs need. Without the appropriate physical backstop measures, EDBs cannot place such reliance on consistent consumer response to passive prices to defer infrastructure upgrades and still meet their performance obligations.

Therefore the valid response by EDBs to the lack of response to an LRMC price signal is to build network capacity.

ENA would therefore like the Authority to provide clear and explicit guidance on its view on whether:

- EDBs peak price should solely be set on the basis of LRMC (i.e. peak price = LRMC), or
- EDBs should set peak prices to incorporate the price elasticity of demand and therefore set above LRMC to deliver the desired response (i.e. peak price = LRMC * (1/price elasticity)).

It is important for the Authority to recognise that there are significant differences between prices that allow consumers to make informed decisions regarding the costs of consuming during certain times ('passive prices' i.e. TOU prices) and those that reward consumers for providing EDBs with the ability to actively control their

usage during peak periods and network constraints ('active prices' e.g. hot water load control). Given the confidence in the load reduction of the latter pricing is more known and "bankable", EDBs can place a higher value on this over the uncertain response from the former. This difference in the level of certainty of response and value to EDBs is why there are differences in the implied value of load control and peak signal prices shown in Figure 2 of the issues paper.

In paragraph 4.15, the Authority suggests simplicity is the only benefit of network-wide prices. It is important to note that the likelihood of retailers reflecting distributor price signals (and subsequently achieving the desired consumer behaviours) is a material benefit for EDBs seeking to influence network usage at peak periods.

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?

ENA agrees that TOU prices alongside load control prices will be useful in managing peak demand. It is important to note that the purpose of EDBs' TOU pricing, and price signalling tariffs more broadly, is to reflect distribution network peak demand, not wholesale market conditions or generation/supply imbalance. These may be coincident but equally may not.

While EDBs' TOU and control prices both aim to influence system demand at peak periods, it is important to note that the mechanism to do so is materially different.

Load control prices provide firm (or near firm) load reduction and can be relied upon to deliver the reduced load without customer intervention. Peak-signalling TOU prices aim to deliver a signal to allow consumers to make informed decisions regarding the costs of consuming during certain times. The consumer's response to this signal is unknown by the EDB and is heavily influenced by the individual consumers' price elasticity, which may vary by time, and their ability to respond (or the response by someone acting on their behalf.)

Broadly speaking, for EDBs where congestion is currently or expected to be a concern, controlled (hot water) tariffs deliver a known response (highly valued) whereas TOU and other signalling prices, the response is inherently uncertain (lesser value). This includes the management of devices by other parties, whose response to EDBs' prices may be equally uncertain (for example the value of response to a dynamic wholesale market circumstance trumps the EDBs' need reflected in its TOU prices).

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

No, EDBs TOU pricing is unlikely to have unintended consequences for congestion on the LV network. Behaviour change in response to TOU prices is likely to be incremental allowing EDBs to observe and respond to any unintended consequences that emerge before they become material.

Issues can arise when consumers or aggregators respond to over-amplified retail price signals that mute or ignore distribution price signals. Recent experiences with "free power" offerings have demonstrated that retailers and distributors can effectively work together to manage or avoid localised demand spikes and their consequences for LV network congestion.

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?

The shape of individual EDB load profiles will be the key determinant of the need for shoulder pricing. Broadly speaking the steeper the load increase/decrease prior to/after peak periods (specifically important as solar photovoltaic generation uptake increases and if a "duck curve" emerges) the less necessary shoulder prices become.

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?

In paragraph 4.19(c), the Authority suggests that EDBs have paid limited attention to non-residential price structures. This is incorrect. Many EDBs have sophisticated demand-based price structures for large non-

residential customers and bespoke individual calculated network prices for very large users. The TPM implementation process necessitated EDBs reviewing and in some cases modifying their non-residential price structures.

An example of these sophisticated non-residential prices is Orion's Major Customer Connection category, which has a control period pricing that dynamically signals, via direct notification to the customer, the cost of using the network at peak times through specified prices. This offers the consumer group the choice of switching fuel types or reducing demand which mitigates higher energy bills and supports the network.

Paragraph 4.19(c) also suggests that TOU tariffs are different to tariffs that reward flexibility. This is not the case. There are now several instances of retailers trialling smart technology (hot water load and EV management) at least partly in response to EDBs' cost-reflective TOU prices. Shifting load out of peak TOU periods provides a clear reward to retailers (and their customers) for being flexible. As noted above though, a certain, "bankable" response to control load is much more valuable than a potential response to a TOU price.

Spare capacity on networks is a critical factor for the need for peak signalling prices. In circumstances where EDBs have and expect to continue to have spare capacity, the use of uniform or other non-signalling price structures will be both cost-reflective and efficient.

The Authority's analysis in paragraph 4.25 and Figure 4 analysis does not reflect the level of spare capacity of the networks shown. Some EDBs, due to demand changes driven by wider industrial and demographic change, have significant spare capacity on their network. Therefore it would be expected that the peak demand signal for the hypothetical bus charging facility would vary widely, reflecting the level of spare capacity on the network.

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

The Authority notes that many consumers remain on uniform usage prices. ENA notes that there are circumstances (i.e. unconstrained networks) where uniform usage prices are likely to be efficient and cost-reflective. It is unclear if the Authority is referring to distribution or retail prices. Consumers have access to a wide range of retail prices. ENA recommends the Authority investigate the proportion of retail customers on flat rate prices and explore their preference for these prices. If there is a large cohort of consumers who would prefer to be on TOU prices but are restricted from being able to do so for any reason, then the Authority should remove this barrier.

EDBs are progressively mandating the use of their TOU and other peak signalling prices. Progress is hampered somewhat by the inability of retailers' systems and processes to handle TOU billing data. Those EDBs who have mandated TOU pricing typically receive multiple requests for exemptions from retailers both large and small. ENA (and our members) would be happy to provide examples of this.

ENA is also cognisant that the protocols (EIEPs) and systems that underpin the exchange of data within the sectors and between EDBs and retailers rely upon the exchange of CSV files. The Authority should undertake a review of the industry's data exchange processes.

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

As noted in the paper, 23 of 29 EDBs have TOU prices. ENA believes this represents significant progress. ENA notes that the Authority has not conducted any assessment of if, for the remaining 6 EDBs, imposing TOU prices would be cost-reflective. The EDBs without TOU pricing tend to be smaller with no current or foreseeable network constraints such as Buller Electricity and Scanpower.

ENA is unsure of the basis of the claim (footnote 48) that GXP pricing impacts retailers differently due to their different after-diversity peak demand. Standard GXP pricing uses kWh usage to bill retailers. Given that AMI metering is at 90% there is little practical difference between the use of reconciliation manager-reported retailer usage (kWh) at the GXP and ICP-based pricing based on kWh usage data provided to EDBs by retailers. The only difference is the reconciliation manager collates the individual ICP's half-hour data rather than the distributor.

The phase-out of deemed profiles is supported by ENA. However, it is noted that it is retailers that are responsible for metering and deemed profiles.

The Authority must therefore take heed of the recent The Lines Company experience with economically efficient, sharp and transparent peak demand pricing billed directly to end consumers. The risk of unintended consequences and overstimulating customer response is high[1]. The negative health and welfare outcomes from the inefficient avoidance of peak prices (rationing of heating) are significant. Chasing economically efficient prices without consideration of the health and welfare of consumers is in direct conflict with the Authority's statutory objective to work to the long-term benefit of consumers.

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

ENA supports option B. The Authority can provide clear, targeted and actionable guidance to individual EDBs on the steps they believe the EDB should take to improve peak-period pricing. This must include consideration of the other issues, including the premium value to EDBs of certainty of response.

ENA believes the LFC phase-out will continue to shape EDB pricing practices for small customers until its full removal in 2027. The Authority should refrain from making material regulatory interventions until the millstone of LFC has finally been done away with.

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

ENA believes that the Authority should retain the current approach until the LFC is fully phased out. The Authority can improve the current approach by providing each EDB, where peak pricing is of concern, with clear and tailored guidance on how to improve their peak pricing.

The Authority's proposal to provide guidance on its preferred approach to calculating LRMC is strongly supported. ENA is eager to assist in the development and promulgation of this guidance. ENA looks forward to developing, in conjunction with the Authority, an illustrative LRMC estimation model.

If after the LFC has been phased out, the Authority still has concerns, ENA recommends adopting a graduated call-in approach. Under this approach requiring EDBs to seek approval for prices would be a rarely used last resort.

5 Off-peak price signals

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?

The bulk of EDBs have TOU pricing and use peak period prices to influence network usage where congestion is or is likely to be a concern. These businesses with peak signalling prices recover residual revenues first via fixed charges, then the remainder via off-peak prices. The LFC regulations restrict (and will continue to do so until 2027) the revenue recovery from fixed charges. A direct consequence of which is that EDBs are forced to recover greater revenues from off-peak usage prices than may be efficient. EDBs recover these costs from off-peak prices rather than peak prices to not distort the peak price signal.

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

The scale of off-peak prices is a direct result of the LFC regulations. As the LFC winds down, so will the materiality of off-peak prices.

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

[1] https://www.stuff.co.nz/business/113724281/cold-and-ill-but-bill-puts-heat-pump-off-limits

Equity and affordability are significant concerns for EDBs as they support the energy transition. Various approaches are being discussed to manage these issues, including active management of EV charging. We would welcome discussion with the Authority on how issues such as this example should be addressed.

ENA believes that historical AMD is an appropriate measurement of the proportion of network capacity needed to service a customer. EDBs must design and deliver networks to meet their customers' peak demands no matter how often this occurs. the Authority recognised this in its choice to use AMD to set residual TPM charges (a fixed charge). ENA does not understand how the Authority can view historical AMD as an appropriate tool for setting fixed changes in the transmission network but not for distribution networks.

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

While the issues paper covers all appropriate options for improving off-peak distribution pricing, ENA believes there is value in the Authority looking more broadly at improving peak and off-peak "consumer pricing".

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

ENA's view is that, as LFC is a key driver of off-peak prices, until the LFC is fully removed option A should be adopted. To aid EDBs during the LFC phase-out the ENA recommends that option B be also adopted in parallel.

ENA's view is that call-in Code amendments should not be considered until after the effects of LFC phase-out are known and there is evidence that greater regulatory powers are necessary.

6 Target revenue allocation

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?

EDB cost allocation methods are subject to oversight by the Commission. The IMs set out the allocation methods EDBs must adopt. These are largely accounting-based processes. It follows, to ensure their pricing aligns with their cost allocation (i.e. are cost reflective), EDBs apply the Commission's mandated approach to their allocations for pricing purposes.

The Authority has historically provided no guidance nor publicly stated a preference for the use of short-run or long-run marginal cost pricing. The issues paper implies that the Authority has a preference for the use of LRMC pricing. ENA encourages the Authority to explicitly communicate this preference publicly and give EDBs an appropriate amount of time for pricing methodologies to reflect the advice.

The Authority's view on the calculation of stand-alone cost conflicts with the commonly adopted economic bypass test. This test takes the stand-alone test to its logical endpoint i.e. the cost to serve the customer group if no network existed. In some cases, it is likely that non-network solutions would give rise to a stand-alone cost lower than a network solution.

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

ENA disagrees that target revenue allocation is a major concern. The Authority has only recently changed its recommended approach to price setting via the 2021 Distribution Pricing Practice Note. There is no evidence to suggest intervening in this area would promote the Authority's statutory objective.

ENA would like further information from the Authority on the issues it sees with the EDBs approach to the calculation of the subsidy-free (incremental to stand-alone) band. To help EDBs take steps to improve the calculation of this range, the Authority should provide clear, actionable guidance and worked examples.

In its submission to the Electricity Price Review ENA noted "ENA members are prepared to collaborate on industry guidelines on cost allocation that would standardize the various approaches."[2] ENA remains prepared to begin this work in earnest. This would be an excellent candidate for the Authority to prioritise co-development with ENA members.

For this work to deliver maximum benefits to consumers, guidance from the Authority is needed on what it sees as the most efficient method for the cost allocation between customer groups and subsequently the calculation of the subsidy-free range.

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

EDBs encourage the Authority to provide clear and actionable guidance on what it sees as the most efficient approach to target revenue allocation. However, there is no justification for the Authority to involve itself in the technical detail of EDBs application of this approach.

ENA believes there is scope for the Authority to work with ENA and its members to advance the mechanisms, theory and application of the subsidiary-free band calculation.

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

The Authority has identified a broad range of options but has not demonstrated the need for any action. ENA has no other options to add.

ENA is prepared to play a role in building a set of tools (spreadsheets etc) to enable EDBs to better understand their incremental and standalone costs and bed them into their pricing methodology.

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

ENA believes options A and B would best support pricing reform. To date, the Authority has limited itself to examining the sequence of revenue allocation without indicating which approaches it prefers. ENA believes that the efficiency of revenue allocation can be best advanced by the Authority issuing guidance and subsequent support for EDBs to transition to the adoption of the Authority's preferred approach of their own volition.

7 Connection pricing

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?

The Authority's issues paper is the first time it has produced any analysis or provided any insight on what it believes efficient connection pricing looks like.

Many EDBs have recently or are currently reviewing their approaches to connection pricing in light of a material uptick in applications. The Authority should seek to guide EDBs in this process by providing clear and practical guidance on what it sees as good and bad practice.

ENA believes that Figure 6 provides a misleading picture of connection policies. In Figure 6, a number of the EDBs shown to have a low reliance on contributions require the connector to procure and install all connection assets themselves, which are subsequently gifted to the EDB at a nominal value (i.e. $1).

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

The Authority has put forward a long list of hypothetical issues but has presented no evidence of any of them occurring.

[2] https://www.ena.org.nz/submissions/previously-published-ena-submissions/2019-submission/document/481 p17

While EDBs have no obligation to connect a party to their network, each year EDBs connect thousands of new customers to their networks. Data from Utilities Disputes illustrates that complaints related to new connections totalled 33 over the five years to 2022[3]. Over the same period connected ICPs grew by more than 180,000.[4]

ENA believes that the Authority's view that a lack of standardisation as being in direct conflict with the core principle of efficient distribution pricing. Which is that users should pay prices that "signal the economic costs of service provision"[5] (in this case the connection service).

EDBs have standard prices for residential/subdivision connections. These make up the bulk of connections (by number). Other types of connections are significantly less homogeneous and much less suited to standardised pricing.

ENA does not agree with the Authority's problem statement. ENA believes the existence of different connection pricing approaches represents the application of cost-reflective pricing and is not a problem to be addressed.

ENA notes that its members are taking steps to ensure that their connection practices are flexible enough to deliver the maximum long-term benefits to consumers. For example, Vector's work with Auckland Transport to facilitate the electrification of the Panmure bus depot while avoiding the need for costly network upgrades.

Enforced standardisation of connection prices both within EDBs and across different EDBs conflicts with the Authority's often repeated calls for more disaggregated and location-specific prices (refer to Part 3 of the Distribution Pricing: Practice Note).[6]

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

ENA notes the Authority has no definite preference for a single approach to connection prices. ENA is deeply concerned that the Authority is proposing to ban some types of connection charges without first demonstrating that they are not cost-reflective or efficient.

Any change in approach to connection pricing requires EDBs to be extremely mindful of intergenerational equity issues. For existing customers who have paid upfront for their connections, a change in approach risks new consumers benefiting from the contributions of existing consumers without making a contribution of their own.

ENA is concerned that the Authority appears to suggest that EDBs should explicitly subsidise access seekers at the expense of existing customers.

The Authority's paper implies that EV charging connectors be given preferential treatment both in terms of process and cost. ENA members operate equal access regimes and do not, and nor should they, differentiate between connectors based on their end-use.

EDBs have extremely little ability to trade off cost and quality for the majority of consumers. The Commission's quality regime's SAIFI and SAIFI metrics make no allowance for customers opting for a lower quality (i.e. "N" security) of service. EDBs have occasionally offered customers with large site-specific load needs alternate service quality (i.e. "N" security) in return for customised (lower) pricing.

ENA agrees there is room for greater consistency between distributors in their terminology, processes, and approaches to connection pricing. In conjunction with its members, ENA is to develop a connection pricing guide. This guide will follow the footsteps of the ENA's pricing guidelines for electricity distributors[7]. ENA is targeting a 4th quarter 2023 release.

[3]https://comcom.govt.nz/__data/assets/pdf_file/0016/282121/Utilities-Disputes-Limited-Submission-on-EDB-targeted-ID-review-process-and-issues-paper-20-April-2022.pdf
[4] Commerce Commission, Electricity distributors' information disclosure data 2013-2022
[5] Electricity Authority, More efficient distribution network pricing – principles and practice Decision paper, 2019
[6] Electricity Authority, Distribution Pricing: Practice Note Second Edition v2.2, 2022
[7] https://www.ena.org.nz/resources/lines-pricing-information/document/1207

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?

EDBs are progressively making asset and capacity information available to access seekers as the raw data becomes available and systems that enable the sharing of this information develop However, there is still some way to go on this, with progress to occur first at the HV/MV network level before moving to the LV network.

The lack of access to and provision of Network Operational Data (NOD) impacts an EDB's ability to provide this capacity information. There appears to be two barriers to the more widespread availability of NOD:

a) restrictions on the access to data (with restrictions imposed on MEPs via smart meter deployment contracts) and
b) a lack of investment in and establishment of a standard or minimum set of NODs

Making this information available is not costless for EDBs. The Commission's current opex and capex allowances limit the ability of EDBs to invest the significant new resources needed to develop the systems needed to make this data available, without the expenditure first being included in the Commission's allowances at the DPP reset (once every 4 or 5 years).

The pool of approved contractors is not limited by EDBs but rather by New Zealand's small pool of contractors willing to build their capacity and pre-qualify for this type of work across all the regions of New Zealand.

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

The Authority at 7.30(iv) raises the prospect of mandating its guidelines for TPM passthrough. Mandating the passthrough of transmission costs under the TPM is not related to connection pricing nor is it discussed at all in the issues paper. ENA is strongly opposed to this heavy-handed intervention.

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

Given the Authority has been largely silent on what efficient connection pricing looks like, the Authority should not be critical of EDBs' approaches developed in the absence of any advice to the contrary.

Therefore, the only acceptable option is for the Authority to provide unambiguous guidance to EDBs on its expectations for connection pricing and allow EDBs sufficient time to respond and incorporate this guidance into their connection policies and prices. As such, ENA views options 1a) and 1b) as the only viable options.

The Authority has suggested that the Commission's regime introduce re-openers for changes to connection/capital contribution policies. The Commission has recently published its draft decision on the Input Methodologies. This decision contains no re-openers of the type suggested by the Authority.

ENA is concerned the Authority appears to express a desire to intervene in the Commission's Part 4 regulatory regime. If the Authority wishes to influence the IM regime it should publicly engage with the Commission's consultation processes.

8 Retailer response

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?

The role of retailers and their response (or absence of response) to EDBs' pricing has long been a point of contention for EDBs.

It would be extremely helpful to EDBs and the industry more broadly, for the Authority to clarify its position on retailer pricing, and whether it desires to ensure incentives for retailers to manage and respond to EDB pricing are as strong as possible. This will create the greatest chance of those EDB prices influencing end consumers' decision-making.

To date, retail pricing has not been a focus for the Authority. The issues paper provides some detail on the product offerings of retailers (see paragraph 8.12). It is important for the Authority and other stakeholders, including EDBs, to understand consumer preference for pricing structures not just the availability of different pricing offerings.

In particular, EDBs are eager to understand what proportion of customers (by ICP) are on non-uniform prices, what information retailers are providing consumers about the benefits of load shifting, and how many consumers are on retailers' (or other aggregators') own managed appliance offerings.

The Authority notes that there is a "sweet spot" between the benefits of cost-reflective prices versus the benefits of simpler consumer offerings. Why does the Authority believe that there is a sweet spot for retailers but pays no heed to the same balance when it comes to distribution pricing? Does the Authority believe that EDBs do not need to consider consumer preferences or retailer implementability at all when it comes to setting their prices?

ENA's view is that, especially given current retailer capability and the range of consumer offerings in the market, EDBs TOU pricing strikes this balance.

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

No comment.

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

ENA has encouraged its members to provide information on their plans to the Authority.

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

ENA is pleased to see the Authority progress actions to require retailers to accommodate more cost-reflective pricing from EDBs.

ENA agrees that the use of deemed profiles is a problem including in the settlement of the wholesale market and there is a need for a clear deadline for the abolition of their use. This is a problem for retailers to address in conjunction with their metering equipment providers.

ENA supports more rigid ICP assignment policies. ENA encourages the Authority to support EDBs in rolling out more stringent assignment policies, and setting deadlines by which retailers must ensure they can be billed by EDBs on a half-hourly basis.

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

ENA's support for the Authority's preferred approach is contingent on there being no obligation on EDBs to offer non-uniform prices where network conditions mean that non-uniform prices use would not be cost-reflective or efficient.

ENA notes that the use of both appropriately configured HHR and NHH meters would provide sufficient information to allow EDB billing on actual usage.

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

No comment.

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

ENA welcomes the Authority's recognition of the need for the monitoring of retail pricing. This should include how retailers are progressing with their own managed appliance offerings.

ENA believes that the Authority should consider if a pricing scorecard approach should be applied to retail pricing.

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

ENA supports the Authority's preferred options set out in paragraphs 8.23 (a) and 8.23 (c) of the issues paper. While ENA supports the development guidance on tariff assignment it does not support the control or call-in options for this.

ENA notes it has taken three years for the Authority to progress the advice of the IPAG and encourages the Authority to act with urgency to implement this, clearly needed, change.

ENA supports the increased monitoring of retail pricing. It is important for the Authority to focus on the uptake of prices not just their availability, to allow it and the industry more broadly to understand actual (revealed not stated) consumer preferences.

Further, ENA believes there is a need for clarity from the Authority on what, if any, consideration EDBs should have for consumer preferences when setting their prices.