Genesis Energy Limited
Level 6
155 Fanshawe Street
PO Box 90477
Victoria St West
Auckland 1142
New Zealand

T. 09 580 2094

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The Electricity Authority
By email: distribution.pricing@ea.govt.nz

Targeted Reform of Distribution Pricing

Genesis Energy (**Genesis**) welcomes the opportunity to respond to the Electricity Authority's (the Authority) consultation: *Targeted Reform of Distribution Pricing Issues Paper*.

Genesis agrees that distribution networks have a critical role to play in the electrification of New Zealand's economy and efficient distribution pricing can support an affordable transition to a low-emissions economy. Yet, ultimately, the success of cost reflective pricing structures in delivering efficient investment will be measured on how well price signals connect with consumers and influence behaviour. Our view is that billing systems capabilities and consumer understanding of pricing drivers will be key success factors to delivering the signals for efficient investment and should not be treated as a secondary consideration.

Genesis supports maintaining the Authority's existing guidance and scorecard-based approach. This approach, driven by pricing principles, promotes pricing standardisation over obligatory measures to prevent inadvertent adverse effects on retail businesses and consumers. Notably, numerous companies have already adopted Time of Use (TOU) pricing structures. Imposing additional regulatory measures on them could escalate expenses for retailers, potentially impeding the progress of our renewable transition.

Genesis is also concerned about the potential adverse effects on consumers, especially vulnerable groups, if pricing structures are mandated. There is no doubt that flexibility services will be paramount to our transition, including through reducing the impacts of electrification of transportation and heat on networks. However, care should be taken to ensure consumers that may not have access to such services will not be left behind. For example, many elderly or lower socio- economic customers do not have the means or desire to purchase electric vehicles (EVs) or battery storage. Consequently, they wouldn't reap the advantages of specific pricing structures tailored for flexible services. Instead, it's likely they would incur costs under the new pricing systems, essentially penalising them for their lack of access to such services.

Compulsory distributor pricing could also have the perverse consequence of restricting flexibility services. With the growing adoption of EVs and electric heating systems in residential and commercial settings, the potential arises for future price structures centred around flexibility services to be undermined. While acknowledging the Authority's recognition of the nascent nature of this sector in the issues paper, Genesis contends that this argument reinforces the need to prioritise encouraging pricing reforms rather than making them obligatory at present, as well as increased transparency in assessments to aid the development of future billing systems and services.

As a retailer, Genesis considers it appropriate only to respond to the retailer section of the consultation.

Retailer response

Overall, Genesis consider pricing does have a part to play in our energy transition, however we believe a more holistic approach to price reform issues must be taken to avoid unintended consequences.

The current landscape for retailers

Genesis agrees with the Electricity Networks Aotearoa that most distributors have made significant progress with the consistency of their tariffs.[1] Electricity distributor pricing structures are bespoke and complex in New Zealand. Consequently, Genesis would be concerned about mandating pricing structures, and considers the status quo, combined with further consumer education around the benefits of using TOU or non- uniform pricing is sufficient.

The Authority attributes the lack of pricing structure reform among distributors to retailers not incorporating features like off-peak rates into their pricing. However, numerous retailers, including Genesis, have already started implementing these features in services like our Energy EV plan.[2] If a non- uniform retail pricing signal does not exist, it is unlikely that a retailer would adopt this (non-uniform) structure as it reduces competition due to raising electricity prices for some consumers, effectively taking away consumer choice in the market.

Consumer choice is paramount to the provision of services

Electricity prices have been dynamic for decades, yet there is little evidence to date to show consumer uptake of dynamic pricing due to the risk of price volatility. On this basis, Genesis considers passing through network costs to the end- user in this instance is not something that will appeal to the market en masse. It is entirely possible, even likely, that this will change but it is better to allow this to be value-driven rather than mandated towards a centrally desired outcome.

Regarding non-uniform target development, retailers should have the freedom to choose, given its direct correlation with energy billing. Over 90% of Genesis customers possess advanced metering infrastructure with half-hourly data available to support payment of network costs. Consequently, when distributors provide non-uniform rates (sans obligatory adherence to specific pricing methods) and retailers possess data, adopting these services is common. Therefore, Genesis supports distributors offering non-uniform tariffs on an opt-in basis, possibly with a permissive opt-out. This support stems not only from our substantial advanced metering coverage but also the flexibility it affords to consumers on legacy meter sites (unlikely to transition due to discussed

[1] https://www.ena.org.nz/submissions/previously-published-ena-submissions/2021-submissions-2/document/1011

[2] https://www.genesisenergy.co.nz/for-home/products/electric-vehicles?gclid=EAIaIQobChMIo-_GocPagAMVl28rCh3zOw4YEAAYASAAEgJLAPD_BwE&gclsrc=aw.ds

reasons below). This makes our interest in binding service agreements with distributors featuring mandatory structural pass-through arrangements low. Such agreements could be detrimental to retailers (particularly small business) and hinder our capacity to provide competitive services to consumers who are averse to non-uniform structures.

We agree consumers are familiar with traditional tariffs, and this may be impacting the appetite for non- uniform tariffs. While early adopters of electric vehicles (EVs) may seek out options with low-peak rates, the uptake of these types of flexible services for products will take time and require marketing, consumer education and retailer systems that will be able to deliver at scale. Retailers *often have billing systems that are relatively inflexible and costly to change*. Projects to upgrade systems often take time and resource. While we are aware retailers are developing processes to build more cost- reflective price signals, it will take time and investment to meet the needs required for the future of our system, including flexible services at mass scale.

Furthermore, Genesis strongly opposes mandating times and structures, as this prevents consistent consumer experience. It also adds retail cost (which can be passed onto consumers), for example managing new customer engagement, advertising, and product management. The Authority's analysis of good retail availability of non- uniform tariffs is accurate. We agree this is especially true for the electric vehicle market, for example, *Genesis' EV EVerywhere*[3] charging services provides consistent rates for time periods nationwide, offering a non- uniform option alongside our uniform tariffs. Yet, while this is the case, EV load is usually discretionary, which means it is easier for these customers to avoid peak tariffs.

As such, we believe uptake in non- uniform tariffs is growing, however due to the infancy of flexible services and development of new billing systems to cope with new pricing structures, we encourage officials to be cautious when introducing regulatory measures in this area.

We strongly agree with the Authority that there is a '*sweet spot*' between the benefits of cost-reflectivity versus the benefits of simpler consumer offerings. We also agree this may change as price signals strengthen. Foremost, our preference follows system efficiency and customer understanding and comfort.

Data and internal relays do provide Genesis with the opportunity to control hot water at an installation control point (ICP) level and therefore reward customers for using demand flexibility. Still, even where advanced metering is installed, there is a need for a data agreement, agreed usable formats for the flow of data, and use of data at a reasonable cost. Genesis has data provision agreements with the two major metering equipment providers (MEP), however each additional MEP has their own bespoke requirements that require additional tailored arrangements, which take time to implement with any cost spread over a marginally smaller customer base.

Genesis will continue to explore and offer products that we consider are most efficient for the market and valuable to customers. We consider the most pressing barrier many retailers are facing is providing system flexibility at scale. Furthermore, larger retailers such as Genesis are required to cater for customers where advanced metering is not installed, or they are on smaller networks due to locality. These customers have not always been served by new-entrant retailers. This means we are required to have systems that provide a range of options, which adds further complexity, and prevents us from moving to using only certain pricing structures.

[3] https://www.genesisenergy.co.nz/for-home/products/electric-vehicles/everywhere?gclid=EAIaIQobChMI_by_38PagAMVXiuDAx0CfgSVEAAYASAAEgKEWfD_BwE&gclsrc=aw.ds

Distributors offering pricing that consumers do not understand or want can also act as a barrier e.g., demand pricing. Consumer appetite around pricing arrangements is a key factor for retailers when entering agreements with distributors. Until retailers have further certainty around consumer preferences in this context, we believe retailers will be reluctant to adopt new products due to risk. This is because usually any perceived risk introduced by mandatory pricing e.g., rates, differentials, or timing, is mitigated by higher tariffs to consumers.

Avoid stifling innovation and development of future pricing structures

Concerning the response to distribution price plans amid distributor pricing structure reform, Genesis already provides EV plans for early adopters. Still, there are barriers impeding more efficient responses from these plans. Foremost, some retailers lack the technology or systems in place to manage the scale of flexibility services due to costs and development time. Consumers benefiting from flexibility services tend to have higher engagement and understanding of complex pricing, thus reaping tangible rewards from such plans due to their tactical energy consumption. In contrast, traditional consumers usually consume less energy, possess fewer products capable of accessing/providing flexible services, and exhibit less inclination for change, like adopting a smart meter. Consequently, certain non-uniform price structures from distributors are challenging for retailers to adopt, as they may disadvantage a portion of our customer base.

Nevertheless, over 90% of Genesis' advanced meters are submitted on a half- hourly rates profile, and this proportion continues to increase. We also pay network tariffs using non- uniform rates where both half- hourly rates and residual profiles are used. The profile is neither an incentive nor disincentive for Genesis to pass through non- uniform distribution pricing. Residual profiles often mean retailers cannot hold interval data and therefore cannot pass through a pricing signal.

If the disclosure of methodologies was more transparent around estimating the cost consequences of peak and off- peak price signals, and retailers were able to better grasp how distributors reached their pricing as a result, we could utilise this information for upcoming investment and deferral costs, which would enable more efficient alternatives for demand- side services. For example, currently prices are tied to distributor ripple control, including for hot water cylinders and EV wall charging, which we consider may be a narrow solution. We consider a portfolio approach of platform- agnostic pricing in addition to product agnostic pricing may serve more efficiently as this would widen the scope of how both retailers and distributors can make products more efficient.

Moreover, a permissive approach fosters innovation and is likely to grow uptake of non- uniform pricing. We caution against deviating from this approach as it could curtail consumer choice of energy services. For instance, some consumers may refrain from installing an advanced meter due to old wiring in their home that may not accommodate it, living in remote areas impeding smart meter connectivity, or concerns about health effects. In some cases, substantial investment by the customer/landlord to upgrade their wiring or remove asbestos containing materials is required before AMI can be safely installed. Retailers must consider all customer preferences in their services, ensuring services and pricing options remain accessible for everyone. Accordingly, we do not support a prescriptive approach around distribution pricing as it does not influence our response to pass- through rates to consumers in the first place and is inconsistent with our consumer billing practices.

Genesis does not see that the issues identified in this paper are preventing us from paying networks on non- uniform rates or factor into why we do not pass through non- uniform rates. As noted above, we are aware that many retailers have taken steps to implement new systems to accommodate more non- uniform pricing from distributors, however new approaches can take time to implement as systems are only just catching- up to new pricing structures. Therefore, we encourage officials to consider the impact of current consumer demand and market signals, and the risk regulatory change may bring to groups who are unlikely to benefit from non- uniform pricing.

Avoid unintended consequences of penalising certain consumer groups

Genesis supports the '*do nothing*' approach or alternatively, extend scorecards to provide more guidance on tariff assignment. Non- uniform pricing is in its infancy in terms of consumer understanding and uptake, and retailers are presently not prevented from offering consumers non-uniform pricing if there is demand. In Genesis' view, unless there is clear failure in the market where competition is being prohibited and consumers are at a loss, we do not consider there to be a need for regulatory intervention. As this is a scenario where it is more about encouraging uptake to benefit consumers, we consider it hasty for the Authority to intervene with any regulatory measures that may lead to retailers being required to adopt certain pricing structures that may restrict our customer- base or leave vulnerable consumers more exposed to financial stress.

While numerous consumers can readily benefit from off- peak tariffs and non- uniform pricing, a significant portion cannot. These consumers are often vulnerable, residing in remote areas, or are disinterested in embracing new services. If distributors enforce mandatory measures because of regulatory changes, inflexible service users are likely to bear a higher share of non- discretionary load, leading to unavoidable higher costs. This could penalise these consumers for their inability to afford EVs or solar panels all the while subsidising those who can.[4]

Furthermore, we oppose the Authority's preferred approach. Genesis currently settles energy charges for over 90% of advanced meters with half- hourly profiles. Retailers also compensate networks for ICPs equipped with advanced meters, enabling non- uniform rates for eligible retailers with data. We consider mandating data usage for retailers (with minimal or no justifications) grants metering providers an unfair cost advantage over retailers and consumers, especially if the meter provider is network owned/prescribed. A consequence of this is compromising consumer choice in the market. Additionally, an unintended consequence of networks having no grounds for exceptions is that excessive metering expenses could be imposed on retailers, obliging them to devise customer-centred solutions.

Genesis also disputes whether residual profiles severely weaken incentive for retailers to manage energy and network by shifting demand. Residual profiles can be used by retailers to manage risk. The removal of these profiles may result in alternative risk mitigation measures, such as an increase in consumer pricing to manage periods of high volatility.

Furthermore, we do not consider residual profiles necessarily prevent access to data or reporting non- uniform tariff volumes to networks. Interval data from a communicating AMI connection still exists under a residual profile with potential for a retailer to share this data with distributors and third parties. Genesis has a small proportion of advanced meters that communicate with residual profiles. Traditionally, we have not included these in our non-uniform network tariff reporting data for these sites, however this has now changed due to evolving processes in response to Distributor requests.

Lastly, we consider a sinking cap would increase marginal costs as sites that do not have AMI have increasingly significant reasons or costs preventing change. For example, Genesis has found some

[4] https://www.aer.gov.au/system/files/Argyle%20Consulting%20and%20Endgame%20Economics%20-%20Battery%20tariffs%20-%20Network%20tariffs%20for%20the%20DER%20future_0.pdf, p12.

homes still have asbestos, which prevents our staff from installing advanced meters, alternatively, we have also found some customers do not trust advanced meters and the use of their data, which also prevents instalment and uptake. As such, there are some circumstances where there are no practicable solutions and leaves a portion of consumers without the benefits that others would access if the Authority chose to control retail or distribution pricing noted in options (c.) (e.) and (f.).

Final comments

Genesis appreciates the opportunity to respond to the Authority on matters of distribution pricing. While we understand the benefits of non- uniform pricing structures, we caution the Authority against developing prescriptive regulatory measures in this area without close consideration of the costs and the ability of those bearing them to pay. There is a risk of isolating certain consumer groups, particularly those that are vulnerable and unable to access flexible services due to higher product costs (e.g., EVs are $68,000 on average[5]) or personal beliefs. We believe that the impact of this outcome will also place further costs onto those consumer groups.

Furthermore, we consider that if the Authority progresses from providing guidance or extending scorecards, it could place pressure onto retailers that do not have the capable systems to manage HHR profiles and new pricing structures. These risks impacting competition unless suitable transitional arrangements are in place.

Finally, while Genesis appreciates the Authority's intentions and considerations around distribution pricing, we think it is important to strike the right balance between encouraging the uptake of flexibility services and limiting costs on providers (and, it follows, consumers). Genesis supports the continuation of guidance being provided to the sector, and possible extension of scorecards and monitoring while the market is still developing. This approach would continue to encourage businesses and consumers to adopt system and services, whilst not isolating certain consumer groups.

Yours sincerely,

Byron Weaver
Energy Delivery Manager
Genesis Energy

[5] https://autolife.co.nz/electric-vs-petrol-cars-costs-savings/#:~:text=Motor%20Trade%20Association%20(MTA)%20Advocacy,new%20EV%20is%20significantly%20higher.