

15 August 2023

**Submissions
Electricity Authority
PO Box 10041
Wellington 6143**

E-mail: distribution.pricing@ea.govt.nz

ISSUES PAPER – TARGET REFORM OF DISTRIBUTION PRICING

Network Waitaki welcomes the opportunity to provide our comments to the issues paper on “*Target Reform of Distribution Pricing*”. We also generally support and agree with the submission by the Electricity Networks Association (ENA).

We appreciate the intent of the Authority in this paper to highlight areas of possible improvement in distribution pricing, which the Authority believes may not be cost-reflective and may not lead to efficient network use or investment.

Our responses to the questions are contained in Appendix 1.

We are generally concerned about the wide scope of issues in this paper that have been identified to require some type of intervention by the Authority, as well as the depth and detail in which the Authority could possibly intervene in these issues. Overall, the underlying message conveyed is one of a heavy-handed regulatory approach because of a perception that the pricing guidelines and scorecards are seemingly not succeeding in incentivising rapid network price reform.

The issues paper suggests that there are several “problems to be solved” relating to price reform but with not much clarity on the basis for it, nor the extent of it. For example, Network Waitaki has not been aware of the depth of the concerns raised in this paper. In our view, we have endeavoured to reform distribution pricing as quickly as possible (while managing adverse customer impact) and have responded in our pricing methodology to all messages received from the Authority on our pricing scorecard since pricing reform commenced.

We note the Authority’s comment that no decisions have been made and that the paper merely refers to options being considered with possible Code Amendments to be proposed by the end of 2023. However, from the tone of the paper it appears that the Authority have quite strong views already on these issues, and that the thinking towards further reform is well progressed.

Although we respond in Appendix 1 to the questions there are several issues that are of grave concern to Network Waitaki and that we would like to mention upfront, namely:

1. Connection pricing

We do not agree that connection pricing is becoming more important due to the step change in electrification - it has always been important. Network Waitaki, like many Electricity Distribution Businesses (EDBs), has faced significant step changes in demand growth, and the required investment to meet increased demand, due to dairy and irrigation conversion which is very similar to the step changes now expected through decarbonisation electrification.

Connection pricing differing among EDBs is not surprising and forms part of each company’s overall strategy to achieve the objectives as set out by shareholders and management and forms a key part of the overall pricing strategies for an EDB. We do not agree with the issues paper that variation in practices contribute to a range of problems, rather it reflects the uniqueness of companies due to a

range of factors, including location, customer base, ownership, strategy, objectives, characteristics and network configuration. We do however agree that a standardisation of terminology will be helpful.

Network Waitaki is one of the six EDBs referred to in par. 7.16 that require customers who apply for a new connection or increase in capacity to contribute towards the cost of providing sufficient long-term network capacity (a 'connection levy'). This policy has been in place for a very long time and is based on the principle of user-pays in a cost reflective manner and hence the following approach:

- A capital contribution to be paid upfront by a customer to fund investment in assets for the exclusive use (except capital cost of transformer funded by Network Waitaki) by the customer.
- A connection levy to be paid by a customer requiring new/additional capacity to contribute to the cost of providing sufficient long-term network capacity (typically upstream capacity at subtransmission and zone substation level). In effect, the new customer requiring additional capacity will erode the spare capacity on the network and hence a connection levy is payable at a level that:
 - Is reasonable enough to incentivise new investment and economic development in the region and ensure prudence in planning and design for long term network development by Network Waitaki (as reflected in the Asset Management Plan (AMP));
 - Creates an equitable balance between customers requiring new capacity and existing customers contributing through lines charges;
 - Mitigates the risk of stranded assets should that load disappear in future; and
 - To avoid uneconomic bypass.

Hence, our analysis has shown that a funding ratio of 40:60 (upfront connection levy to lines charges) provides a reasonable balance between upfront recovery and long-term recovery through lines charges.

The policy also provides for flexibility on payment terms depending on the risk of investment.

We are concerned by the tone of the paper regarding this matter and would like to caution that extreme interventions (e.g. to prohibit connection levies) by the Authority can lead to unintended consequences, e.g. prohibition of connection levies could result in existing customers in effect contributing twice, once through connection levies previously paid, and going forward through higher lines charges subsidising new access seekers.

To put it in perspective. Electricity demand in the Network Waitaki supply area has doubled over the last two decades due to dairy and irrigation conversion necessitating investment in distribution assets to ensure a reliable supply. Existing customers in the Network Waitaki supply area who connected new load through that time have all contributed in terms of the provisions of the capital contributions policy in place. To now abolish connection levies and increase line charges to fund growth investment would result in these customers paying twice.

Capital contributions are but one parameter in a whole set of parameters used in determining pricing strategy and pricing levels – a significant change in the application of one parameter has a flow-on effect on all the variables that are used to achieve the company's objectives as set out in its Statement of Corporate Intent. These flow-on effects could have significant impacts on customers and introduce fairness and equity issues.

We also note that the paper appears to be favouring Electric Vehicle Charger connections which could be due to the Minister of Energy's expectations as set out in par. 7.12. However, the expected "wave" of decarbonisation and Electric Vehicle Charger infrastructure that will require capacity is analogous to the "wave" of dairy and irrigation conversion of a decade ago.

Network Waitaki follows a load agnostic principle and perceives any notion to benefit a certain type of customer as discriminatory and not in the interest of the overall consumer base. For example, we would ask the question as to why must existing network users subsidise EV charging stations getting connected without connection levies?

2. Peak period price signals

At the very least, the issues paper, on this topic, is puzzling and we found the messaging on it contradicting past guidance. We have always understood and agreed with the guidance that volumetric (c/kWh) charges do not reflect the underlying cost base of an EDB which is largely fixed and unrelated to energy volumes conveyed. Based on this issues paper, it appears as if the Authority may have shifted its view to volumetric charges as a way of incentivising customers to change behaviour regarding usage of electricity.

In our view, cross-subsidies or wealth transfers between customer groups might arise when prices do not reflect underlying costs, or it could create perverse incentives. Consider a situation of congestion with a very high congestion charge (c/kWh) based on Long Run Marginal Cost as suggested in the paper. Consumers will be encouraged to change usage patterns and as expected may be incentivised to invest in Distributed Energy Resources (DER) such as batteries and rooftop solar PV. This will result in lower average energy consumption from the network in the congestion time period due to generation and self-consumption by DER customers with the burden on customers without DER and without discretionary load having to pay the congestion charge.

Once the network upgrade becomes inevitable and the investment is made the high congestion charge will reduce to 0 c/kWh. How must this then be explained to consumers who have reacted to the congestion signal by investing in other technologies only to find the signal disappeared in a few years' time. In the meantime, the consumers who cannot change load have been penalised through higher charges in the short term.

The direct costs to operate an EDB are driven by the size (capacity) of the network required to meet peak demand and the assets required to serve the geographic area. The volume of electricity (kWh) conveyed across the network has no material impact on the cost of operating the network.

We do not regard the use of volumetric charges (c/kWh) as an efficient signal in distribution pricing. Managing load (e.g., hot water, Electric Vehicles) through load control during congestion periods is a better measure and more efficient and does not provide potentially confusing signals to consumers. If congestion had to be signalled via a charge, a demand charge during congestion periods is more acceptable and reflective of cost and could be based on the size of a customer's connection as a proxy for demand where real-time demand data is not available.

2.1 GXP pricing.

We are concerned about the preference expressed in the issues paper to prohibit GXP pricing. We note that there is no proposal to abandon the monthly reconciliation process and utilise trader metering at the premise as the sole basis for industry settlement. If trader metering is not sufficiently reliable or accurate to use for industry settlement without a third-party reconciliation process, then why should we accept that our revenue should be based solely on that same unreliable and inaccurate metering?

If the Authority require us to bill volume in terms of quantity and value per ICP we can do so even though we are GXP pricing. We do receive the Electricity Industry Exchange Protocol (EIEP) data from each Retailer to do this. However, we will continue to include the adjustments made to retail metered volume through the Reconciliation manager's process. Hence, retailer metering will be scaled accordingly, so that the volumes billed match the volumes that the Reconciliation manager tells us passed across our network for each retailer's customers.

Only at such stage as the Reconciliation Manager process is discontinued and the generation, transmission and retail participants are ready to accept each other's metering without requiring independent reconciliation can we be confident that the volumes being told to us each month by retailers are correct. Until then, the retailers do not believe this, so why should we?

3. Target revenue allocation

The recommendation referred to in par. 6.10 on pass-through of Transmission charges to be based on GWh is perplexing. The new TPM is very clear that charges are intended to be fixed-like, i.e., a user should be unable to alter its liability for the charges by altering its day-to-day use of the network.

For the residual charges specifically the new TPM intended that it be allocated among load customers in a way that reflects their size (as a proxy for ability to pay) and that updates be based on a lagged 4-year average demand. As stated during the TPM consultation process, the size of the grid (and therefore level of investment) is determined by the maximum demand it is required to supply, not by the energy volume conveyed. Energy volume conveyed does not define the size of the grid connection required but is now being chosen as the preferred method for allocating costs at distribution level.

We note that the explanation (footnote 58) seems to be that using historical demand (in line with the TPM) could result in lower allocations to large industrial consumer groups and higher allocations to residential and small non-residential consumer groups. It comes across then that when the new TPM principles do not fit the required narrative then the rules can be changed so that a volumetric based allocation is acceptable again.

We agree with the MEUG quote in par. 6.14 which is consistent with the intent of the TPM – using AMD, or a proxy of AMD, as an initial allocator with subsequent annual updates using lagged energy use.

3.1 Residential Consumer Groups

We disagree with the option considered in par. 6.23(c) to require EDBs to have a residential consumer group and set bounds on allocation outcomes (for example, the ratio between residential and small non-residential prices).

Similar and consistent with our principles in the Capital Contributions policy, Network Waitaki's price structures are load agnostic, i.e., set according to the main cost driver - capacity required by customers and not the user category they are in, e.g., residential, business or agriculture.


We recognise that different user types will have different After Diversity Maximum Demand profiles, but the cost to move energy at different times during the day is the same, irrespective of the user. How are pricing consumers differently based on their response to an energy charge efficient?

In summary, we would like to stress that Network Waitaki recognises, supports, and takes very seriously the reform of distribution pricing. We understand the Authority's concerns and intention to ensure that distribution pricing does not inhibit the transition of New Zealand to a low emissions economy, however in our view, the preferred solutions proposed in this consultation are not required to enable this.

We implore the Authority not to resort to interventions that require a heavy-handed form of pricing regulation which requires a significant resource base to manage it, at significant cost and probable unintended consequences, with no obvious benefit to consumers.

For any questions or clarifications on our responses please be in contact.

Sincerely



Cornel van Basten
Regulatory Manager

Appendix 1

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

Of the three options, the continuation option is more acceptable. The Distribution Pricing Principles provide sufficient guidance and the scorecards must contain the Authority's review outcomes and recommendations on each EDB's pricing reform. Network Waitaki has understood the scorecards to contain the Authority's assessment of its pricing reform, and has acted upon the feedback conveyed in it, as well as the face-to face meetings with the Authority to address concerns and recommendations on our pricing reform.

In our view it should only be in situations where nothing else worked and there is absolutely no reaction from industry that a more heavy-handed approach as suggested through the "control" and "call-in" options could be considered.

In the Distribution Pricing Practice Note Second Edition v2.2, 2022 (p. 14) (DPPN) the Authority acknowledged that *"bill shock and impacts on customers are strong motivators to customers' acceptance of change"*. Par. 66 states that *"shocks are not a desired outcome of pricing reform and the Authority is cognisant of the need for prices to evolve on a journey towards efficient outcomes, rather than rush to an endpoint. We will have some patience with price reform once it is clearly underway, to allow customers to adjust, technology to assist, and distributors and retailers to manage good customer engagement and to learn and evolve towards what is best for their networks and customers."*

In the DPPN (p. 31) the Authority expressed their expectation that EDBs should *"have clarity on their optimal process and at a minimum undertake the first steps from the April 2022 pricing year..."*

Hence, as per these acknowledgements, and expectations in the DPPN from the Authority, and with no scorecard or EDB specific feedback released during 2022, it is surprising that these heavy-handed options are suggested without obvious and justifiable evidence and reasons.

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

In our view a light-handed regulatory approach should be followed as far as possible.

Control option. The Control option is not supported. Although it could seem like a possible solution for the Authority to amend the Code to prohibit / enforce certain distribution pricing approaches to achieve its objectives we foresee the possibility of unintended consequences occurring. This option is rightly referred to as "heavy-handed" in the issues paper. It implies the Authority taking on a more operational role, requiring a significant amount of information about all 29 EDBs' circumstances, customer base and network configurations to ensure that none of the Code amendments have detrimental impacts on businesses and customers. These amendments could consequently be complex and as the consultation state be *"open to a broad range of interpretation"*. Also, it might have to change as the industry evolve with new technologies and electrification to ensure it remains fit for purpose. All requiring great resource and cost to the consumer without an obvious benefit.

Call-in option. The Authority should continue with its existing monitoring and enforcement powers rather than prescribing more and more obligations and punitive measures. There has been no case currently that Network Waitaki is aware of where distribution pricing has to a large extent prohibited investment or encouraged over-investment of new technologies. The issues paper also do not provide any evidence to that effect.

Our view is that pricing methodologies should continue to be assessed against distribution pricing principles as currently prescribed in par. 2.4.3(2) the Electricity Distribution Information Disclosure Determination 2012 (consolidated July 2023).

We find the process of assessment, feedback and active engagement between the Authority and EDBs is more constructive than mandating of compliance.

In our view, the only reasonable option is the Continuation option.

The “Control” and “Call-in” options goes to a situation where, in our view, the Authority would end up micro-managing EDBs which will require additional resources at significant cost, and not to consumers’ long-term benefit.

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?

We do not agree that a volumetric (c/kWh) TOU price is efficient. The distribution price component makes up only a small part of a consumer’s retailer bill, and to have any effect, a TOU tariff must be significant to elicit a change in a consumer’s electricity usage behaviour and will therefore penalise those consumers that do not have the means or capability to change usage.

In our view load control prices are more effective.

To control the load during high demand periods (pre-defined and emergency conditions) customers are encouraged through a lower price option (controlled price option) to allow certain loads to be controlled by the EDB. From the network’s perspective there is then no uncertainty about participation volumes on the day, and no impact on revenue that could lead to unplanned profits or losses (as a result of high kWh congestion pricing) – all factors relevant for pricing (such as customers on load control prices) are known and form part of price design and price setting to achieve the required revenue. Hence, load control results in a mutually beneficial arrangement with savings to the network on the one hand of not having to provide for additional distribution capacity and customers paying lower controlled prices. At present Network Waitaki targets hot water cylinders, which have the ability to store the heat through control periods. In future, and when the functional flexibility of smart meters and smart control devices become available to EDBs, battery charging, and electric vehicles could be included under controlled loads. Also, devices such as air conditioning and refrigeration equipment could introduce even more load types with enough thermal inertia to make it suitable for control.

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

Yes, we believe it could have a number of unintended consequences – some technical impacting the network, and also for vulnerable customers.

In terms of network congestion, TOU pricing could shift peak demand to another time period, creating a different peak.

But the main issue we see with TOU pricing is that it is a one-sided volume charge (kWh), only focussed on the time at which energy is consumed without taking into account the utilisation of capacity. Thus, a congestion TOU charge benefit consumers who have more discretionary

consumption but who are more responsible for underutilised infrastructure, and who tend to contribute to peak demand through more discretionary consumption.

The unintended consequences that are created include:

- Cross-subsidisation between consumers because the cost of underutilised infrastructure is spread across all energy consumers, rather than being focussed on those consumers with discretionary load who are mainly responsible for the congestion.
- Encouraging consumers to reduce electricity consumption at peak times and to shift discretionary consumption to off peak periods where possible. However, it unfairly penalises those consumers that have limited capacity to change their consumption behaviour, such as large households or consumers with high non-discretionary consumption. This could lead to poor outcomes for vulnerable customers who may opt to not heat their homes or cook food during peak times. This behaviour has been seen on networks who have introduced strong peak demand pricing signals.

Electricity prices should not be designed to restrict consumers from consuming electricity when they need to but should reflect the actual costs of supply and then allow consumers to optimise their position by making trade-off decisions between energy use and cost.

Our view is that from a consumer's perspective, the management of load during congestion is better served by taking control of the load to switch it on and off as required by automated means. The pricing signal generally resides in a preferential price for customers who allow certain loads to be earmarked as interruptible, and to have a contractual arrangement to allow the EDB to switch such a load within agreed parameters. Hot water cylinders on ripple control relays are the most popular arrangement at present and are highly effective at achieving this outcome.

Also, with increased numbers of EV batteries distributed across and plugged into the network, and more sophisticated software available to manage the hardware, the possibility to manage congestion using EV batteries will become more and more attractive, possible and influential.

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?

See comment in Q3B.

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?

No, we mostly do not agree.

We do not agree with the current situation assessment and par. 4.19 with the generalised conclusion made from an "initial review of recent pricing materials". Network Waitaki has articulated and motivated its pricing approach in the pricing methodology based on the circumstances and characteristics of its network, which included responding to issues identified by the Authority in the 2021 pricing scorecards.

In par. 4.20 and 4.21 concern is expressed with reference to an analysis by Concept Consulting but no details provided as to how the analysis was done to enable us to provide comment on the observations made.

We agree with the point made in par. 4.26 that load control as a measure to address congestion is useful.

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

No, we do not agree. The problem statement contains “appears to be little progress” and “...little evidence...” with no substantive evidence. In Network Waitaki’s case the main price signal is sent through a capacity-based charge and we manage load through hot water load control.

During the past years, in response to our pricing reform, as consumers in our supply area became aware of the price impact of a connection that is not optimal for their usage needs (typically too large), they have adjusted their installed capacity to an optimal size for their needs. This highlights that consumers will act in response to appropriate pricing signals.

To influence behaviour a peak period volumetric charge will have to be of a significant magnitude. In our view this does not incentivise the optimal investment behaviour by consumers who may invest in other technologies, to find the peak demand charge heading towards 0c/kWh in the future once the network investment has been made and the constraint is alleviated. In addition, such a charge penalises those consumers who use their connection optimally (i.e., in terms of utilisation and not peaky) but do not have discretionary load that they can shift during certain times.

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

We do not agree with the preferred “standardisation on ICP pricing” as set out in par. 4.29(f). Network Waitaki does billing based on GXP volumes and as explained in the introduction of our submission (page. 3) there is nothing that prevent us to state billed volume in terms of quantity and value per ICP. However, we will **continue to include in our billing the adjustments made to metered retail volume through the reconciliation process by the Reconciliation Manager. We will scale trader metering accordingly, so that the volumes we used to bill retailers match the volumes that the Reconciliation manager reports as having passed across our network for each trader’s customers.**

We note that there is no proposal to abandon the monthly reconciliation process and utilise trader metering at the premise as the sole basis for industry settlement. If traders and generators will not settle based solely on their respective metering, then why should an EDB settle for less?

We agree with the risk highlighted by the Authority in par. 4.30 of the introduction of higher prices during peak demand periods. This is what we referred to in our answers to Q3B and Q5. Ultimately, the aim should be to have price structures that reduce the total energy cost to society, not to:

- restrict consumers from using electricity when they need to nor
- penalise those consumers with good utilisation of their installed capacity and that have limited capacity to change their consumption behaviour. In our view, this is what will happen with significant kWh charges during “peak” times.

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

We are supportive of option 4.31(b)

We disagree strongly with par. 4.31(c) – prohibiting GXP pricing will not solve anything in our view (see introduction and response to Q6).

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

We proposed that the Authority retain the current approach **and provide a LRMC model so that there is a common understanding across all EDBs of what the Authority’s view is of a LRMC model.**

We do not agree with the suggestion to introduce heavy-handed regulatory approaches referred to in par. 4.32, i.e., “control and call-in” as backstops. These measures can only be considered when there is specific evidence of harm to consumers due to “incorrect” distribution pricing which can’t be resolved by other methods.

Par. 4.34 again uses “no GXP pricing” as an example of a control that the Authority could mandate. We do not understand the emphasis on “no GXP” pricing as GXP pricing does not prevent any type of pricing, instead it provides a source of information for both an EDB and retailers of the true volume usage during a certain period from the reconciliation manager. See our response to Q6.

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?

No comment, except that we continue to find the emphasis of the Authority on volumetric (\$/kWh) charges perplexing and in contradiction of messages in the past. We agree with the “Relevance” column in the table in par. 5.2 that “*Volume charges are more likely to inefficiently influence network use than alternatives such as fixed...charges*”. Also, we agree with the reference in par. 5.9 to the recent open letter from the Authority where EDBs are encouraged to increase use of fixed charges and to avoid recovery of costs that are fixed in nature through use-based charges.

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

We agree that material volumetric charges for off-peak usage is not efficient, but with the LFC regulation restrictions this will remain until these regulations are phased out.

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

Generally, we find the advice and guidance on pricing quite contradictory as shown in the comments below.

Par. 5.19 is in contrast with the new TPM. The new TPM is clear that charges are intended to be fixed-like, i.e., a user should be unable to alter its liability for the charges by altering its day-to-day use of the network. Therefore, residual charges are based on a customer’s historic gross AMD and then updated on a lagged basis by volume usage. However, in par. 5.19 the view is that EDBs should not use customer AMD to recover residual cost.

In terms of par. 5.20, it is not clear what is meant with “allocation metric” in the context of the discussion at this point in the report. In terms of non-distortionary fixed charges, Network Waitaki cost base is largely fixed and does not respond to energy volume transported over the network – our cost is fundamentally driven by the size of our network required to meet peak demand and the geography we serve. To produce a long-term non-distortionary pricing signal related to the peak demand capacity and cost of the network requires a pricing variable that captures the long-term impact of each customer on the network peak demand. The pricing variable that best captures this long-term impact relates to the size of connection as chosen by the customer, within the available connection size options made available by Network Waitaki. This variable does not change from year to year through short term considerations that impacts on annual consumption of a customer.

The most appropriate pricing signal for Network Waitaki, within current constraints are related to capacity (volume agnostic) which defines the long-term stable maximum demand of a customer. In addition, load control measures are available through ripple controlled hot water to manage peaks by time shifting residential hot water load. This is also available for emergency load reduction which in our view is essential to support system security, as recently observed during Transpower Grid Emergencies.

In terms of par. 5.21 Network Waitaki replicates the TPM method using consumers’ historic gross AMD (for non-standard plans) with changes to the AMD based on lagged volume usage – at the time of TPM consultation we argued against this method as our understanding was that residual charges should be fixed-like and unavoidable, i.e., based on gross AMD. However, these arguments were rejected. Thus, residual charges can change for a customer if consumption changes drastically which in any event in our view goes against the whole intent of the TPM.

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

“Do nothing” is the recommended option. As noted in par. 5.22(a) “*there is evidence of EDBs rebalancing away from off-peak usage charges...*”

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

The preferred approach in par. 5.23 is acceptable, without the threat of “control and call-in backstops” while the LFC regulations are still in place.

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?

No, we do not agree with the assessment. The section commences with par. 6.11 that states “The Authority has not seen evidence...” Does this mean that the work that was done by EDBs to comply with the guidance in DPPN 2021¹ is not correct? If so, we have had no communication to that effect. For example, Network Waitaki has developed a Cost of Supply model and pricing design model for FY2024 based on the principles of DPPN2021. In our view, this is evidence of “*a purposive approach to allocating target revenue between consumer groups.*”

We also agree with the submission of the MEUG referred to in par. 6.14 as that is clearly the intent of the TPM. The fact that an exact pass-through will result in poor outcomes for some customers

¹ Distribution Pricing: Practice Note Second Edition, 2021. Page 5.

(for which the information exists and to whom it can be applied) are neither here nor there, because potential consequences were highlighted during the consultation phase but rejected.

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

No, we do not agree. See response to Q14.

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

No further comment, except that clear guidance and examples of exactly what the Authority mean with cost allocation will be helpful. Network Waitaki followed the guidance in the DPPN as we understood it, which from reading the general message from the issues paper may not be what is required.

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

No, the "do nothing" option in par. 6.23(a) is preferred.

We recommend that the Authority refrain from involving itself in prescribing or mandating allocation metrics, consumer groups and in general the level of detail referred to here.

We do not agree with the prohibition or mandating of specific approaches in par. 6.23(c) especially the Authority mandating EDBs to have a residential consumer group. Network Waitaki follows a load agnostic approach in its network pricing, i.e., consumers are allocated into various load groups based on their contracted connection capacity and not what they use the electricity for. Differentiating consumers based on who they are or what they use electricity for will introduce inefficiency and subsidisation. For example, putting in place a residential consumer price plan will for a start mean that those consumers operating a business from their home will probably qualify for the residential consumer price plan. Hence, they'll be able to justify being on any plan, either a business plan or a residential plan whatever benefits them the most.

The network's cost is driven by the size (capacity) of the network required to supply peak demand. Charging customers for the size of their connection (irrespective of whether they are a business, residence or community hall) aligns the pricing for connecting to the network with the cost of providing the connection which provides an effective price signal to customers. This price signal incentivises customers to optimise their contracted capacity which in turn enables the EDB to optimise the size of the network.

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

The option in par. 6.26 of more support from the Authority is sensible.

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?

We do not agree with par. 7.5 that connection charges are "becoming more important due to the growing volume of activity from access seekers..." Connection charges have ALWAYS been very important. Reading this section, one could get the impression that the Authority may be of the opinion that an EDB considers connection charges as a separate parameter divorced from other financial and operational parameters and the overall pricing strategy of the company.

Network Waitaki does not follow a piecemeal approach to connection pricing. Instead, it holistically considers strategic matters such as system growth investment, pricing strategy, company

strategy, growth scenarios, business improvement initiatives and resources. Connection charges are one of the levers that are considered as part of a whole basket of levers to be utilised to achieve the company objectives as set out by its shareholder, which in our case represents the consumers.

Connection charges are, in our case, an essential part of funding system growth investment which if not funded through capital contributions and connection levies would require funding from all other network users which is a clear socialisation of costs and is completely in conflict with the Authority’s principles of cost reflective pricing.

Network Waitaki experienced a step change in demand due to dairy and irrigation growth that resulted in a doubling of electricity demand (from 29MW to 63MW) in the network supply area between 2000 and 2018. This is not dissimilar to the expected EV charging “explosion” alluded to in the issues paper. Network Waitaki follows the principle of being agnostic regarding end use, it is not the EDB’s role to pick and choose between different types of consumers. Hence, connection charges have been an important part of funding the growth together with lines charges through:

- Capital contributions based on the user-pays principle – subsidy free and cost-reflective,
- Connection levies set to:
 - Be reasonable enough to incentivise investment and economic development in the region,
 - establish an equitable balance between new and existing customers’ contribution through lines charges,
 - avoiding uneconomic bypass, and
 - mitigating the risk of stranded assets.
- Being flexible on payment terms depending on investment risk

We agree with par. 7.6 that First Mover Disadvantage is a matter to be addressed. Network Waitaki has had situations like this where capital contributions have been reapportioned as more consumers connect to a network extension which has originally been funded by others.

We do not agree that the context presents new challenges as alleged in par. 7.7. Network Waitaki had to deal with step changes in system growth due to steep demand growth in the past.

We agree that connection pricing arrangements are important as stipulated in par. 7.8 and that is why Network Waitaki has always endeavoured to follow the Authority’s pricing principles closely and in a cost-reflective manner in conjunction with the user-pay principle:

- (a) **“Allocation of costs between access seekers and existing network users”** Network growth and customer-initiated work on Network Waitaki’s network is funded primarily on a user pays basis that supports the EA pricing principles and cost-reflectivity.
- (b) **“Incentives for distributors to ensure connection costs are efficient”**. The point is made by the Authority here that full recovery of connection costs becomes a pass-through and there is no incentive for EDBs to contain costs. As a consumer trust owned business, we work to ensure connection costs are fair and reasonable as the feedback loop is strong and immediate if price and/or service levels are out of alignment.

Our consumers have a direct means to express their views on Network Waitaki's performance through feedback to the business directly, via our Trustees (as representatives of our consumers) and ultimately through trust elections where performance is judged on whether Trustees are re-elected and whether polarising issues come to light.

- (c) **“Incentives for access seekers to ensure costs are efficient”**. Agree with this point. It is essential for Network Waitaki that access seekers invest in the optimal size connection for their needs. In the end, Network Waitaki's cost is driven by the size of the network and if the size is optimal, the cost to consumers overall will be optimal. It is therefore important that capital contributions and connection levies reflect the underlying cost and hence investment in an appropriately sized connection.
- (d) **“Transaction costs for access seekers and distributors”**. Agree with this point. Network Waitaki reviewed its capital contributions policy in 2021 with the main aim of setting out in a user-friendly, easy to read, clear and concise manner the requirements for and circumstances under which capital contributions and connection levies are payable. A separate policy implementation guide was developed for internal use which provide more detail and ensure consistent application of the policy by staff.
- (e) **“Incentives for distributors to optimise growth costs”**. An EDB's Asset Management Plan (AMP) reflects the network investment the company envisages over the next decade; it doesn't happen in a reactive and incremental way (as suggested in the issues paper). Network Waitaki is not “heavily reliant” on connection levies to fund system growth investment. Connection levies together with the other measures in the company's financial strategy toolkit provides for an optimised investment approach.
- (f) **“Coordination incentives”**. Prevention of “First mover disadvantage” forms part of Network Waitaki's capital contributions policy.

Network Waitaki is one of the six EDBs referred to in par. 7.16 that require customers who apply for a new connection or increase in capacity to contribute towards the cost of providing sufficient long-term network capacity. This point is essential for Network Waitaki to the extent that we have addressed it on page 1 of this submission in our introduction.

In par. 7.17 the point is made that there is a lack of standardisation between EDBs with variation in connection charge practices, all of which can raise transaction costs for access seekers. Figure 6 shows the relationship between % Capital Contributions vs connection investment spending. It should not be a surprise that there is a variation – not one EDB is the same, each has a different set of circumstances, customer base, network configuration, urban/rural environment, growth prospects, and other network characteristics. Different EDBs have different pricing levels and so some may be able to recover more through lines charges over the life of the connection compared to others, therefore requiring less up-front contribution. The ‘whole of life’ connection cost should be considered, and not just the upfront connection charge in isolation.

Capital Contribution policies have been in place for a very long time without any concerns expressed by the Authority. Any regulatory measures, such as mandates or controls need to be carefully considered to prevent unintended consequences. As stated in the introduction to our

letter connection charges are but one of the parameters used to ensure the company meets its objectives as set out by its shareholders, the consumers. Changing one parameter or prohibiting part of the charges in an EDB's capital contribution policy will have a flow-on effect on all the other factors applied in the company's funding toolkit – with the majority of existing consumers ultimately having to pay the price, e.g. having contributed in the past when making an initial new connection and now having to subsidise new connections through higher lines charges.

EDBs have followed the Information Disclosure requirements as set out by the Commerce Commission which includes reporting on compliance with pricing principles as they relate to connection charges.

We do see value in standardisation of terminology.

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

We do not agree that the problem statement in par. 7.18 is sufficient for the type of intervention implied – the Authority did not put a preference for any option but sees value in the full suite of intervention options (par. 7.36).

Connection pricing is not becoming more important. For Network Waitaki it has always been very important.

Our objectives for connection pricing are that:

- addition of a new connection does not make existing customers worse off either now or in the future by requiring:
 - a capital contribution on an actual cost basis from a customer connecting or requiring increased capacity for the customer's exclusive use (except capital cost of transformers).
 - a connection levy on a standardised basis from a customer where the investment will result in increased load or capacity on the shared network as a result of the customer connecting or requiring increased capacity.
- It facilitates regional growth and decarbonisation, incentivises prudent investments and operates consistently with the Authority's distribution pricing principles, cost reflectivity and Network Waitaki's pricing strategy.

We agree that there is a variation in practices and a lack of standardisation, similar to distribution pricing. However, this is a logical result as each EDB has designed and developed its capital contribution policy based on its own characteristics, network configuration and circumstances. Capital contribution policies have never had a prescribed format from any Regulator.

We do not agree that there is a deliberate lack of transparency. It may be a perceived lack of transparency, but is there actual evidence that an EDB have not shared details of its capital contribution policy where it was requested?

Par. 7.18. We are of the opinion that Network Waitaki's capital contribution policy is an efficient pricing approach:

- (a) **High transaction cost** – we have no evidence where demand in our region was deterred or frustrated due to our capital contribution policy. To the contrary, the capital contribution

policy was changed in 2021 to a user-friendly and easily understandable format. There is a lack of consistency with other networks, but as stated above this is a logical outcome as each business has developed policies based on their own circumstances.

- (b) **Overly high-cost allocation that may deter efficient demand expansion, including decarbonisation investments.** There has been no evidence that capital contributions have deterred investments in the Network Waitaki supply area. Where customers are faced with potentially high connection costs due to the location or nature of their new connection, Network Waitaki is open to **consider alternative commercial terms and have done so in the past to the concerned parties' satisfaction. We have evidence of three decarbonisation projects where alternative commercial terms have been offered to assist the customer.**
- (c) **Weak (or no) incentive on distributors to ensure connection costs (as opposed to charges) are efficient.** We strongly disagree. It is crucial for Network Waitaki as a consumer owned EDB to support investment and commercial development in our region but also to manage the risk of stranded assets.
- (d) **Weak (or no) incentive on distributors to ensure system growth costs are efficient.** We disagree. Network Waitaki does not rely on connection activity to fund system growth investments. Our AMP is very clear on the expected growth scenarios over the next decade.
- (e) **Weak (or no) incentive on access seekers to ensure costs are efficient.** Disagree. Network Waitaki's connection charges are based on a user-pays principle and hence incentivises access seekers to invest in an optimal connection for their needs.
- (f) **Weak incentives for parties to coordinate connection and associated system growth investment.** It is not clear what is meant here. System growth investment forms part of a planning process (see Network Waitaki's AMP) which is linked to expected connection growth.

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

We couldn't identify from the consultation document a particular pricing approach preferred. We do not agree with par. 7.20 that an access seeker pay less than 100% of dedicated asset cost.

We agree that a balance must be reached and our response to Q20 as well as introductory comments on connection pricing explains our view of a balanced pricing approach.

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?

No further comment. Agree with the ENA submission.

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

No other options recommended.

Par. 7.30(d) refers to pass-through of transmission charges which does not fit in the context of connection pricing.

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

The best support will be the “do nothing” approach with guidelines on standardisation of terminology.

We disagree with the suggestion in par. 7.32(b) that *distributors may prefer the status quo because change can be costly and disruptive and they have incentives to rely on contributions to an inefficient extent*. In Network Waitaki’s case the capital contributions policy has been in place for many years. It has served the region well during times of significant irrigation and dairy growth. It would be inequitable (for reasons set out in the introduction and also responses on questions regarding Connection charges) for consumers if significant changes to capital contribution policies are mandated based on perceptions that the Regulator has instead of hard evidence of any issue or “wrongdoing” by EDBs.

We do not agree with the heavy-handed regulatory approach proposed in par. 7.33. Using these broad-brush enforcement approaches could have unintended consequences and huge impacts on customers and EDBs during a time when stability is required in the face of anticipated change.

Par. 7.34 is highly concerning as it refers to mandating / prohibiting specific approaches to *achieve a rapid improvement in the overall efficiency of connection pricing*. This type of intervention into a practice that has been in place for decades has the potential to disrupt the balance of capital contributions, connection levies, lines charges and create an uncertain environment for investors in our region - if rules can be changed overnight after decades of stability.

We are concerned about the reference to EV charger connections in par. 7.37. It appears that the main reason for the focus on capital contributions policy stem from a need to incentivise and benefit these types of connections, seemingly from a specific group lobbying for lower cost outcomes for their own benefit, and pushing those costs onto other network users. It is odd that during the years of agricultural load growth, namely high irrigation and dairy growth, the same focus was not placed on capital contributions policies. As mentioned before Network Waitaki is load agnostic – all new connections are treated in a consistent non-discriminatory manner.

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?

No further comment

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)?

No further comment. All Network Waitaki customers face time-varying charges.

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

Support ENA submission.

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

Support ENA submission.

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?

Support ENA submission.

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

Support ENA submission

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

Support ENA submission