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Dear Tim

## Targeted Reform of Distribution Pricing

1. This is a submission from the Major Electricity Users' Group (MEUG) on the Electricity Authority's (the Authority's) issues paper "*Targeted Reform of Distribution Pricing*"<sup>1</sup> published for consultation on 5 July 2023.
2. MEUG members have been consulted on the approach to this submission. This submission is not confidential. Members may lodge separate submissions.

### Context for MEUG members

3. MEUG's members connect to the electricity system in a variety of ways – some businesses connect directly to the transmission system, some are direct connects to the distribution network, while other members connect through a retailer, like many consumers across New Zealand. Our members collectively engage with many of New Zealand's 27 electricity distribution businesses (EDBs).
4. Alongside the provision of secure and reliable supply to members' businesses, we are interested in the pricing structure for large industrial and commercial customers, the capacity of networks to meet future demand, the level of investment in the network, and the connection process for new or relocating businesses. Greater engagement with EDBs will be increasingly important as businesses move to electrify process heat and transport, in line with the Government's climate change targets.
5. There are three key issues for MEUG when considering our interactions with EDBs and distribution pricing:
  - a) A lack of transparency around how distribution pricing is established, including how costs are allocated amongst customer groups.
  - b) Inconsistency in how EDBs operate across regions, including how they consult and share information on distribution pricing and the connection processes for new

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<sup>1</sup> [https://www.ea.govt.nz/documents/3367/Issues\\_Paper\\_-\\_Target\\_reform\\_of\\_Distribution\\_Pricing.pdf](https://www.ea.govt.nz/documents/3367/Issues_Paper_-_Target_reform_of_Distribution_Pricing.pdf)

connections or expansion / reduction in capacity requirements.

- c) How EDBs are passing through the new Transmission Pricing Methodologies (TPM) charges to customers.
6. We discuss these issues below, as well referring to the focus areas discussed in the Authority's issues paper.

#### Lack of transparency and consistency around distribution pricing

7. As set out above, MEUG's biggest concerns with EDBs and pricing relates to a lack of transparency around the pricing process and a lack of consistency in EDBs practices and information provision. These issues are particularly apparent for MEUG members who have operations across the country (for example, Fonterra and Countdown), and it highlights the variation in both the performance and customer-focus of EDBs.
8. We observe that there is very little direct engagement from some EDBs regarding yearly pricing updates and their pricing methodologies. We set out below some observations of recent experiences across our members:
  - We have observed widely different pricing approaches adopted by EDBs. Some EDBs simply send out letters setting out the new prices for the coming year, with no consultation and limited explanation ("take it or leave it" approach).
  - In contrast, some EDBs, such as Powerco, take the time to meet with customers and consult openly on their pricing. This often involves a clear presentation that steps through the drivers for pricing changes and the methodology.
  - One EDB has tripled their distribution charges to a MEUG member over the last four years, with no material change in the sites' Anytime Maximum Demand (AMD).
  - Some EDBs have indicated that the percentage of price increases not been equal across all customer segments and residential increases have been lower.
  - Some members have struggled to get information from EDBs (describing some interactions as "challenging and defensive"), and it has been difficult to understand the underlying calculations to support tariffs.
  - Some businesses have had to source independent advice to understand the approaches to an EDBs pricing, as communication was very limited.
9. When it comes to **target revenue allocation**, MEUG acknowledges the concern that some consumer groups may be paying more than their share, as evidenced in the 2019 Electricity Price Review,<sup>2</sup> and as discussed in our submission on Wellington Electricity pricing.<sup>3</sup> We agree with the Authority's statement that "*some very large businesses may have the option of connecting to the transmission network instead of the distribution network. Overly high allocation of shared costs to such businesses could prompt inefficient connection behaviour*".<sup>4</sup> In principle, parties should connect to the network where it makes economic sense, and it meets the capacity requirements of the business or site. It would be disappointing if an unbalanced allocation of costs would

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<sup>2</sup> Paragraph 6.12 of the Issues Paper.

<sup>3</sup> Paragraph 6.14 – 6.15 of Issues Paper.

<sup>4</sup> Paragraph 6.16(d) of the Issues Paper.

hamper the move to greater electrification.

10. However, without transparent and well-communicated information, it is difficult for customers to understand how target revenue is allocated and if these allocations are subsidy free. We would support greater guidance and direction being provided by the Authority, and the option of call-in backstops if progress was not being made in this area.<sup>5</sup>
11. With the move to greater electrification, the **process and pricing for connections** is also an area of interest to MEUG. As the paper notes, there is a great variation in the share of capital contributions required by EDBs, and some EDBs have concerningly required new customers to “*contribute to the cost of upgrading capacity beyond their immediate connection.*”<sup>6</sup> MEUG members have experienced this issue when working on both greenfield and brownfield projects, with EDBs requiring members to pay disproportionately high costs to expand a network’s overall capacity in an area (beyond what is needed for a particular project or site). Also, with large Time of Use (ToU) sites, pricing is most often “price on application” (POA), with members noting that the process can be very uncertain.
12. The connection process was an area of debate through the recent consultation on the Commerce Commission’s draft decisions for the 2023 Input Methodologies (IMs) review, and the specific proposal to introduce a large customer connection “(LCC) mechanism. As noted in our submissions<sup>7</sup> to the Commerce Commission, we support a new LCC mechanism that can “provide a timelier option and process for customers looking to enter into large contracts with EDBs”. However, we and other parties have raised concerns about:
  - The risks of EDBs utilising their bargaining power, as even large customers have limited bargaining power when negotiating connections.<sup>8</sup>
  - How we can ensure relative consistency across connection processes.
  - How there are currently “limited incentives [for EDBs] to seek out efficiencies”<sup>9</sup> with the new connections falling outside of the Regulated Asset Base (RAB).
13. The Authority notes the linkages of this work with the Commerce Commission and how both agencies have “*recognised the need to increase regulatory focus on connection pricing*”.<sup>10</sup> MEUG would welcome greater coordination between the two agencies and would encourage the Authority to consider Contact Energy’s recommendation to “*establish a joint project between the Commission and the Electricity Authority to set the appropriate rules and incentives for connection costs.*”<sup>11</sup> This would ensure the

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<sup>5</sup> As discussed in 6.25 to 6.27 of Issues Paper.

<sup>6</sup> Paragraph 7.16 of the Issues Paper.

<sup>7</sup> MEUG’s primary submission here [https://comcom.govt.nz/\\_data/assets/pdf\\_file/0021/323139/Major-Electricity-Users-Group-MEUG-Submission-on-IM-Review-2023-Draft-Decisions-19-July-2023.pdf](https://comcom.govt.nz/_data/assets/pdf_file/0021/323139/Major-Electricity-Users-Group-MEUG-Submission-on-IM-Review-2023-Draft-Decisions-19-July-2023.pdf) and cross-submission here <http://www.meug.co.nz/node/1307>.

<sup>8</sup> See paragraph 17 of MEUG’s submission to the Commission, [https://comcom.govt.nz/\\_data/assets/pdf\\_file/0021/323139/Major-Electricity-Users-Group-MEUG-Submission-on-IM-Review-2023-Draft-Decisions-19-July-2023.pdf](https://comcom.govt.nz/_data/assets/pdf_file/0021/323139/Major-Electricity-Users-Group-MEUG-Submission-on-IM-Review-2023-Draft-Decisions-19-July-2023.pdf)

<sup>9</sup> Page 4, Contact Energy submission, [https://comcom.govt.nz/\\_data/assets/pdf\\_file/0015/323115/Contact-Energy-Submission-on-IM-Review-2023-Draft-Decisions-19-July-2023.pdf](https://comcom.govt.nz/_data/assets/pdf_file/0015/323115/Contact-Energy-Submission-on-IM-Review-2023-Draft-Decisions-19-July-2023.pdf)

<sup>10</sup> Paragraph 7.10 of the Issues Paper.

<sup>11</sup> Page 3, Contact Energy submission, [https://comcom.govt.nz/\\_data/assets/pdf\\_file/0015/323115/Contact-Energy-Submission-on-IM-Review-2023-Draft-Decisions-19-July-2023.pdf](https://comcom.govt.nz/_data/assets/pdf_file/0015/323115/Contact-Energy-Submission-on-IM-Review-2023-Draft-Decisions-19-July-2023.pdf)

Authority can best select the options in its “regulatory toolset” to collectively drive change in this area.

#### Concerns with pass-through of TPM charges

14. MEUG’s main concern with distribution pricing is the pass-through of transmission charges from the new TPM, and the extreme price increases that many members with Time of Use (ToU) sites have faced from this change. Communication of this change before 1 April 2023 has been varied from EDBs, with increases from 40% up to 190% in transmission charges observed, often with limited explanation.
15. As the paper summarises, MEUG has raised concerns with how EDBs have implemented the pass-through of TPM charges, often going against the Authority’s guidance. We have observed issues with:
  - The allocators used to determine the allocation of transmission charges, with the use of kWh rather Anytime Maximum Demand (AMD).
  - The use of lagging demand figures, which can penalise customers who have substantially changed their operations (i.e., downsized processes).
  - Uncertainty around how the Authority’s guidance was to be applied and concerns on how an EDB could seek a deviation from the guidance.
16. MEUG would support the Authority’s introducing the call-in backstop in this area, so that the pass-through of TPM charges does not work against the pricing principles sought by the Authority, and its current guidance on TPM pass-through.

#### **Inconsistency between focus of the TPM and distribution pricing**

17. We note that with the move to the new TPM and the removal of the Regional Coincident Peak Demand (RCPD), there is actually less of a focus on peak demand, which seems counter to what the Authority is seeking through distribution pricing. We refer to the Authority’s own report that found that:

*“...underlying peak consumption has been increasing. Peak consumption (the highest 300 total consumption trading periods) has been growing by between 10-20MW (or 0.4%) per year over the last nine years. However, the increase in peak consumption in 2022 was higher than this underlying growth would suggest and not accounted for by colder weather, given 2022 was a relatively warm year”.*<sup>12</sup>

18. We consider that this is an issue that the Authority must continue to monitor, to ensure that consistent signals are sent around the impact of peak electricity usage on the system. Transpower’s 2018 analysis<sup>13</sup> provides a rough example of what an increase in peak demand can mean for network investment.

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<sup>12</sup> Page 2, The impact of the RCPD charge removal on peak demand, Electricity Authority, [https://www.ea.govt.nz/documents/2338/The\\_impact\\_of\\_the\\_RCPD\\_charge\\_removal\\_on\\_peak.pdf](https://www.ea.govt.nz/documents/2338/The_impact_of_the_RCPD_charge_removal_on_peak.pdf)

<sup>13</sup> [https://tpow-corp-production.s3.ap-southeast-2.amazonaws.com/public/uncontrolled\\_docs/TCC-workshop-pre-reading-2018-Grid-Owner-case-studies-relating-to-RCPD-removal.pdf?VersionId=azO7Mc220FXGzEINn1p3u\\_Sd\\_Q0TAyyK](https://tpow-corp-production.s3.ap-southeast-2.amazonaws.com/public/uncontrolled_docs/TCC-workshop-pre-reading-2018-Grid-Owner-case-studies-relating-to-RCPD-removal.pdf?VersionId=azO7Mc220FXGzEINn1p3u_Sd_Q0TAyyK)

**Next steps**

19. We look forward to engaging with stakeholders and the Authority through the cross-submission process and the industry workshops scheduled for September. If you have any questions regarding our submission, please contact MEUG on 027 472 7798 or via email at [karen@meug.co.nz](mailto:karen@meug.co.nz).

Yours sincerely



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