



15 August 2023

Electricity Authority

By email to: distribution.pricing@ea.govt.nz

Tēnā koe

Response to Targeted Reform of Distribution Pricing – Issues Paper

Thank you for the opportunity to respond to the targeted reform of distribution pricing.

Overall the Authority has presented a thorough and thoughtful set of proposals. We provide detailed responses to the consultation questions below, but there are four major points we would like to highlight:

1. We support the development of cost-reflective distribution tariffs. We consider that this should be based on the long-term investments required to manage congestion and should be relatively stable for the wider network. However, this should not be overly granular to avoid unnecessary complexity.

In contrast, payment for flexibility services needs to be more location-specific and be used as an alternative to building more poles and wires to manage congestion that exists in specific locations
2. We urge caution in fully adopting half-hourly meter data. Currently there are significant quality issues in that data, which weakens the price signal and can make reconciliation challenging. We recommend further work is undertaken to improve data quality before half hourly data use is mandated.
3. Allocating costs between different consumer groups is a difficult balance. However, we believe the Authority's analysis underplays the impact of allocating more costs to businesses, which may result in marginal businesses closing, and harming incentives to decarbonise.
4. We support the Authority's renewed focus on connection pricing. This is a complex area that is impacted by multiple regulatory regimes and policy settings. We recommend that a joint project is established, including the Authority, MBIE and the Commerce Commission. This will ensure that there is both consistency and clarity in the regulation and expectations by regulators on distributors, resulting in much more efficient outcomes.

Please contact me at brett.woods@contactenergy.co.nz if you wish to discuss further.

Ngā Mihi

A handwritten signature in blue ink, appearing to read "Brett Woods".

Brett Woods

Head of Regulatory and Government Relations

Contact Energy.



Attachment 1: Response to consultation questions

| Consultation question | Contact Energy response |
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| <p>1. Are there other options that you think the Authority should consider?</p> | <p>The calculation of loss factors should be included in any rules relating to pricing given the impact they can have on a consumers final energy bill</p> <p>For example, one EDB recently raised loss factors evenly across all loss factor codes. The justification for this was that the growth of their network at the margin, primarily low voltage and residential load, warranted this increase. The result was that high voltage customers saw the same proportionate increase in the losses that they are charged when compared to LV customers, despite contributing little to the increase in losses within the distribution network. Whilst this would have a marginal impact on the network costs for customers, and revenue for the EDB, it has a material impact on total energy costs.</p> |
| <p>2. Do you have any comments on the options outlined?</p> | |
| <p>3a. 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>Where load control tariffs are offered EDBs retain direct control over the load assets. This precludes other parties from managing that asset which is likely to create unintended consequences where the asset is not being used for its most efficient purpose. For example, EDBs are not incentivised to provide this load control to the energy market.</p> <p>We also have a long-standing concern that the EDBs are using this capacity to generate non-regulated revenue in the reserves market, and are not sufficiently incentivised to pass these benefits on to consumers.</p> <p>Because of this arrangement, the EA had to mandate EDBs to offer in their load control to the system operator through differencing bids at the real time pricing scarcity price.</p> <p>We believe there should be requirements on EDBs to ensure that the conditions of access to the load control tariff is open to any party and does not require approval and/or control from the EDB.</p> |

| Consultation question | Contact Energy response |
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| | <p>Where an EDB retains control of the load assets we consider that any load control tariff should be defaulted TOU off-peak price. TOU Peak pricing at the LRMC is designed to signal the price of congestion, whereas TOU off-peak pricing is the price signal to consumers where the marginal cost of an extra MW of load is near-zero. It can be assumed that should there be congestion on the network, the EDB will activate its rights over the load control circuits and turn those assets off. As a result these tariffs are not contributing to congestion and should be priced at the off-peak rate.</p> |
| <p>3b. Do you consider that TOU pricing could have unintended consequences for congestion on the LV network?</p> | <p>Yes, having a specific time point in the day where tariffs change materially is likely to create step changes in consumption at both the LV network and, if there was time correlation between networks, possibly on the Grid. Additionally, if there is enough consumer engagement with the tariffs, new peaks and congested periods could be created.</p> |
| <p>3c. 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>Static and fixed Tariffs are a blunt tool and should be expected to work in conjunction with the much more dynamic flex services model. We believe that shoulder tariffs are likely to lessen the concerns highlighted in 3b, and are the most suitable tariff tool to mitigate concerns. However, EDBs should also be incentivised to accelerate the adoption of flex services that can manage congestion dynamically.</p> |
| <p>4. 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>As noted in 4.19(d) there has not, to date, been much attention to non-residential peak pricing signals. We would expect that the peak pricing signal, offered to non-residential connections corresponds to that being offered to Residential consumers for both the time of day as well as the tariff rate differential between peak and off-peak.</p> <p>As per 3a we also believe there should be no price differential between an off-peak tariff and a control tariff.</p> |
| <p>5. Do you agree with the problem statement for peak period pricing signals?</p> | <p>Yes we agree with the problem statement.</p> |
| <p>6. Do you have any comments on the Authority's preferred pricing for peak periods?</p> | <p>Yes we broadly agree with the Authority's preferred pricing.</p> |

| Consultation question | Contact Energy response |
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| | <p>However, we note that half-hour metering still has varying levels of data quality. Where there is uncertainty in data quality deemed profiles may still have a role to play.</p> <p>We strongly support platform agnostic prices that signal the value of flexibility. Ensuring equal access for all parties alongside strictly enforced arms-lengths rules for flexibility services offered by an EDB will ensure a competitive and fair playing field for developing demand side flexibility.</p> <p>Standardised ICP pricing should also include any pass-through charges (such as Transmission) that the Distributor is best placed to manage.</p> |
| <p>7. Are there other options you think the Authority should consider for improving peak period pricing?</p> | <p>We are not aware of any other options.</p> |
| <p>8. Which if any of the above options do you consider would best support distribution pricing reform around peak pricing signals and why?</p> | <p>As above, we consider greater attention is required on metering accuracy before any mandates are implemented. When mandates are implemented we agree with the need for a phase in period, but this should not be too long to avoid pricing confusion in the interim.</p> |
| <p>9. 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>Yes.</p> |
| <p>10. Do you agree with the problem statement for off-peak pricing signals?</p> | <p>Yes</p> |
| <p>11. Do you have any comments on the Authority’s preferred pricing for off-peak usage?</p> | <p>For larger commercial and industrial customers we would like to see more EDBs charging consumers on “Nominated Maximum Demand” alongside an “excess” charge and sufficient safeguards to prevent gaming. This is a more flexible mechanism than charging on fixed physical capacity and allows consumers who may have over-invested in physical capacity in the past to not pay more than their fair share. It is also an efficient way for consumers to downsize their connection when demand has a sustained reduction. This has the added benefit of consumers engaging with their demand</p> |

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| | characteristics, which opens up opportunities to discuss demand side flexibility. |
| 12. Are there other options you think the Authority should consider for improving off-peak pricing? | We are not aware of any other options. |
| 13. Which if any of the above options do you consider would best support distribution pricing reform around off-peak pricing signals and why? | We consider greater attention is required on metering accuracy before any mandates are implemented. |
| 14. 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>We are concerned about the efficiency incentives of allocating costs on a KWh basis. This approach weakens incentives to shift load out of peak periods at a consumer group level. If a large portion of commercial customers shift load into off-peak periods they would lower their costs in the short term. However, if their total kWh consumption remains similar then ultimately more costs will be allocated to commercial customers, undermining the incentive to shift load in the first place.</p> <p>We also challenge the assumption that it may be more efficient to allocate more costs to C&I customers because it would not affect their behaviour. There are two reasons for this:</p> <ul style="list-style-type: none"> • Electricity is a material input cost for many businesses and can impact the viability of the business, potentially resulting in businesses shutting down. Allocating too much cost to businesses could result in less economic activity, reducing economy wide efficiency. • We disagree with the conclusion at para 6.16(e) that allocation decisions will not affect decarbonisation decisions. If too much cost is allocated to C&I businesses this will materially deter decarbonisation projects by increasing their costs. Larger sized connections incur more fixed charges. And in some cases decarbonisation projects will result in an entire new ICP, meaning the business pays for two sets of fixed costs. <ul style="list-style-type: none"> ○ At para 6.16(e) the Authority claims that this will not occur if costs are allocated efficiently. However, then at para 6.19 efficiency is defined as an allocation that does not affect |

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| | <p>decision-making, creating a circular argument where the decision to electrify is not affected by allocation, because allocation does not affect the decision to electrify.</p> <p>We therefore consider that efficiency will be maximised by apportioning costs on a cost reflective basis.</p> <p>Finally, we do not consider that equity issues should be considered within this context. Equity considerations, particularly around hardship within the residential sector, are very important issues to manage, however we do not believe it appropriate, or efficient, to use that as a consideration for how costs should be allocated to consumer groups. Targeted support for those in hardship is a much more efficient way for managing these concerns, rather than distorting efficient market signals.</p> |
| <p>15. Do you agree with the problem statement for target revenue allocation?</p> | <p>As above, we consider that greater weighting should be put towards making target revenue allocation reflective of costs. We also believe that there should be a clear, and consistent approach to pricing the access and use of the grid across the entire supply chain. Which lends itself to allocations being more closely linked to the logic within the TPM, than simpler allocation methodologies.</p> |
| <p>16. Do you have any comments on the Authority's preferred pricing?</p> | <p>We broadly agree with the preferred pricing outcome.</p> <p>However, we believe greater emphasis should be placed on AMD. Where AMD cannot be reliably calculated for a consumer group, an agreed and standardised methodology for converting GWh to AMD would be appropriate. As an industry we have already agreed that anytime consumption (GWh) is not an efficient/fair determinant of how transmission and distribution costs should be allocated and charged, so we believe it should not be used as a primary input to revenue allocation decisions.</p> |
| <p>17. Are there other options you think the Authority should consider for improving target revenue allocation?</p> | <p>We are not aware of any other options.</p> |

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| <p>18. Which if any of the above options do you consider would best support distribution pricing reform around targeted revenue allocation?</p> | <p>The changes proposed by the Authority are likely to create significant changes in cost for each consumer group. To mitigate the risk of bill shock, we would like to see the changes modelled and then a transition plan put in place if/when the changes do result in significant cost transfer between groups. This transition timeline could also be included in the EA's practice note.</p> <p>As an example, we were impressed by the recent work from Wellington Electricity to set a long-term picture clearly explaining the rationale and assumptions around their modelling and the plan to transition over time. This helped us understand their decision making and plan for changes that affect our consumers.</p> |
| <p>19. 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>We agree with the assessment of connection costs, but highlight three further issues to consider:</p> <ol style="list-style-type: none"> 1. As well as the price, the access terms provided to the connecting party are also a very critical part of the investment decision by access seekers and should be considered alongside pricing and capital contribution considerations. 2. Improving incentives for EDBs to offer non-firmed and/or flexible capacity connections. This would better utilise existing network infrastructure for clients who do not need a firmed capacity, either because their operations are extremely flexible, or they have flexibility built into their operation that allows them to adjust demand in real-time to what is available. These clients are unlikely to trigger any upgrades to network assets (outside investment in new control systems, such as a special protection scheme). As such, both the capital contributions requested and ongoing distribution charges should reflect the lower level of service being accepted by the access seeker. 3. When pricing a new large connection, a requirement that the cheapest possible connection is identified and priced. A direct connection into a zone sub-station or GXP can sometimes be the lowest cost solution, however, does not provide any benefit to the wider network. In these situations, it may be an overall efficient outcome to complete an alternative connection option, at a higher price, that provides wider |

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| | benefit to the existing network and users. However, the cost used for the determination of connection pricing and contributions should be capped at the lowest cost solution – any additional expenditure can be considered anticipatory CAPEX for the EDB that is outside the connection request. |
| 20. Do you agree with the problem statement for connection pricing? | Yes |
| 21. Do you agree with the Authority's preferred pricing approach for connection charges? | Yes. |
| 22. 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>We consider that both proposed complementary measures have merit. However, contracting work directly may prove difficult in practice. There are few companies that have the specialised expertise and equipment required to provide high-voltage connections. Furthermore, these few companies will often have established partnerships and long-standing relationships as preferred suppliers for EDB(s) - placing them in a position that they are unwilling to risk for a direct quote request from an access seeker. This creates a commercial barrier and prevents access seekers from experiencing a truly competitive market and facing difficulties obtaining competing quotes to validate the connections charges presented by the Distributor.</p> <p>We are also unsure how a competitive access arrangement would work, given that most connections rely on existing assets to a greater or lesser extent. Such a regime would also need to set out access arrangements, detailed pricing for what upstream assets are used, and coordinate usage of shared assets.</p> <p>We are unsure how these barriers can be overcome and are open to ideas from the Authority.</p> |
| 23. Are there other options you think the Authority should consider for connection pricing? | We recommend that a joint project is established with at least the Authority and the Commerce Commission, and potentially including MBIE. |

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| <p>24. Which if any of the above options do you consider would best support distribution pricing reform in the area of connection pricing?</p> | <p>There are features of connection costs that overlap with the powers of each of these organisations, and slowly batting consultation papers back and forth is likely to lead to an inefficient and lengthy process. A joint project would give a clearer set of regulatory settings for distributors so that they can facilitate demand growth in efficient and innovative ways.</p> <p>We consider that there are five areas the joint project should focus on:</p> <ol style="list-style-type: none"> 1. Better information on connection costs, including more detailed quotes, and more information in information disclosure reports. 2. Better processes, and standardised access terms. A default connection agreement, akin to the Default Distribution agreement, would ensure that a minimum set of terms were able to be relied upon by any access seeker and create a default/backstop position that is a nationwide standard and does not preclude individual agreements that both parties can negotiate. <p>This should also allow customers to choose what portion of costs paid as a capital contribution. As noted by the Authority, some large consumers can access finance cheaper than the WACC allowed to EDBs and would therefore be better off financing as much of the connection themselves.</p> <ol style="list-style-type: none"> 3. Ensuring that a connecting party only pays the minimum cost required to make their connection. There should be a process for EDBs view of minimum costs to be challenged, for example by an independent audit, and a dispute process run by an independent party if necessary. 4. Supporting EDBs to undertake other upgrade work (including anticipatory capex) at the same time as a connection, if it is efficient to do so. 5. Ensuring that EDBs offer non-firmed load where possible, and are incentivised to do so. |

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| | <p>We have considered these points in detail in our recent submission on the Commerce Commission's Draft Input Methodologies, particularly for points 3-5.¹</p> |
| <p>25a. 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?</p> | <p>Yes we broadly agree with the summary of the current situation.</p> <p>However, many HHR certified meters are not delivering high quality data. A material proportion of the NHH reconciliation on smart meters is due to poor data-quality</p> <p>Any consideration to require more widespread use of HHR data from these meters, should be accompanied by much stricter requirements on MEPs, that will ensure that only meters that are delivering high-quality HHR data are expected to be reconciled as HHR to both the energy market and distributors.</p> <p>We also note that there are material compliance and financial outcomes for retailers if they are unable to reconcile HHR sites with the reconciliation manager. This can be difficult because the estimation methodology employed by the Reconciliation Manager treats all HHR ICPs the same. This creates an incentive for Retailers to manage some smart metered connections, such as small or recently switched ICPs, as NHH until such time as it is confirmed that the site is providing high quality data in a timely manner. We recommend that the Authority review and amend the current estimate methodology employed by the Reconciliation Manager for HHR submissions, such that the estimate is a more nuanced approach based on the size of the connection (or meter category), or similar.</p> |
| <p>25b. [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?</p> | <p>We regularly review our pricing to ensure we remain competitive in a highly contested market.</p> <p>We look to develop retail products that are attractive to customers and respond to the market signals that we face. For example, our goodnights</p> |

¹ https://comcom.govt.nz/_data/assets/pdf_file/0015/323115/Contact-Energy-Submission-on-IM-Review-2023-Draft-Decisions-19-July-2023.pdf

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| | plan which offers free power from 9.00-12.00 every night, or Dream Charge which has lower rates overnight, targeting EV charging. |
| 25c. [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)? | |
| 26. Do you agree with the problem statement for retailer response? | Yes we agree with the problem statement. |
| 27a. Do you have any comments on the Authority's preferred pricing? | Note response to Q25a above. Before moving to the Authority's preferred pricing we would like to see more accurate HHR data from the metering providers. Failing that there should be tighter requirements on what meters can be considered a 'capable meter' |
| 27b. [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? | Note response to Q25a. |
| 28. Are there other options you think the Authority should consider for retailer response? | We are not aware of any other options. |
| 29. Which if any of the above options do you consider would best support distribution pricing reform in the area of retailer response? | Further consideration should be given to ensuring that HHR data is accurate. |