

15 August 2023

Tim Sparks
Director
Network Pricing
Electricity Authority

Dear Tim,

Distribution pricing reform welcome

2degrees and Electric Kiwi support distribution pricing reform. The changes electricity distributors are making are largely heading in the right direction, but it is worth taking stock of whether they can be progressed faster, with starker peak/off-peak differentials, to ensure meaningful (and efficient) impacts on electricity usage decisions.

Network pricing reform can and should support the energy transition

We agree with the Authority that “Efficient distribution pricing can support an affordable transition to a low-emissions economy”.

The Authority view aligns with the commentary from MBIE in its energy transition omnibus consultation.

We similarly agree with the MBIE that “Changing the way New Zealand uses energy can also have multiple benefits. By consuming less or shifting the time of use away from peak times – for example through efficiency measures, or using smart charging devices for electric vehicles – we reduce the volume of new generation, transmission, and distribution infrastructure that is required. This will reduce costs, and reduce the environmental impacts that even renewable energy generation projects can cause”.¹

We also agree with MBIE “Efficient distribution pricing signals can help to incentivise efficient uses of distribution networks, including to load shift demand to support efficiency. This can lower overall costs for the provision of networks, providing for greater equity and affordability for distribution consumers”.²

The changes in the electricity sector make distribution pricing reform increasingly important

There will be substantial inefficiency (and, more importantly, unnecessary additional costs for consumers) if investment in capacity is required or required earlier than if there were clear (long-run) pricing signals for the cost of future investment. The Authority alludes to this with reference to the “window of opportunity”.

¹ MBIE, Measures for Transition to an Expanded and Highly Renewable Electricity System, August 2023.

² Ibid.

Distribution charges with high and, more particularly, flat volumetric structures³ don't tend to score well in terms of cost-reflectiveness. We agree with Mercury that these can send poor signals "leading to inefficient investment in new technologies ..."⁴

Electricity distributors should ensure their distribution pricing signals are sufficiently strong to drive behaviour that reduces network costs long-term. Our submission details that distributors shouldn't be distracted with how retailers pass these signals on to end-consumers. Retailers can take care of this. The important thing is retailers face the right price signals.

The longer reform is delayed the more consumers will have made investment choices based on current pricing and will find the economics of those choices are undermined once electricity distributors fully reform their pricing. We agree with Nova that "Given issues such as the falling costs and growth in investment in PV systems, it is very urgent that consumers receive the right signals on how much they can expect to benefit from such investments over the long term. It is not in anyone's interest for consumers to find out after they have invested in PV that their connection charges are not going to drop as anticipated."⁵

The new statutory objective is relevant to distribution pricing

Distribution pricing can give rise to serious equity and consumer protection issues.

There can be aspects of distribution pricing where efficiency and consumer protection reinforce each other, and other aspects where efficiency and consumer protection can be at odds.

The Authority's comment "Efficient distribution pricing can support an affordable transition" highlights distribution pricing can and does fit squarely within the same ambit as the Consumer Care Guidelines and general welfare concerns. Less affordable electricity will translate to some consumers going without and increases the chances they will get into trouble paying their bills.

The current high and flat volumetric distribution charge structures can distort consumer decisions and result in inequities whereby consumers who cannot afford investment to reduce network-based electricity consumption end-up paying an increasingly high proportion of network costs.

We agree with Trustpower that "... the current consumption-based pricing approach is likely to become increasingly unsustainable, as consumers who can afford to invest in distributed energy resources, will do so, leaving costs to be progressively shifted on to those customers who are least able to make the same investment. This has also been recently highlighted by the EPR."⁶

Mercury has made similar comment that "The current excessive variablisation, that occurs due to lines charges being mostly based on a per kilowatt hour basis ... unfairly shifts costs to the most vulnerable ..."⁷

Mercury also pointed out "The current excessive variablisation ... puts seasonal pressure on household budgets (which is of concern for vulnerable consumers who are on fixed incomes) ..."⁸

³ The relativity between off-peak and peak charges can set at the same level for different relativities between fixed and variable charges.

⁴ Mercury, More Efficient Distribution Prices Consultation Paper 11 December 2018 (Consultation), 14 February 2019.

⁵ Nova Energy, Re: Consultation Paper – More efficient distribution prices, 19 February 2019.

⁶ Trustpower, TRUSTPOWER SUBMISSION: MORE EFFICIENT DISTRIBUTION PRICES, 20 February 2019.

⁷ Mercury, More Efficient Distribution Prices Consultation Paper 11 December 2018 (Consultation), 14 February 2019.

⁸ Mercury, More Efficient Distribution Prices Consultation Paper 11 December 2018 (Consultation), 14 February 2019.

Given the consumer welfare and protection issues, we consider consumer protection to be an important element of Authority decisions on distribution pricing.

The Authority potentially alludes to the consumer protection objective being relevant in the statement “The Authority is aware of the risk that changes to distribution pricing – particularly the introduction of higher prices during peak demand periods – have the potential to exacerbate energy hardship for some consumers as an unintended consequence” but doesn’t take this any further in its discussion.

Electricity distributors have “dealings” with domestic and small business consumers

The Authority did not explicitly state whether the consumer protection objective applies to distribution pricing in the consultation. The only explicit reference to the new objective is a statement of what the new clauses say in a footnote.

We appreciate the Authority subsequently clarifying why it has not taken into account the consumer protection objective in the consultation paper:⁹

The explanatory note of the Bill that resulted in the inclusion of the additional objective provided the following commentary: “The additional objective is not intended to affect the Authority’s functions relating to how industry participants deal with other industry participants (eg, trading conduct and information exchange), how prices are determined (eg, wholesale and retail electricity prices), or how costs are allocated between industry participants (eg, costs of transmission and ancillary services).

The Explanatory Note does not make reference to distribution pricing and the Authority response does not comment on its interpretation of the new purpose. We consider the plain wording of the new purpose provisions to be clear.

Electricity distributors have “dealings” with domestic consumers and small business consumers which can be both direct and indirect. The industry participant does not have to have a commercial arrangement with the consumer. Section 15(3) is clear it is referring to “consumers” not “customers” where there will be a direct commercial arrangement.

The Authority has made this same distinction very clear, for example, in the Consumer Care Guidelines which state “These guidelines distinguish between ‘customers’ (persons who have a contract with a retailer for the supply of electricity and/or provision of distribution services used fully or partly for domestic uses) and ‘consumers’ (end users of electricity and distribution services used fully or partly for domestic purposes)”.¹⁰

Relatedly, we note distributors can and have supplied and billed end-consumers directly e.g. The Lines Company. The Consumer Care Guidelines, which have consumer protection at their core, recognises this and specifies “These guidelines apply to retailers, and to distributors that directly invoice their customers ... for the supply of electricity and/or the provision of distribution services used fully or partly for domestic purposes”.¹¹ One of the “Intended outcomes” is that “Customers facing difficulties paying for electricity supply or distribution services are supported, including through retailers proactively helping customers”.¹²

⁹ <https://www.ea.govt.nz/projects/all/distribution-pricing/consultation/targeted-reform-of-distribution-pricing/>

¹⁰ Electricity Authority, Consumer Care Guidelines, 1 July 2021, clause v1.

¹¹ Electricity Authority, Consumer care guidelines, 1 July 2021, paragraph vi.

¹² Electricity Authority, Consumer care guidelines, 1 July 2021, paragraph 5b.

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Summary of 2degrees and Electric Kiwi's views

- **We support distribution pricing reform.** While some electricity distributors have made good progress, we agree with the Authority reform could be happening more quickly.
- Distribution pricing needs to be ahead of the energy transition 'curve' not behind it.
- Distribution charges with high and, more particularly, flat volumetric structures¹³ don't tend to score well in terms of cost-reflectiveness.
- Network pricing should reflect that the primary driver for network cost and investment is network capacity which tends to be driven by peak demand. Cost-reflectivity should be the key criterion. **We support greater use of TOU/peak-charging and more pronounced peak/off-peak pricing differentials.**

If network pricing doesn't signal the cost of potential future investment needs and peak load growth is not well managed it could result in significantly higher/inefficient network capacity investment/network pricing.

- We consider it better to err on the side of TOU price signals that are over-strong than too weak. Network pricing that sends strong peak/off-peak price signals complements and reinforces wholesale pricing signals/wholesale cost risk management.
- We support the consultation paper's explicit reference to the efficiency of LRMC pricing. The distribution pricing practice note (DPPN) should be amended to make explicit that LRMC pricing can be efficient and the circumstances in which SRMC or LRMC pricing may be most appropriate.¹⁴
- **More can be done by both the Authority and distributors to explain the benefits of distribution pricing reform.** For example, we would like to see quantified analysis of the impact of peak-usage/TOU pricing on electricity consumption/timing of electricity consumption and what this translates to for network investment requirements/future electricity pricing. It should not be difficult for the Authority/electricity distributors to robustly demonstrate LRMC pricing can be expected to result in lower (than otherwise) future network costs and provide consumers with considerable savings through lower than otherwise network charges.

This should include evidence based on actual network pricing reform.

- **It is important distribution pricing doesn't get bogged down by inertia due to incumbent retailer legacy systems.**
- **Use of deemed and residual profiles for energy and network purchases should be prohibited immediately where half-hourly metering is available.**
- **Electricity distributors should not be afraid to adopt complex, cost-reflective pricing if there is tangible benefit from doing so.** Electricity distributors don't necessarily need to second guess

¹³ The relativity between off-peak and peak charges can set at the same level for different relativities between fixed and variable charges.

¹⁴ For the avoidance of doubt, we agree "networks with a flat or falling demand and no anticipated network constraints" should not necessarily introduce TOU or peak-usage pricing and this would be consistent with cost-reflective prices i.e. the costs that are being signalled are fixed and unavoidable.

what type of pricing would be acceptable, or appropriate, at the retail tariff level. That's our job. Distributors should focus on ensuring their pricing is 'actionable' by retailers. For the pricing to be 'actionable', retailers need to have certainty about what the charge is going to be based on customer behaviour rather than the pricing exposing the retailer to unmanageable price risk e.g. Orion's distribution pricing.¹⁵

Electricity retailers can manage network price risk on behalf of consumers, just as we manage wholesale electricity price risk. Electricity retailers are more than billing agencies.

- **Retailers (not just end-consumers) can respond to distribution pricing signals and may do so in innovative ways** e.g. peak/off-peak distribution pricing can complement Electric Kiwi's 'hour of power' and various retailers are trialling hot water management etc to save consumers money by shifting electricity consumption from peak to off-peak.

If retailers see cost-reflective pricing some will innovate to get the maximum engagement from their customers in minimising distribution costs. Some retailers may choose not to engage customers but, ultimately, this will undermine their competitiveness if other retailers end up with lower (distribution) cost bases.

- **The suggestion by some distributors that price regulation (pass-through requirements) of retail should be adopted mis-understands the different roles of distributors and retailers:** The Authority has clearly explained why regulated pass-through requirements would be inappropriate. To the extent the Authority has any concerns about retailer pass-through these are best resolved through reforms aimed at strengthening competition and/or consideration of whether distribution pricing signals are strong enough to incentivise changes to retail pricing.
- Price control is appropriately applied under Part 4 Commerce Act where there is "little or no competition" and "little or no likelihood of a substantial increase in competition" (section 52G Commerce Act).
- **Getting distribution pricing signals right doesn't require a proliferation of different tariffs:** The consultation paper talks about subsidy-free pricing principally in relation to different customer categories, but also talks about different geographic regions. The existing number of electricity distributors means there is already an excessive degree of geographically differentiated pricing.

It would be helpful if the Authority clarified, in the DPPN, the guidance on subsidy-free pricing is oriented towards electricity distributors ensuring where they have different tariffs for different customers or segments that they can demonstrate the differentials are subsidy-free and/or cost-based. It would also be useful to clarify that subsidy-free pricing is NOT intended to encourage a proliferation of customer segments/highly granular pricing.

- There is further opportunity for electricity distributors to work collaboratively with stakeholders, either through the ENA and/or the Authority, to develop uniform approaches to matters such as how to calculate LRM pricing and subsidy-free pricing. The electricity industry doesn't need each electricity distributor to reinvent the wheel.

¹⁵ Flick previously submitted, for example, that "We also note that some tariff structures are driving significant cost for consumers, for example Orion's unpredictable ex-post pricing means retailers are typically pricing in an additional 'risk premium' for customers in this network. This is an unfortunate example of negative customer outcomes that have arisen because of network focused tariff design; that minimises the risk to the network - only to increase the costs/risks faced by retailers and end consumers. To ensure customers needs are met into the future this type of structure must [be] disallowed". Flick Electric, More efficient distribution prices, what do they look like? Consultation Paper, 18 February 2019.

We support improvements to Powerswitch being made

- We have previously raised concerns about the inability of Powerswitch to recognise the benefits of dynamic pricing which encourage load-shifting. The Authority's desire for distribution pricing reform to occur highlights that if these issues are not resolved it is likely to result in Powerswitch becoming less and less useful for consumers. We are already concerned about Powerswitch providing false-positives (telling consumers they will save money from switching when they will actually pay more).

We support cost-reflective network pricing

We support cost-reflective network (distribution plus transmission) pricing, including greater use of peak-charging and more pronounced peak/off-peak pricing differentials. We agree with the Authority that "cost-reflective prices, which send efficient signals of the cost consequences of network usage, will be crucial for helping direct users toward lowest-cost usage and investment choices".

We strongly support electricity distributors adopting TOU pricing with strong peak/off-peak differentials. We consider it better to err on the side of price signals that are over-strong than too weak. The costs and benefits of under/over-signalling are likely to be asymmetric e.g. if price signals are too weak and result in accelerated peak-demand growth and investment requirements the cost will become sunk and won't be able to be reversed.

Estimates of LRMC could provide a useful basis for determining TOU differentials. It would be worthwhile for distributors to consider how well the strength of the pricing signals, and the peak/off-peak differentials, are supported by costing evidence.¹⁶

The consultation paper helpfully clarifies the Authority considers LRMC pricing efficient

We welcome that the consultation paper makes clear the Authority's endorses LRMC pricing. This should be mirrored in an updated version of the DPPN. It is natural and supported that the Authority's thinking on network pricing will evolve and change.

An easy improvement to the DPPN would be to be explicit about SRMC versus LRMC pricing and the conditions under which one will be more appropriate than the other e.g. LRMC may be most appropriate for a network facing considerable demand growth and forecast capacity upgrade expenditure, and SRMC for a network with stagnant/declining demand and plenty of spare capacity.

By way of illustration of the benefit of making the DPPN clearer, Electric Kiwi previously submitted that the DPPN position on SRMC versus LRMC was abstruse:¹⁷

The Authority should also explicitly recognise different pricing approaches have different advantages and disadvantages, and should more overtly recognise the trade-offs between static and dynamic efficiency. Given the Authority's predominant focus on economic efficiency it would be helpful if this discussion was couched in terms of SRMC v LRMC.

The draft Practice Note does not presently make these trade-offs clear, resulting in seemingly contradictory statements such as that "At times it may be appropriate to send a price signal where no current congestion or

¹⁶ The Human Rights Act, for example, allows for price discrimination, based on age and sex, in relation to insurance but only to the extent the different treatment is based on actuarial or statistical data etc.

¹⁷ Electric Kiwi, Electric Kiwi supports distribution pricing reform, 2 November 2021.

network need is evident, but the distributor's network understanding and trend analysis suggests that it will be required in the coming years" (which implicitly recognises the efficacy of LRMC pricing) versus "any time in this paper we refer with approval to a peak charge or TOU pricing (or any other price signal), we are referring to such a price signal that is required due to actual / imminent network congestion" (which advocates an alternative short-run approach). [footnotes removed]

The existing DPPN includes the principle that "Prices are to signal the economic cost of service provision, including by ... reflecting the impacts of network use on economic costs" which doesn't make clear whether it means short or long-run economic costs. The DPPN also states signalling economic cost "may favour ... focus on long-term investment costs" (implying LRMC) but that distributors should consider "which types of costs to signal" (which could be SRMC, LRMC or something else), and follows this with a discussion on the theoretical merits of SRMC locational marginal pricing.

The definition of marginal cost in the DPPN ("Marginal cost is the additional cost of producing one extra unit. In the context of distribution, typically the additional cost of serving one additional customer to the network, or the additional cost of increasing network capacity") similarly references both SRMC and LRMC.

The consultation paper states "it can be relatively efficient to set peak signals with reference to the long-run marginal cost (LRMC) of network capacity" (which we agree with) and then goes on to say "the Authority stated in its DPPN, it is efficient for a distributor to use such price signals to delay the necessity of investments, until the cost of a network upgrade (or alternative solution) becomes economically justifiable - ie, the value to consumers exceeds the cost. In this way, price signals lead to efficiency in the long-term". We checked the consultation paper's DPPN reference and it seems clear it is talking about "Efficient short-term price signalling" i.e. SRMC not LRMC. The commentary that "Efficient short-term price signalling means charges could rise to ensure consumption reduces until congestion is no longer an issue on that part of the network" is an SRMC approach. If the Authority is getting confused about what the DPPN currently says or means it is natural other stakeholders will be as well.

A core retail function is to manage risk and complexity on behalf of customers

Electricity distributors should not necessarily try to solve the problem of what consumers will respond to as part of the process of reforming distribution pricing. Cost-reflective pricing should be the focus and will mean retailers will be sent the right signals to encourage new products that engage consumers in the right ways.

If retailers see cost-reflective pricing some will innovate to get the maximum engagement from their customers in minimising distribution costs. Some retailers may choose not to engage customers but, ultimately, this will undermine their competitiveness if other retailers end-up with lower (distribution) costs.

Key considerations include how the distribution pricing signals sit with wholesale pricing (which is likely to be the dominant consideration for retailers). Distribution pricing signals can complement and support the peak/off-peak signals sent by nodal pricing.

Retailers may not pass on the charges verbatim but will experiment and test the market to see what consumers will respond to. This is a problem well suited to the innovation and competition in the retail market. The extent of competitive pressure will determine retailer pass-through.

Retailers are not billing agencies

Electricity retailers are not billing agents for distributors and have a role in managing price risk for consumers. It is important to recognise the distinction between network prices, and the retail tariffs end-consumers ultimately face.

We agree entirely with the Authority's previous commentary about the role electricity retailers play in managing end-consumer price risk:¹⁸

The Authority does not see there is a particular efficiency reason why prices should be passed-through. Instead, pass-through could stifle the economic efficiency of the electricity sector because it reduces consumers' choice on how to manage price risk, and eliminates a dimension on which electricity retailers can innovate and compete for customers. ...

The vast majority of consumers, especially residential consumers, are on 'fixed price-variable volume' tariffs. That suggests that most residential consumers want some degree of protection from volatility in the prices they pay for electricity. This may be because they are risk averse or do not want to actively manage their use.

Consumers themselves are in the best position to decide on the level of risk or active management they prefer. As Biggar and Reeves observe:

"While some may be prepared to pay a retail price that varies dynamically with wholesale market conditions, others would be prepared to pay a premium in exchange for insurance against volatile wholesale prices. If we are to achieve overall efficient outcomes, it is not enough for consumers to face efficient price signals; end-customers must also receive the degree of insurance or risk-sharing they desire."

A workably competitive retail electricity sector provides consumers with choice of retailers and innovative retail services and plans that better match consumers' circumstances and preferences. It is better to rely on competition to stimulate solutions and innovation, rather than imposing an administrative solution on price risk.

We similarly agree with Trustpower "... it is important to recognise that not all customers will be able to understand overly complex signals or be interested in responding to real time price signals. In our view many customers prefer price certainty and so it is important that retailers are still able to offer this group of customer's plans that suit them, including plans that insulate them from price volatility."¹⁹

MBIE also makes the valid observation "Pricing signals to provide efficient use of networks – current distribution pricing may not adequately incentivise changes to retail pricing..."²⁰

It follows that the Authority is (again) correct to reject mandated retail pass-through. Such proposals are misguided and aren't in anyone's interests, let alone consumers. It would be odd to have unregulated (voluntary) monopoly distribution pricing combined with mandated (regulated) competitive market retailer pass-through.

The suggestion of regulated pass-through is also incongruent given the Authority's preference for "pricing flexibility", and that it considers "mandating a single comprehensive pricing methodology is unlikely to be appropriate". Mandated retail pricing requirements simply should not be part of the distribution pricing conversation.

¹⁸ Electricity Authority, More efficient distribution prices What do they look like?, Consultation paper, 11 December 2018.

¹⁹ Trustpower, TRUSTPOWER SUBMISSION: MORE EFFICIENT DISTRIBUTION PRICES, 20 February 2019.

²⁰ MBIE, Measures for Transition to an Expanded and Highly Renewable Electricity System, August 2023.

Price regulation of competitive/potentially competitive parts of the market is inappropriate

Price control is appropriately applied to electricity distributors under Part 4 Commerce Act given there is “little or no competition” and “little or no likelihood of a substantial increase in competition” (section 52G Commerce Act). These conditions for price regulation are not met for electricity retailing.

For the avoidance of doubt, we consider that if the Part 4 Commerce Act tests are not satisfied then the Electricity Industry Act purpose requirements could not be legitimately satisfied either. We also consider responsibility for price regulation should be limited to the Commerce Commission.

The boundary between the Commerce Commission and Electricity Authority should be clarified

We appreciate the Authority’s response to our query about the jurisdictional boundary between the Commerce Commission and Electricity Authority vis-à-vis regulation of the price of goods or services under Part 4 Commerce Act. In response the Authority has stated:

The Authority has a broad power under section 32 of the Electricity Industry Act 2010 to make Code that is consistent with the Authority’s statutory objectives and that is necessary or desirable to promote any of the matters in section 32(1) of the Act (including competition in the electricity industry, the reliable supply of electricity to consumers, the efficient operation of the electricity industry.

The Authority cannot purport to do or regulate anything that the Commerce Commission is authorised or required to do or regulate under Part 4 of the Commerce Act 1986, except certain matters set out in section 32(4) of the Act (section 32(2)(b) of the Act).

However, under Part 4 of the Commerce Act, the Commerce Commission’s current role in the electricity industry is only to regulate electricity lines services as defined under s 54C of the Commerce Act, which does not include the electricity retail market. The Authority is therefore not constrained by section 32(2)(b) of the Act to regulate retailers if the requirements of section 32 are met.

We find this response troubling; particularly if it is correct.

The response seems to imply the Authority has the power to introduce Part 4 Commerce Act type price control (or price control more generally) for electricity goods or services: (i) without having to apply the Part 4 test that “there is little or no competition and little or no likelihood of a substantial increase in competition”; (ii) if the Commerce Commission is not applying price control to those goods or services. This seems to imply an ‘early bird gets the worm’/‘first in gets to regulate’ type boundary between the Authority and the Commerce Commission.²¹

We would be very concerned if both the Commerce Commission and Authority potentially have powers to price regulate electricity retailers.

²¹ We raised this concern as part of a follow-up question but there was limited time between raising the question and the submission due date for the Authority to respond.

Electricity distributors should avoid a proliferation of tariffs

We agree with MBIE that “Currently retailers need to navigate different distribution pricing structures from all 29 electricity distributors. More standardisation of distribution pricing could reduce the complexity for retailers associated with navigating different pricing structures. It could also support customers who are applying for direct connections across the country in different distribution networks by reducing the number of different pricing structures they must navigate”.²²

The phasing out of the low-fixed charge regulations provides an opportunity to reduce (potentially halve) the number of residential distribution tariffs. What we would not like to see is a proliferation of new tariffs.

It would be helpful if the Authority clarified, in the DPPN, an expectation that where electricity distributors have different tariffs for different customers or segments they can demonstrate the differentials are subsidy-free and/or cost-based. The Authority should clarify the intention is NOT to encourage a proliferation of customer segments/highly granular pricing.

Our perspective is that the existing number of electricity distributors, some of which have different tariffs for different legacy network regions, means there is already an excessive degree of geographically differentiated pricing. Geographically differentiated pricing beyond existing network boundaries should be limited e.g. Powerco has a non-contiguous network.

A previous process was successfully undertaken to reduce the number of different residential customer categories etc. We would like to see similar work undertaken for other customer groups, including Commercial and Industrial (C&I) customers. A good starting point would be for distributors to review how many tariffs they have with a very small number of customers. This is illustrated, for example, by some of The Lines Company’s “Temporary Accommodation” tariff categories; most of which have less than 10 customers.

Peak Time of Use (T Code) \$ per kWh																
Customer Group	Price Category Code	no. of ICPs	Density	Load	Previous Peak Distribution Price	Previous TLC Peak Discount*	Previous Peak Pass-through	Previous Peak Transmission	Previous Peak Delivery	Previous Peak Delivery-TLC Disc*	from 1 April 2023 Peak Distribution Price	from 1 April 2023 TLC Peak Discount*	from 1 April 2023 Peak Pass-through	from 1 April 2023 Peak Transmission	from 1 April 2023 Peak Delivery	from 1 April 2023 Peak Delivery-TLC Disc*
Residential Low Fixed Charge	RTLFCHC	2,138	High	Controlled	0.1291	0.0247	0.0074	0.0451	0.1816	0.1569	0.1223	-0.0241	0.0052	0.0134	0.1409	0.1168
	RTLFCCL	656	Low	Controlled	0.1633	0.0312	0.0074	0.0451	0.2158	0.1846	0.1565	-0.0308	0.0052	0.0143	0.1760	0.1452
	RTLFCHU	378	High	Uncontrolled	0.1848	0.0353	0.0074	0.0451	0.2373	0.2020	0.1780	-0.0350	0.0052	0.0134	0.1966	0.1616
	RTLFCUL	190	Low	Uncontrolled	0.2190	0.0419	0.0074	0.0451	0.2715	0.2296	0.2122	-0.0417	0.0052	0.0143	0.2317	0.1900
Residential Standard	RTSTDHC	2,192	High	Controlled	0.1033	0.0198	0.0074	0.0451	0.1558	0.1360	0.1033	-0.0203	0.0052	0.0075	0.1160	0.0957
	RTSTDLC	1,037	Low	Controlled	0.1033	0.0198	0.0074	0.0451	0.1558	0.1360	0.1033	-0.0203	0.0052	0.0075	0.1160	0.0957
	RTSTDHU	337	High	Uncontrolled	0.1590	0.0304	0.0074	0.0451	0.2115	0.1811	0.1590	-0.0313	0.0052	0.0075	0.1717	0.1404
	RTSTDUL	247	Low	Uncontrolled	0.1590	0.0304	0.0074	0.0451	0.2115	0.1811	0.1590	-0.0313	0.0052	0.0075	0.1717	0.1404
General	GT15HC	249	High	Controlled	0.1033	0.0198	0.0074	0.0451	0.1558	0.1360	0.1033	-0.0203	0.0052	0.0075	0.1160	0.0957
	GT15LC	166	Low	Controlled	0.1033	0.0198	0.0074	0.0451	0.1558	0.1360	0.1033	-0.0203	0.0052	0.0075	0.1160	0.0957
	GT15HU	1,137	High	Uncontrolled	0.1701	0.0325	0.0074	0.0451	0.2226	0.1901	0.1701	-0.0335	0.0052	0.0075	0.1828	0.1493
	GT15LU	1,289	Low	Uncontrolled	0.1701	0.0325	0.0074	0.0451	0.2226	0.1901	0.1701	-0.0335	0.0052	0.0075	0.1828	0.1493
	GT30HC	33	High	Controlled	0.1145	0.0219	0.0074	0.0451	0.1670	0.1451	0.1145	-0.0225	0.0052	0.0075	0.1272	0.1047
	GT30LC	9	Low	Controlled	0.1145	0.0219	0.0074	0.0451	0.1670	0.1451	0.1145	-0.0225	0.0052	0.0075	0.1272	0.1047
	GT30HU	127	High	Uncontrolled	0.1356	0.0259	0.0074	0.0451	0.1881	0.1622	0.1356	-0.0267	0.0052	0.0075	0.1483	0.1216
	GT30LU	43	Low	Uncontrolled	0.1356	0.0259	0.0074	0.0451	0.1881	0.1622	0.1356	-0.0267	0.0052	0.0075	0.1483	0.1216
	GT70H	67	High	n/a	0.1022	0.0195	0.0074	0.0451	0.1547	0.1352	0.1022	-0.0201	0.0052	0.0075	0.1149	0.0948
	GT70L	16	Low	n/a	0.1022	0.0195	0.0074	0.0451	0.1547	0.1352	0.1022	-0.0201	0.0052	0.0075	0.1149	0.0948
Dairy	DT15HC	12	High	Controlled	0.1033	0.0198	0.0074	0.0451	0.1558	0.1360	0.1033	-0.0203	0.0052	0.0075	0.1160	0.0957
	DT15LC	6	Low	Controlled	0.1033	0.0198	0.0074	0.0451	0.1558	0.1360	0.1033	-0.0203	0.0052	0.0075	0.1160	0.0957
	DT15HU	12	High	Uncontrolled	0.1701	0.0325	0.0074	0.0451	0.2226	0.1901	0.1701	-0.0335	0.0052	0.0075	0.1828	0.1493
	DT15LU	8	Low	Uncontrolled	0.1701	0.0325	0.0074	0.0451	0.2226	0.1901	0.1701	-0.0335	0.0052	0.0075	0.1828	0.1493
	DT30HC	27	High	Controlled	0.0978	0.0187	0.0074	0.0451	0.1503	0.1316	0.0978	-0.0192	0.0052	0.0075	0.1105	0.0913
	DT30LC	11	Low	Controlled	0.0978	0.0187	0.0074	0.0451	0.1503	0.1316	0.0978	-0.0192	0.0052	0.0075	0.1105	0.0913
	DT30HU	25	High	Uncontrolled	0.1145	0.0219	0.0074	0.0451	0.1670	0.1451	0.1145	-0.0225	0.0052	0.0075	0.1272	0.1047
	DT30LU	16	Low	Uncontrolled	0.1145	0.0219	0.0074	0.0451	0.1670	0.1451	0.1145	-0.0225	0.0052	0.0075	0.1272	0.1047
	DT70H	116	High	n/a	0.0866	0.0166	0.0074	0.0451	0.1391	0.1225	0.0866	-0.0170	0.0052	0.0075	0.0993	0.0823
	DT70L	137	Low	n/a	0.0866	0.0166	0.0074	0.0451	0.1391	0.1225	0.0866	-0.0170	0.0052	0.0075	0.0993	0.0823
Temporary Accommodation	TT15HC	178	High	Controlled	0.1033	0.0198	0.0074	0.0451	0.1558	0.1360	0.1033	-0.0203	0.0052	0.0075	0.1160	0.0957
	TT15LC	108	Low	Controlled	0.1033	0.0198	0.0074	0.0451	0.1558	0.1360	0.1033	-0.0203	0.0052	0.0075	0.1160	0.0957
	TT15HU	84	High	Uncontrolled	0.1701	0.0325	0.0074	0.0451	0.2226	0.1901	0.1701	-0.0335	0.0052	0.0075	0.1828	0.1493
	TT15LU	195	Low	Uncontrolled	0.1701	0.0325	0.0074	0.0451	0.2226	0.1901	0.1701	-0.0335	0.0052	0.0075	0.1828	0.1493
Temporary Accommodation	TT30HC	4	High	Controlled	0.1117	0.0214	0.0074	0.0451	0.1642	0.1428	0.1117	-0.0220	0.0052	0.0075	0.1244	0.1024
	TT30LC	14	Low	Controlled	0.1117	0.0214	0.0074	0.0451	0.1642	0.1428	0.1117	-0.0220	0.0052	0.0075	0.1244	0.1024
	TT30HU	9	High	Uncontrolled	0.1311	0.0251	0.0074	0.0451	0.1836	0.1585	0.1311	-0.0258	0.0052	0.0075	0.1438	0.1180
	TT30LU	1	Low	Uncontrolled	0.1311	0.0251	0.0074	0.0451	0.1836	0.1585	0.1311	-0.0258	0.0052	0.0075	0.1438	0.1180
	TT70H	3	High	n/a	0.0978	0.0187	0.0074	0.0451	0.1503	0.1316	0.0978	-0.0192	0.0052	0.0075	0.1105	0.0913
	TT70L	1	Low	n/a	0.0978	0.0187	0.0074	0.0451	0.1503	0.1316	0.0978	-0.0192	0.0052	0.0075	0.1105	0.0913
	TT150H	1	High	n/a	0.0811	0.0155	0.0074	0.0451	0.1336	0.1181	0.0811	-0.0159	0.0052	0.0075	0.0938	0.0779
TT150L	1	Low	n/a	0.0811	0.0155	0.0074	0.0451	0.1336	0.1181	0.0811	-0.0159	0.0052	0.0075	0.0938	0.0779	

²² MBIE, Measures for Transition to an Expanded and Highly Renewable Electricity System, August 2023.

Process matters

We appreciate the Authority being available to discuss the consultation on a bilateral basis and found that very helpful in preparing this submission. Going forward, it would be helpful to be given more notice of consultations. We understand ERANZ was notified well ahead of time which put the incumbent retailers at a considerable advantage, relative to independent retailers, in responding to the consultation.²³ ERANZ only represents incumbent retailers.

Concluding remarks

We welcome and embrace moves to improve distribution pricing.

A shift in paradigm from high and flat volumetric distribution charge structures to TOU/peak-usage charging is becoming increasingly important. Changes to electricity usage like uptake of EVs can occur very rapidly. Dynamically-efficient distribution pricing is needed to avoid inefficiently high peak-usage and consequent inefficient capacity investment costs with ensuing (unnecessarily) higher prices for end-consumers.

The longer the delay in reforming distribution pricing the harder it will get. More and more consumers will have made investment decisions off the back of legacy pricing the economics of which could then be adversely impacted by distribution pricing reform.

Electricity distributor pricing reform should not get bogged down by inertia due to incumbent retailer legacy systems.

Electricity distributors should not be afraid to adopt complex, cost-reflective pricing if there is tangible benefit from doing so.

Electricity distributors don't necessarily need to second guess what type of pricing would be acceptable, or appropriate, at the retail tariff level. That's our job. We are not mere billing agencies for distributors.

We can and will determine how to manage distribution pricing signals and how these should be reflected in retail tariffs. As retailers we have the direct relationship with consumers and it is our job to understand what type of pricing they will be happy with when setting our prices.

Some distributors have suggested there should be mandated pass-through (effectively retail price control). With respect, we do not think these parties have thought through the implications of what they are saying. It would be untenable for the Authority to have voluntary Guidelines in place for natural monopoly distribution tariffs and mandatory price regulation for competitive market retail tariffs. This would effectively mean the Authority was delegating retail price regulation to individual distributors i.e. retailer tariffs would be determined by individual distributor pricing decisions.

Price regulation firmly belongs with the Commerce Commission under Part 4 of the Commerce Act, not the Electricity Authority under the Electricity Industry Act and certainly not with individual distributors.

²³ We have raised this concern previously including in relation to the managing winter peaks consultation and the review of the Authority's consultation and feedback processes.

Yours sincerely,

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