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Electricity Authority
By e-mail: distribution.pricing@ea.govt.nz

Submission: Targeted Reform of Distribution Pricing Issues Paper

Please find attached Waipā Networks submission for the Targeted Reform of Distribution Pricing Issues Paper.

Any questions or queries regarding the submission can be directed to myself.

Yours sincerely



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Submitter	Waipā Networks
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Questions
<p>Q1. Are there other options that you think the Authority should consider?</p> <p>Waipā Networks supports the ENA submission regarding this issue with no additional comment.</p>
<p>Q2. Do you have any comments on the options outlined?</p> <p>Waipā Networks supports the ENA submission regarding this issue with no additional comment.</p>
<p>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?</p> <p>Waipā Networks agrees that TOU tariffs alongside load control tariffs will be useful in managing peak demand. Load control (managed by the Distributor) is the more effective because experience to date shows Retailers typically absorb TOU price signals making them ineffective. In fact, Waipā Networks is only aware of two Retailers who offer mass market retail TOU plans on our Network despite TOU distribution pricing to applying 80% of our ICPs.</p> <p>Smart load control, versus customers making use of off-peak time periods through timers, also mitigates the risk of creating new network peaks due to Distributors being able to stagger on/off times.</p>
<p>Q3B. Do you consider that TOU pricing could have unintended consequences for congestion on the LV network?</p> <p>Elasticity in residential demand is fairly limited given the timing of needs such as cooking and heating. However TOU in isolation (without the use of smart load control) presents some risk, if through the use of timers for EVs for example, customers created a new peak at the start of the off-peak time period. Given current EV uptake and Retail TOU price plans are both low, risk is equally low at present.</p>
<p>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?</p> <p>Shoulder pricing could mitigate some of the risk by lessening the impact of the peak/off-peak price differential assuming the shoulder period immediately precedes the off-peak one. But the materiality is impacted significantly by the price differentials seen by the end user. Retail price plans typically do not reflect Distributor TOU time periods regardless of whether a shoulder period is present or not. A more common Retail TOU plan is the “free hour of power” type offering, which do not align with Distributor TOU price signals.</p>
<p>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?</p> <p>Waipā Networks somewhat disagrees with 4.19(a) as our Pricing Model that was developed in 2021 analysed TOU demand at the consumer group level which then informed our decision to adjust our TOU time periods in 2022. The Model also allowed us to assess the level of cross-subsidy between location (GXP level) and consumer groups. As indicated in our 2023 Pricing Methodology, Waipā Networks has begun a 3-year transition to adjust price allocators and remove cross-subsidies between consumer groups.</p> <p>Waipā Networks disagrees with 4.19(c) as 1) TOU pricing, which we introduced in 2016, by its very nature rewards flexibility and we offer significant differentials between our peak, shoulder and off-peak rates, and 2) our Controlled rate is offered at a significant discount.</p> <p>With regards to 4.19(d) we do not understand what the Authority means by “limited attention” as medium to large non-residential customers were amongst the first groups to have both capacity and TOU-based charges.</p>

<p>Q5. Do you agree with the problem statement for peak period pricing signals?</p> <p>Waipā Networks agrees that many customers remain on uniform usage tariffs but disagrees with the implication that this is driven by Distributors. Waipā Networks has made the adoption of TOU mandatory with exceptions only where there is no smart communicating smart meter present, or the Retailer billing system (as advised by the Retailer) is not capable of providing the data. Waipā Networks has granted exemptions to approximately 20% of ICPs of which half relate to the Retailer’s billing systems.</p> <p>The reason that many (if not the vast majority) of customers remain on uniform Retail tariffs is that the majority of Retailers as standard practice choose not to reflect Distributor TOU pricing signals in their Retail plans.</p>
<p>Q6. Do you have any comments on the Authority’s preferred pricing for peak periods?</p> <p>Regarding 4.29 (d) Waipā Networks supports flexibility competition as a principle but not at the expense of quality of service to customers. If prices should not be tied exclusively to an Distributor’s own ripple control as the Authority suggests, then the Authority needs to consider the increased cost to consumers through managing multiple platforms and control methods to ensure quality of service levels are maintained.</p>
<p>Q7. Are there other options you think the Authority should consider for improving peak period pricing?</p> <p>No comment.</p>
<p>Q8. Which if any of the above options do you consider would best support distribution pricing reform around peak pricing signals and why?</p> <p>Waipā Networks prefers option 4.31 (b), refine practice note and extend scorecards, as providing more detailed guidance and feedback through the practice note/scorecard method will help achieve the Authority’s objectives. While there is merit in principle with some of the approaches listed in 4.31 (c) most of these would be unworkable unless the proposed Distributor regulation were also accompanied with Retailer and MEP regulation from the outset.</p>
<p>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?</p> <p>Waipā Networks has very few ICPs with a legacy Night Only plan. The vast majority of ICPs have an off-peak price as part of our TOU plan however customers do not see the price signals as Retailers either do not pass these through, or provide them as opt-in.</p>
<p>Q10. Do you agree with the problem statement for off-peak pricing signals?</p> <p>We disagree with the problem statement. The Authority does not define what constitutes and a “material” charge but more importantly assumes that customers are actually exposed to Distributor price signals however Retailer pass-through is the exception rather than the norm.</p>
<p>Q11. Do you have any comments on the Authority’s preferred pricing for off-peak usage?</p> <p>Waipā Networks disagrees with the Authorities assessment of AMD. We believe it is an effective measure of the capacity requirements to serve those customers it applies to. Although there may be occasion where a customer’s AMD is not aligned with network peaks, the capacity requirements for transformers and conductors still apply. Customers may chose to invest in technology that lops their peaks as the Authority suggests, however this reduction in peaks also results in a reduction in capacity requirements. We also note that, in the case of Waipa Networks, all price plans with an AMD component also have a TOU component that signals network peak costs.</p>
<p>Q12. Are there other options you think the Authority should consider for improving off-peak pricing?</p> <p>No comment.</p>
<p>Q13. Which if any of the above options do you consider would best support distribution pricing reform around off-peak pricing signals and why?</p>

<p>Waipā Networks supports option 5.22 (b), extend practice note and score cards to address off-peak price signals, as opposed to (c) or (d) as we disagree with the Authority's view on AMD.</p>
<p>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?</p> <p>Waipā Networks supports the ENA submission regarding this issue with no additional comment.</p>
<p>Q15. Do you agree with the problem statement for target revenue allocation?</p> <p>Waipā Networks supports the ENA submission regarding this issue with no additional comment.</p>
<p>Q16. Do you have any comments on the Authority's preferred pricing?</p> <p>Waipā Networks supports the ENA submission regarding this issue with no additional comment.</p>
<p>Q17. Are there other options you think the Authority should consider for improving target revenue allocation?</p> <p>Waipā Networks supports the ENA submission regarding this issue with no additional comment.</p>
<p>Q18. Which if any of the above options do you consider would best support distribution pricing reform around targeted revenue allocation?</p> <p>Waipā Networks supports the ENA submission regarding this issue with no additional comment.</p>
<p>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?</p> <p>Waipā Networks agrees with the assessment of the current situation and context.</p>
<p>Q20. Do you agree with the problem statement for connection pricing?</p> <p>Waipā Networks disagrees with aspects of the problem statement. There are no identified examples provided for a) or b). With regards to c), Waipā Networks believes that efficient connection pricing should ensure that those who are creating the cost should bear the cost as opposed to the wider customer base. This means that the connection costs should be recovered through capital contributions. While we acknowledge there could be concerns around a lack of incentives to ensure costs are efficient we do not believe that funding connection costs primarily through capital contributions is in itself an issue.</p>
<p>Q21. Do you agree with the Authority's preferred pricing approach for connection charges?</p> <p>Waipā Networks agrees with 7.27 with regards to greater consistency between Distributors with regards to terminology, processes and approaches but notes that considerable work is already underway in this area through the likes of ENA and the Northern Energy Group.</p>
<p>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?</p> <p>Waipā Networks agrees that increased information regarding assets and capacity will benefit access seekers. Distributors including Waipā Networks are investing in network information systems and planning tools to improve this area.</p>
<p>Q23. Are there other options you think the Authority should consider for connection pricing?</p> <p>No comment.</p>
<p>Q24. Which if any of the above options do you consider would best support distribution pricing reform in the area of connection pricing?</p> <p>Waipā Networks notes that this is the first time the Authority has indicated it wishes to address connection policies and as such its views are very high level and lacking analysis of the flow on effects for some of the changes it is proposing. It would therefore be inappropriate to prohibit or mandate certain approaches and as such Waipā Networks prefers 7.30 (b), extend practice note and scorecards to address connection pricing methodologies, following further detailed consultation with Distributors.</p>

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 Authority should work to better understand consumer preference for pricing in general. Feedback to Waipā Networks from Retailers and Customers has been that simpler pricing is preferred. The prevalence of service bundling (eg electricity, gas, telecommunications) has shown a market for convenience and overall cost savings rather than granularity of individual costs, in particular when it comes to the distribution pricing component. It is therefore unlikely Retailers would voluntarily mandate distribution pricing signals in their customer plans so the Authority should regulate this.

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)?

Waipā Networks has already mandated TOU plans for AMI meters however has granted some exemptions at Retailer request due to limitations with their billing systems. These billing system exemptions amount to 10% of total ICPs. However, mandating TOU plans for Retailers does not mean that end-users see the time-varying charges as Retailers are under no obligation to reflect these in their price plans.

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

Waipā Networks believes the problem statement misses the key issue. Although some Distributors yet to introduce TOU pricing might be reluctant to due to a lack of Retailer pass through, the main issue is that the customers supplied by the 23 Distributors that have introduced TOU are not seeing pass through. The Authority requires Distributors to progress pricing reform on the basis that this will result in more efficient and cost-reflective pricing to customers, but Retailers are not required to pass through this pricing, and will not, as evidence suggests there is little customer demand for it. Requiring Distributors to reform pricing, but not requiring Retailers to pass these through, simply increases compliance costs with no benefit to anyone. This is very inefficient. The problem statement should be that Retailers as a rule are not passing through Distributor price signals and will not unless regulated to do so.

With reference to 8.18 (b) we also believe that the Authority should consult with both Distributors and Retailers before assuming assignment policies are overly permissive as this will give a better understanding of the rationale for exemptions and where the issue lies.

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

Waipā Networks supports the Authority's view in 8.20 that retailers are billed on actual half hourly usage for energy and network costs for all ICPs with capable meters, while noting our comments in Q26 regarding exemptions.

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?

Waipā Networks has no further options to add.

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

Waipā Networks supports direct intervention in Retail pricing as this will ensure price signals are passed through and therefore ensure Distribution pricing reform is meaningful for customers. We disagree with the Authority's comment in 8.30 that intervention has the "risk of adversely impacting on competitive pressures that drive innovation, efficiency, and customer focus". We believe the opposite is true. Mandating that all Retailers must reflect distribution pricing signals (for example, by

requiring that Distribution pricing be a separate pass-through line on customer invoices) puts all Retailers on a level playing field and allows them to develop customer innovation and efficiency without negatively impacting Distribution reform and innovation.