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Submission to Targeted Reform of
Distribution Pricing

15 August 2023

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Submission and contact details

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Release of information

This version of the report contains no confidential information and can be publicly disclosed.



1 Introduction

Thank you for the opportunity to provide feedback to the Electricity Authority's (EA) "Targeted Reform of Distribution Pricing" consultation (**The Paper**). We agree with the need for cost-reflective prices, and we support the EA's Pricing Principles and Pricing Methodology. The Paper provides a good summary of the imperative for Electricity Distribution Businesses (**EDBs**) to transition to cost-reflective prices.

We note the EA's concerns about the pace of change. There are external factors and barriers that are slowing EDB's transition to cost-reflective prices, like the Low Fixed User (**LFU**) restrictions, the need to avoid price shocks and to transition prices slowly and the inability of some retailers to process actual consumption data into peak prices. We also think there are technical aspects which could benefit from further clarification from the EA, specifically the calculation of the long-run marginal cost (**LRMC**) and the subsidy-free range. Until these barriers are removed and the technical methodologies are developed, we don't think direct regulatory intervention is appropriate. We think that there is an opportunity for EDBs (via the Electricity Networks Association (**ENA**)) and the EA to work together to develop common pricing methodologies and common pricing processes to accelerate pricing reform. If EDBs still haven't started the transition to cost-reflective prices, then we agree that 'call-in' regulatory intervention would be appropriate to target networks that were lagging.

2 Regulatory options

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

The scorecard process provides an opportunity for the EA to provide targeted advice on how a network's prices are not cost-reflective and improvements they could make. The current scorecard process provides high-level guidance but is often light on specific changes that should be made.

Q2 Do you have any comments on the options outlined?

The pace of pricing reform is being set by external factors and care is needed not to impose direct regulatory intervention on pricing aspects that networks may not have control over, where pricing inputs are still being calculated or where intervention could indirectly impact consumers. External factors include:

- **Low fixed removed:** Current restrictions on fixed prices for low energy users are setting the pace of the transition from uniform, off-peak prices.

- **Peak demand price signals:** Networks are still finalising their Emission Reduction Plan (ERP) capital planning (the government's ERP is only 14 months old). Once they have settled on their medium-term investment plans they will be able to re-calculate their long-run marginal cost and peak period price signals. The capex planning process is a complex and significant work programme. Networks expect to have to provide the Commerce Commission with a final capex plan which includes their electrification expenditure by December this year in time for the DPP4 price rest.
- **Retailer billing processes:** Many retailer billing processes (including their billing systems) cannot process actual 30-minute consumption data into peak and off-peak periods. Currently, 85% of retailers are submitting consumption data in peak and off-peak time periods, up from 40% in March this year. However, we don't have visibility on whether this data is calculated using actual consumption data or whether it's estimated. A retailer can estimate a consumer's peak and off-peak energy use as an alternative to using actual data to calculate peak-period power consumption. However, this would mean consumers would not see any savings from changing their energy behaviour and are likely to lose confidence in using pricing methods like Time of Use (ToU).
- **Price shocks and price smoothing:** Networks also need to manage customer price shocks. Last year we consulted with retailers (as the consumer representative) on our future cost-reflective price structures and the impact of those changes. We asked whether we should transition our prices over time to allow consumers to adjust their energy behaviour, retailer price plans and budgets. We received strong feedback that we should be transitioning prices slowly. We are planning a gradual transition based on the agreed price caps. However, this will slow the pace of change.

Recent Transmission Pricing Methodology changes are also resulting in large price changes. TPM changes will also slow the transition to cost-reflective distribution pricing as we also have to manage these changes within the agreed price caps.

We believe the initial focus on price reform should be on ensuring an EDB has a Pricing Roadmap in place that provides their future price structures and the proposed transition path. If the EA is not comfortable with the pace of change, then guidance on transition rules would be appropriate.

The Call-in option and scorecard feedback would be the best tools for ensuring each network has strong Roadmaps. These options provide the EA with the flexibility to provide customised direction to

each network. Direct control would be difficult because of the complex nature of pricing and the need for a network to be able to select different pricing methods that best suit their network characteristics.

3 Peak period price signals

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?

Yes, we agree that a combination of ToU and load control tariffs provide a good minimum price structure for networks to start with. This is the approach we are taking for the reasons provided in the Paper.

ToU and load control prices are also price signals that retailers are most likely to be able to pass through to consumers. We trailed more complex prices (demand-based pricing) in 2018 as part of our EV charging trial and retailers were not able to offer it to consumers.

We also note that ToU and load control prices should be a minimum tariff structure and that EDBs may want to consider different pricing methods to support flexibility. For example, capacity bands were trialled in the United Kingdom to support managed EV charging and networks in Australia are considering different tariffs to support dynamic operating envelopes¹.

The EA will need to support the development of new controllable load services and other types of flexibility by ensuring large devices are registered and capable of participating in flexibility services.

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

ToU may create a second peak at the end of the evening peak congestion period if consumers all set their appliances to start once the peak ends. Consumer demand would have to change significantly for a second evening peak to exceed network capacity because of the sharp historic decline in demand at the end of the evening peak. However, Contacts 'free hour of power' provides an example of a retailer pricing plan which can create a significant change in demand that does create a second peak.

We believe that managed services will be more important for networks in the future because of their ability to optimise spare network capacity. We believe that managed hot water heating and EV

¹ A dynamic operating envelope provides upper and lower bounds on the import or export power in a given time interval for either individual DER assets or a connection point. Supporting tariffs would reward consumers for staying within the bounds.

charging services will provide the majority of an EDBs future load management and that ToU will be used as a backup to catch other appliances that can't be directly managed. We need support from the EA to incentivise or mandate large devices to participate in flexibility so that their aggregated use stays within a networks operating limits.

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?

Whether shoulder prices are necessary will depend on a network's load profile. In Wellington, we decided not to use shoulder prices because:

- The peak demand profile is very 'peaky' in Wellington and there isn't a shoulder period.
- Consumers changing their 'discretionary' load are most likely to do this using timers on appliances (e.g. EV charging, or dishwashers) and are unlikely to discriminate between a peak and shoulder.
- A daytime shoulder will over-signal the value of midday PV production.
- We considered it valuable to design a ToU tariff that was consistent with other networks to reduce retailer compliance costs. At the time we introduced ToU (in 2020) the majority of networks did not have shoulder prices.

What other ways could be effective?

As noted above, managed services will be the most effective tool for shifting peak demand and should be the focus for networks. Managed services can directly manage demand across off-peak periods avoiding any secondary peaks. ToU will still play an important role to capture electricity use that can't be directly managed, however, we believe that the residual demand shifted by ToU will not be large enough to create secondary peaks.

If ToU does create secondary peaks, then we would consider a shoulder price or changing the peak demand time period.

Q4 Do you agree with the assessment of the current situation and context for peak period pricing signals?

Yes, we agree with the assessment – it aligns with our own analysis of our legacy tariffs and has resulted in a new tariff structure which we consulted with retailers last year and will start the transition to in April 2024. Specifically:

Residential peak period price signals: While our peak period price signal is largely consistent between price categories (controlled, ToU peak and off-peak etc.) the strength of the price signal hasn't been updated for the revised emission reduction-related network growth. We will be finalising our 10-year capex programme for the upcoming DPP4 reset. This capex will include decarbonisation-related expenditure. We will be using this forecast to re-calculate our LRMC and price signal strengths. It is important to note that the government's ERP was only finalised 14 months ago in May 2022 and networks are only now in a position to be able to provide an updated capex to base an LRMC on.

Commercial peak price signals: Peak demand on the Wellington network tends to be driven by residential and large commercial customers. Applying ToU prices to small commercial customers hasn't been a priority for this reason. However, we consulted on ToU prices for small commercial customers last year and we are considering shifting to mandatory commercial ToU in April 2024.

Commercial price categories: We agree with the assessment that fixed daily charges are creating 'steps' between price categories. We are in the process of moving to a capacity charge to remove steps and the need for pricing bands (which are created by applying fixed daily rates). However, transitioning from our legacy prices to a new structure of a capacity charge (applied as a rate per KW of connected capacity) will take time due to the large price changes associated.

What if any other significant factors should the Authority be considering?

Key factors the EA should be considering are:

- EDBs are currently re-calculating their future capex profile to include decarbonisation-related expenditure. This is likely to result in a step change in growth capex and a higher LRMC. The government ERP was only finalised 14 months ago and networks are still developing their updated capex profiles for the upcoming DPP4 reset.
- Price signals for commercial small customers may not be a priority because small commercial customers may not be adding to the network peak.
- Legacy commercial price categories could take a long time for networks to transition from if they want to avoid large price shocks. Moving to pricing methods that remove the need for price categories (i.e. a capacity charge) will create price volatility.

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

The problem statement is generally correct but should be made in the context that networks have also recognised the need to apply price signals that reflect the cost of using electricity during peak demand periods and are transitioning. However, that transition is slow because:

1. The government's ERP has only recently been finalised and networks are only just now in a position to include the updated forecast in their LRMC calculation.
2. Retailers can't always pass those price signals through to consumers and often have to estimate peak demand use. Even if EDBs were signalling peak demand price signals, many consumers would not see the price benefits of shifting their demand.
3. Moving to the EA's new pricing methodology will create price shocks for consumers. The transition to new price structure and stronger price signals will take time if EDBs manage those price shocks.

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

We agree with the EA's preferred pricing as the end state. However, care must be taken transitioning before retailers and consumers are ready.

The risk of mandatory ToU without exceptions

We would support applying mandatory ToU with no exceptions if retailers could process 30-minute consumption data into peak and off-peak prices. We consulted with retailers about their ability to do this, and the feedback was they are developing their internal processes and billing systems to do this but it was expensive and would take time. The risk of applying mandatory ToU with no exceptions before they are ready is that some retailers would have to estimate peak and off-peak consumption and consumers may not see the benefits of shifting their electricity use. Consumers could lose confidence in ToU and the benefits of shifting energy use away from peak demand periods.

We have structured our prices so that we have the ability to charge higher prices to those not processing 30-minute consumption data, without penalising those who do not have smart meters. We plan to apply higher prices to incentivise retailers who can't process 30-minute consumption data to update their processes from 1 April 2024. We would not apply a price increase to ICPs without smart meters.

We would welcome the EA encouraging those retailers who still have to change their billing processes to make the needed changes. However, we would not support removing exceptions before those changes are made as we think it would damage consumer confidence in ToU.

Managing price shocks

Following feedback from retailers (as the consumer's representative), we are applying transition rules which limit the size of any price change to manage consumer price shocks. The change to cost-reflective prices is significant and will create price shocks if the transition is not made slowly over time.

For example, we made similar changes to transmission prices last year as a result of the new Transmission Pricing Methodology (TPM). Capping any price changes to a 10% change to any price category will mean it could take up to eight years before all of the changes are made (noting the majority of changes will take less time and its only a couple of price categories which would require a longer transition).

EDBs could make a faster transition but some customers would face very large price increases.

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

The EA could provide more detailed advice to specific EDBs as part of the scorecard process. This would provide networks with key focus areas in which to focus while avoiding the more onerous call-in approach.

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

We support option B with a plan to move to option D.

There are still aspects of the EAs pricing methodology that still need to be developed into a working methodology. Option B is the best option to support the development of practical tools to:

1. Develop an LRMC calculation methodology (as suggested in the Paper).
2. Expand the peak demand calculation methodology to also include flexibility payments to ensure price signals are also consistent with other methods for funding flexibility.

We think option D would be the best future option once:

1. The practical tools for calculating peak demand price signals have been developed.

2. Networks have finalised their decarbonisation-related capex profiles and have updated their LRMC calculations.
3. The LFU restrictions have been exited.

By this point networks should have the tools and data to accurately calculate a peak demand price signal and the EA could use the call-in function to police networks that haven't progressed their pricing reform.

We agree with the explanation provided in the Paper as to why direct regulation would not be appropriate. Specifically, we think direct regulation would make managing the transition path and customer shocks difficult.

We also note that the EA should be aware of the impact that the Real-Time pricing changes will have on a networks ability to shift hot water electricity use. The recent Real Time price changes will mean that the System Operator will have direct access to hot water control outside of an EDBs oversight. EDBs will provide customers with the same price discount for controlling their hot water heating but the devices may not be available as expected because the System Operator has already used the available load management capacity.

4 Off-peak period price signals

Q9. Do you agree with the assessment of the current situation and context for off-peak pricing signals?

This is an accurate description of off-peak charges. Reiterating the Papers narrative, the current LFU restrictions are the primary driver of off-peak prices for Wellington Electricity. As the LFU restrictions are lifted each year, we are reducing off-peak prices and increasing fixed prices. Our pricing 'end state' is to have a peak price, a fixed price and no off-peak price – the fixed price will be calculated as a \$ per KW of connected capacity. We believe this is a relatively straightforward transition.

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

Yes, we agree with the problem definition with the addition that the current LFU restrictions is driving the continued need for off-peak prices. Once the transition away from the LFU restrictions is completed, the need for off-peak charges will have been removed.

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

We agree with the problem definition.

We note that the subsidy-free range calculation (like the LRMC calculation methodology) is an area where the EA and networks need further development. An accurate subsidy-free range calculation is not trivial and a robust, commonly understood calculation hasn't been developed yet.

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

All options are captured.

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

We believe the best option is option b, sharpening the practice note. The exit of the LFC restrictions will continue to allow networks to decrease off-peak prices and increase fixed prices (or depending on the LRMC, increase peak prices). More formal regulation isn't needed until the LFU restrictions are removed and EDBs are free to make the required adjustments.

We agree that option d could be needed in the future once LFU restrictions are removed and if networks still have high off-peak prices. However, until LFU restrictions are exited, networks would not be able to comply with any formal regulation.

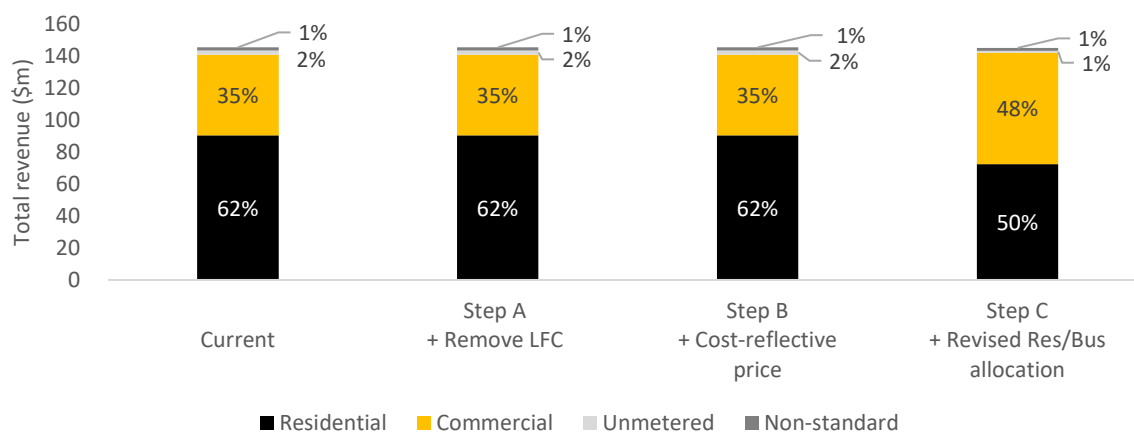
5 Target revenue allocation

Q14. Do you agree with the assessment of the current situation and context for target revenue allocation?

Yes, we agree with the assessment. Important aspects to re-iterate or build on are:

1. **The resulting change is a significant increase in commercial prices:** The change from a 'cost driver' approach to allocating revenue to customer groups using energy use and the subsidy-free range, creates the single largest pricing reform price change. Specifically, it shifts revenue from residential customers to commercial customers. The example provided from MEUGs feedback to our Transmission price change was just for the Transmission component of our prices and similar upcoming Distribution price changes will increase commercial prices even higher. Figure 1 below was from our retailer consultation last year which presented our proposed future price structure. The figure shows the change in revenue collected from residential customers and commercial customers for each of the key steps in our pricing reform. The change of the revenue allocation model creates the single largest change.

Figure 1 –total revenue impact of each component of the cost-reflective pricing reform



Step A is the impact of removing the LFU restrictions, step B is strengthening peak demand price signals and removing off-peak prices and step C is allocating revenue using energy use and the subsidy-free range.

- 2. Long transition:** Feedback from retailers (as the customer representatives) was that the transition to new prices should be smoothed. The size of the price change means that this could take a long time. Our modelling which assumes different price caps (from 5% to 10%) shows that some price categories could take up to eight years to transition. Note, we have legacy inconsistencies between some price categories which is also adding to the long-time frames.
- 3. The subsidy-free range adjusts the allocation for the cost of supply:** An accurate subsidy-free range is an essential step, and its importance is easily overlooked. The subsidy-free range test provides the cost of supply adjustment to overall revenue. For large commercial customers, it's this adjustment that ensures they are not paying for low voltage, distribution transformers and other low voltage assets these customers do not use. Practically it will shift some of the revenue allocated to commercial customers back to residential customers, reflecting that the cost of supply for residential customers will be higher than for large commercial customers because they require additional assets (e.g. a low-voltage network) to provide distribution services.

4. **Subsidy-free calculation:** Like the calculation for the LRMC, a common methodology for calculating an accurate subsidy-free test needs to be developed. As highlighted in the Paper, a subsidy-free test that results in a subsidy-free range that is too wide will not provide an accurate enough estimation of the cost of supply and commercial customers may then pay too much.

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

Yes we agree with the problem statement and would add that calculating an accurate subsidy-free range is not trivial and needs to be a focus area for both the EA (providing guidance and support) and EDBs (to develop a common calculation methodology). We believe the subsidy-free test is the least mature and least understood aspect of the new pricing approach.

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

No further comments.

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

Option B should include a stronger focus on the subsidy-free range test. We believe that EDBs need to develop a common methodology. The EA should provide feedback to ensure the common methodology aligns with the pricing principles.

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

We support Option B which provides more detailed guidance on the subsidy-free range and for the EA to provide feedback on a common calculation methodology. The ENA are well positioned to lead networks to develop a common subsidy-free methodology.

Until a common methodology is developed, direct regulation will provide little value. We would support option d once a common methodology has been developed and networks have had time to embed the methodology.

6 Connection pricing

Q19. Do you agree with the assessment of the current situation and context for connection pricing?

This is a complex subject because approaches towards customer capital contributions are dependent on a network's specific characteristics and future growth requirements. Many of the issues identified will not be applicable to many networks. For example, the majority of future growth on the Wellington network will come from existing connections (electrification of private transport and the electrification of gas use) and most parts of the network will be constrained and will need new capacity to meet this new demand². It, therefore, makes sense to fund future network growth from tariff revenue because all customers will benefit. However, other networks' future growth will come from new connections and upfront contribution may be the best funding option because only the connecting customers will benefit and including the cost of connecting in tariffs means the connecting customer may be subsidised by existing customers.

It is important for EDBs to retain the ability to design their customer capital contribution policies to best suit their own network requirements. We support the current requirement of demonstrating that the customer capital contribution policies align with the pricing principles. The pricing principles provide the test as to whether the policy is efficient and equitable.

What if any other significant factors should the Authority be considering?

A network's customer capital contribution policy must align with a network's allowances. Any change to how a network calculates capital contributions must also be reflected in their available allowances. EDBs have already submitted their capex schedules that will inform the network price reset and they have one more chance to adjust these schedules for any significant changes in December 2023. After December, networks will not be able to change their capital contribution approach without either reprioritising other capital projects, incurring regulatory penalties (networks will be penalised 25-35%³ of any overspend of their regulatory allowances) or the Commerce Commission allowing networks to reopen their price paths.

² The network was also built in the 1960's and so will also need replacing. Existing customers will also benefit from replacing the existing network.

³ The exact amount will depend on the cost saving incentive rates set as part of the default price path reset.

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

We disagree with the problem statement. We don't believe there is an issue with customer capital contributions for most networks. For example, most networks only require capital contributions towards the cost of connecting (including any reinforcement that only benefits the connecting customer) to a network. Connection costs only benefit the connecting customer and so we think it's fair that they pay for the majority of the cost. Most networks also make a small contribution towards the cost of connecting to help keep the cost of connecting affordable.

For example, we calculate customer capital contributions so that, on average, a customer will fund 60%-70% of the connection cost upfront, the remaining 30%-40% being funded by tariffs. This reflects a balance between a customer funding the costs that they drive and keeping connection costs affordable. Affordable connection costs benefit all network customers as it encourages more customers to join the network which spreads the network operating costs over a larger customer base. We have consistently applied this split of connection costs to reduce the likelihood of a connecting customer cross-subsidising other customers (and vice versa) over time (i.e. most customers connected to the network have had 30-40% of their connection costs funded by tariffs).

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

We note that the EA haven't developed a preferred approach yet and we note that narrative highlights that the best approach will be network dependent. For Wellington, we think our current approach is appropriate because:

- future growth will be from the existing connection and therefore network growth is included in the regulatory asset base and funded by tariffs;
- Customers connecting will be the primary beneficiary of the connection assets and should therefore fund the majority of that cost upfront.

However, we also recognise that other networks will have different characteristics and a different approach may be better suited. While we see value in aligning customer contribution policies, networks still need to retain the ability to adjust their policies to their specific needs.

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?

Capacity maps

As highlighted in our submission to the EA’s February 2023 “Updating the regulatory settings for distribution networks” consultation⁴, the capability needed to map current LV congestion and forecast future congestion will take time and additional regulatory funding.

To provide a meaningful static congestion map an EDB must first have ICP level data to provide the current network status (both the network capacity and power quality). An EDB then needs visibility of DER locations (EDBs currently only have the location of solar installations provided by the distribution generation application process) to forecast their impact of available capacity. There is no process to advise EDB’s or where large EV chargers are being connected. Specialised low-voltage ADMS software is then needed to combine the ICP and DER location data with spatial GIS data to provide the tools to forecast capacity constraints and model the impact of using flexibility services as a demand management response. Experience from our sister company shows this is a five-year development process and a significant investment. Networks will not be funded to start this development until April 2025 when the network price path is set.

We do agree that heat maps of network congestion could provide useful tools to provide access seekers with their own investment planning. However, this type of map should only be used for high-level guidance. An EDB will consider many other factors that won’t be included on the map when considering whether there is capacity to connect a customer.

Contractor pool

We don’t think a contractor pool of approved providers would provide customers with a better outcome:

- Currently, we tender large connection jobs and choose the least expensive. A customer also has the choice of selecting a supplier directly but then they wouldn’t benefit from a competitive tender process.
- We have a flat connection fee for small connections and carry the price risk of any cost variations. The flat fee is based on historical actual costs from tendered projects.

⁴ Page 14

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

No further options.

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

We support option B. The EA have yet to develop a preferred approach to customer capital contributions and we believe that they aren't significant issue for most networks. Until a preferred approach is developed, direct regulatory intervention isn't appropriate.

We also note the Electric Vehicle Charger Issues and Options case study provided in the Paper:

- Public EV charging is just one of the decarbonisation-related growth that networks need to manage and they are comparatively small in number compared to providing new capacity for home charging (where most, 80%, EV charging will occur), the electrification of gas and electrification of public transport.
- Implementing a special commercial model just for public EV charging will be expensive to manage and implement. It would mean ring-fencing regulatory assets and calculating specific charges for a comparatively small customer group. The accumulated costs across each network would make this expensive for this customer group.
- Networks haven't been designed to provide the large connection sizes of public EV chargers which limits where they can be connected. A 600kW charger is the equivalent load of 300 homes, reflecting that the load is large and can't be diversified. The long connection times reflect the challenges of identifying connection locations that have both the capacity to connect and meet the connecting customer's own requirements.
- Flexibility services using static or dynamic operating envelopes could provide a way for networks to provide services in constrained parts of a network. While the new connection may not always be able to operate without restrictions, flexibility services could provide a way to connect while new capacity is built.

7 Retailer response

Q25A. Do you agree with the assessment of the current situation and context for retailer response?

We agree with the assessment.

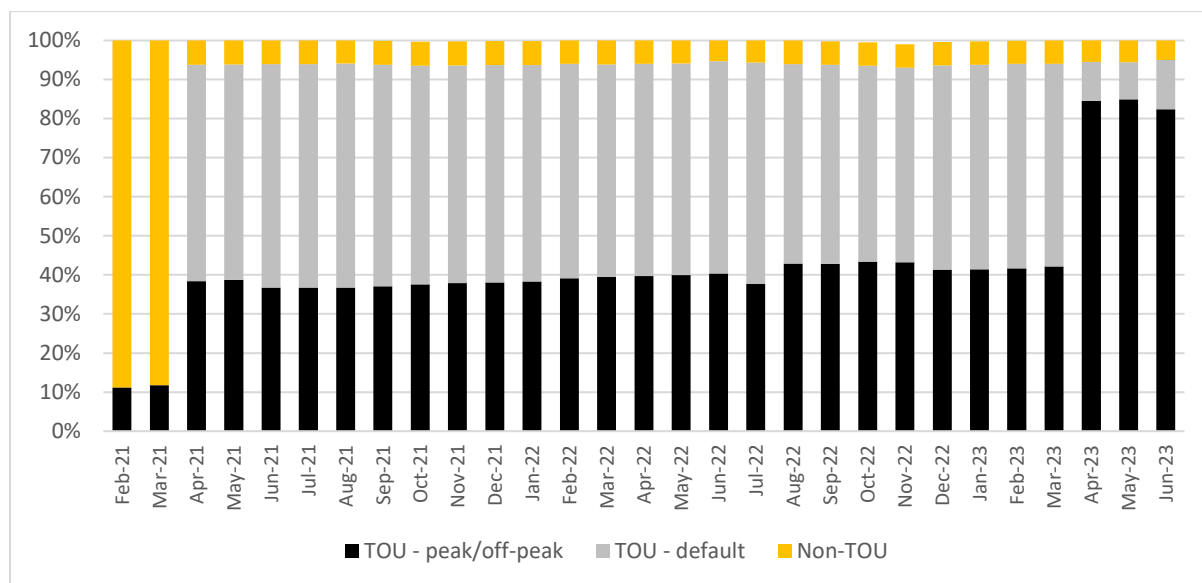
We would also add that it's important that consumers receive any benefits from changes in their electricity use. Retailers should not be required to apply non-uniform tariffs until they can do so based on actual use. It is important that consumers are confident that they will benefit from changing their electricity behaviour – if they don't benefit as expected, it could damage their long-term confidence in responding to price signals and participation in flexibility.

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)?

As above, we don't think retailers should be required to apply non-uniform tariffs until they can do so based on actual use. We also note that as of April this year, most (85%) of retailers are providing peak and off-peak consumption data and are participating in ToU prices. We provide anytime variable 'opt-out' pricing options for retailers whose billing processes can't process consumption data into peak and off-peak periods. We don't have visibility of whether the peak and off-peak data is based on actual consumption or estimates.

Figure 2 below summarises the proportion of customers providing peak and off-peak consumption data and those using our opt-out tariffs. There was a significant increase in retailers moving from our ToU opt-out tariffs to our Tou tariffs this year.

Figure 2 – Proportion of customers on ToU, ToU Opt Out and non-ToU (those without smart meters)



We have designed our tariff structures so that we can apply higher prices to retailers who aren't providing peak and off-peak electricity use based on consumption data, while not penalising customers who don't have smart meters. We haven't applied a price increment yet to provide retailers the time to update their billing systems. However, it has been three years since we first applied ToU prices, providing enough time for retailers to update their processes. We will consider applying a price increment from April 2024 to encourage the remaining 10% of customers with smart meters to submit peak and off-peak data.

We also have plans to apply ToU prices to small and medium commercial customers. Our Pricing Roadmap provides details of our future price changes⁵.

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

Yes, we support the proposed approach.

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

We support the preferred option. Customers must have confidence that they will receive the benefits of changing their electricity consumption habits.

⁵ <https://www.welectricity.co.nz/disclosures/pricing/future-pricing/>

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

No other options.

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

We support a combination of options 8.24, 8.26 and 8.28. Once retailers are billing on actual data, EDBs will have no need to offer 'opt outs' to ToU.

We agree that appliance or expanded control tariffs will be important going forward. EDBs will need to think about how control tariffs interact with flexibility payments. Our joint Resi-Flex innovation project with Orion is developing a commercial model that includes tariffs and payments for flexibility.

