15 August 2023

Electricity Authority
By email: distribution.feedack@ea.govt.nz

Targeted Reform of Distribution Pricing – issues paper

Meridian appreciates the opportunity to comment on the Electricity Authority's issues paper on targeted reform of distribution pricing.

Meridian is a nationwide retailer, through the Meridian and Powershop brands. Meridian is also building a public EV charging network across New Zealand through our Zero brand.

Meridian supports the principle that distribution pricing should be efficient and cost reflective to support an affordable transition to a low-emissions economy. Significant investment in distribution networks is required to enable the transition and 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 which save consumers money.

Promoting more consistent pricing reform

In Meridian's opinion, another key driver for consideration of distribution pricing reform is the inefficiency that results from 29 different distribution pricing methodologies in a country the size of New Zealand. Meridian anticipates that greater standardisation of distribution pricing and network access would drive efficiencies for retailers by significantly reducing their costs to serve and ultimately reducing costs to consumers.

Meridian therefore supports the general move in this issues paper towards a more regulated approach to distribution pricing, including the options to mandate or prohibit (via future Code amendment) certain pricing approaches or enabling targeted call-in and approval of pricing methodologies by the Authority. The Authority has already put a lot of effort into clarifying and extending guidance materials and evaluations such as the scorecards. However, given the mixed response to guidance and scorecards, coupled with increased need for investment and demands for network services, regulation may be required.

Different distribution networks may face different challenges, making fully standardised pricing methodologies challenging. However, in Meridian's opinion, it should be possible to develop a standardised set of cost building blocks or a standardised pricing toolbox which each distributor could deploy to suit their situation, or to limit things that drive variation such as the four different capital contribution policies. Without standardised building blocks, each distributor could implement different pricing reform, each with unique and complex pricing schedules. This would make it extremely difficult to package up plans for customers in a way that is clear and easily understood and can be marketed nationally.

Call-in

For call-in to work effectively, it will need to be supplemented by more specific expectations of distributors, such as detailed Code requirements. In the issues paper, it is generally presented as a separate option, distinct from specific requirements in the Code. It would be more effective if the Authority could be as clear as possible on the preferred pricing approach up front, so that distributors are been given a reasonable opportunity to make changes and call-in is only used if changes are not made or are inadequate. This may not be dissimilar to monitoring and compliance functions for other Code obligations.

Connection charges

Meridian strongly supports more standardisation in distribution pricing for connection charging. We have advocated for this in previous submissions on changes to the regulatory settings for distribution.

Drive Electric have noted in their submission that for one charge point operator (CPO), the variation in quoted capital contribution costs has ranged from $127 to $169,700.

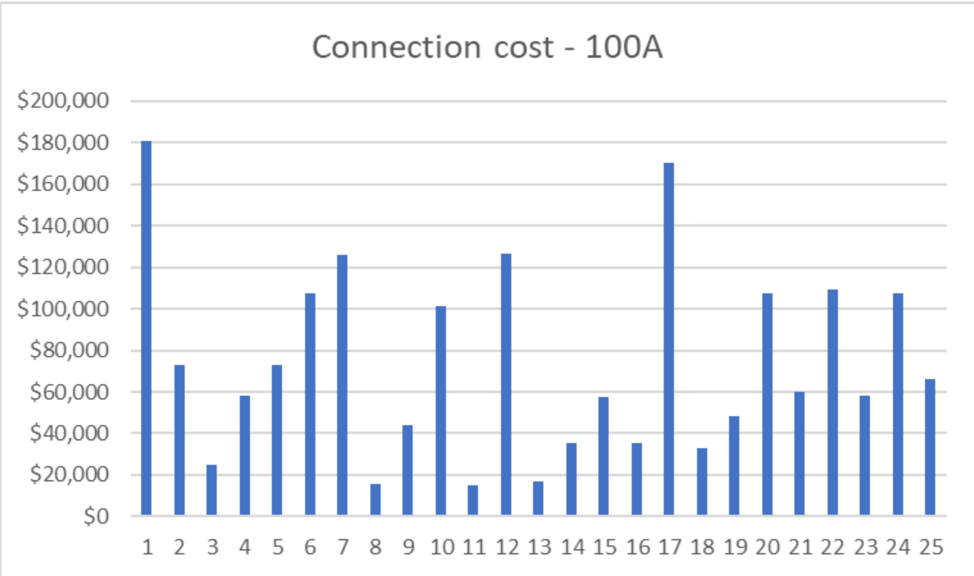
Nationwide capital contribution cost quotes for a CPO (100A and 160A)

Summary				
Connection size	**quotes**	**Avg**	**Min**	**Max**
100A, 69kW	44	$20,132	$127	$119,483
160A, 110kW	17	$39,417	$127	$169,700

We also note that these quotes are for small connections relative to those required for multiple and higher capacity DC chargers, which will be needed in New Zealand. This means that the issue could be even more pronounced for larger sites.

Another CPO referenced by Drive Electric has reported similar cost variance across 25 sites in Auckland, where nearly 50% of the total commissioning cost for a charger is connection costs. This is illustrated in the following table.

Range in connection costs across 25 sites in Auckland for a CPO

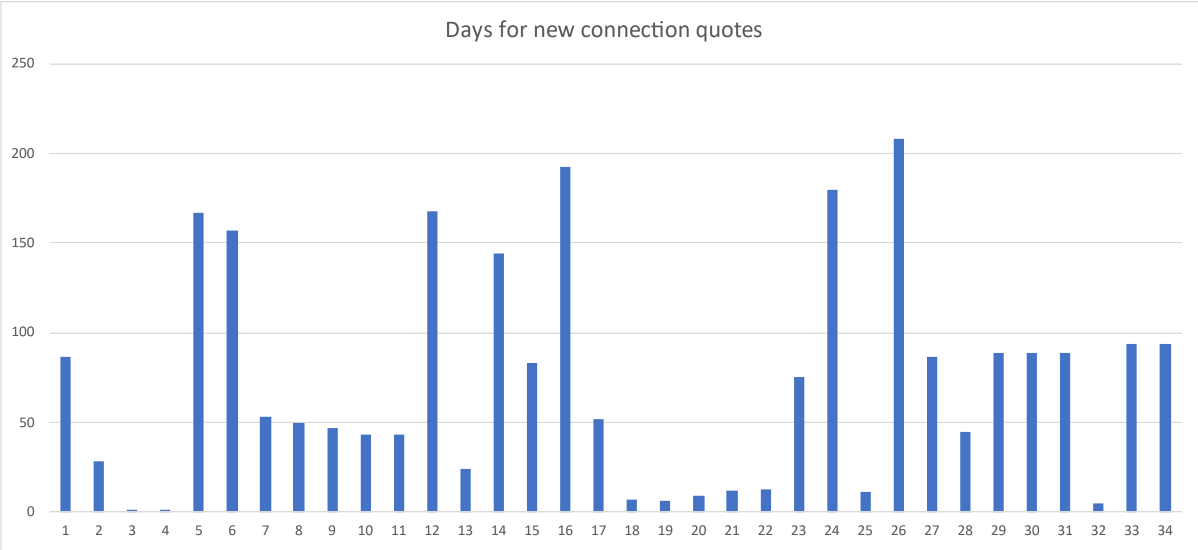


The CPO also reports in Drive Electric's submission that the comparable costs in Australia are about 5% of the project costs.

Our public charging deployment has slowed, and in many locations has been unable to proceed due to the unreasonably high cost of new connections. The underlying causes for such dramatic variability in connection costs are not always clear but we presume that different approaches to capital contributions play a large role.

Depending on available network capacity, large new connections may also face wider network upgrade costs that do not exclusively benefit the connecting party. Unlike transmission pricing, there is no standard approach to first-mover disadvantage for distribution pricing and no standardised method to fairly allocate network upgrade costs between existing users, an access seeker connecting to the network now, and new connections that might be anticipated in future.

In addition to significant and often unexplained price variability, Drive Electric also note that there is a large variation in time to quote, with quote responses ranging from 1 day to 208 days.



We strongly support more standardisation in connection pricing and processes, to make things more predictable and straight-forward for access seekers. The variation in pricing and process can make business cases for public EV charging infrastructure very challenging. The Government has recognised the need for a coordinated and strategic approach to rapidly scale up public charging in New Zealand and is working on a National EV Charging Strategy. Budget 2023 also $120 million to expand EV charging infrastructure in support of its strategic direction. This funding may help to overcome barriers in the short term, however, with improved regulatory settings, private capital will invest many times more than this to establish New Zealand's charging network.

We also strongly support additional efforts such as providing GIS data, and more information about capacity in different areas. Currently, access seekers suggest potential sites to distributors for analysis, with little or no knowledge of what network capacity is available or what potential upgrades would be required. Trying to establish whether there is capacity in a particular location can attract fees of around $3,000. This is charged per location, per request. Costs can quickly mount with multiple requests if we are unable to find a location that has sufficient capacity. These requests are inefficient for both access seekers and for distributors, and can lead to delays and frustration on both sides. Processing unqualified and speculative requests is an inefficient use of distributor time and resource, which instead could be focused on facilitating viable and well researched projects.

Many distributors maintain some form of geographic information system with the location and characteristics of their infrastructure mapped within it. However, public access to these systems is currently not widely available. Increased transparency and access would enable access seekers to focus on more suitable locations, which would reduce the administrative burden and time taken by both access seekers and distributors.

We also strongly support the idea to allow for a larger pool of approved providers, through which access seekers could directly contract for work. Our experience is that quotes for works can vary widely among distributors, and that this proposal would inject some positive competitive pressures and help to keep prices reasonable.

We strongly support efforts to streamline and standardise connection processes and consider the best solution may be to bring together connection pricing reforms, standardised connection processes, and complementary measures in a regulated access regime for new connections of specific classes. An access regime for public EV charging would be particularly helpful. Meridian is a member of Drive Electric and supports their submission on this topic.

Retailer response

Meridian recognises that there is a need for retailers to innovate with tariff options. However, we think it is important to be realistic about the opportunities here, and also to be wary of stifling innovation if requirements on retailers are too prescriptive.

Meridian already offers several plans with non-uniform tariffs across our two brands. We are optimistic about the role that more innovative pricing plans will play in the energy transition. Our expectation is that alternative tariffs will become increasingly important as EV uptake increases among consumers, and that EV owners in particular will be open to alternative charging structures and shifting their demand to suit off-peak timing.

The Authority should also be aware that retailers can and do innovate to suit customer preferences. Customer needs and wants should be key. Some participants are already offering very innovative products, but limited uptake suggests that some customers are not ready for this.

Retailers operate in a highly competitive market, which means that there is pressure to offer the best service and to manage input costs. This is a different operating context to distributors as regulated natural monopolies.

Other comments

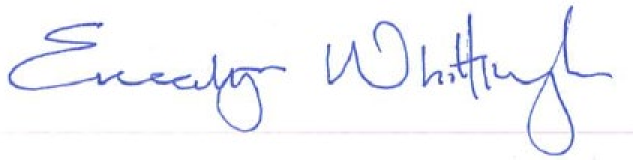
We would also like to make the following comments:

- The consultation suggests that there should be limited grounds for opting out of certain non-uniform distribution tariffs. We recommend that flexibility should be retained, , especially in the case of non-communicating meters.

- We are concerned that fixed charges may be relied upon too much. Although these might be more efficient than variable charges in certain circumstances, we note that fixed charges can be burdensome for some customers, especially elderly customers and those on fixed incomes. The Authority should be alert to the distributional impacts of trends towards this type of pricing.

This submission is not confidential and can be released in full. I can be contacted to discuss any of the points made.

Nāku noa, nā



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Senior Regulatory Specialist

Appendix A: Responses to consultation questions

1.	Are there other options that you think the Authority should consider? [beyond continuation – control – call-in]	No.
2.	Do you have any comment on the options outlined?	We think that the options covered (continuation, control, call-in) represent a good range of ideas, and are well-tailored to the particular issue. We think that the call-in option would probably work best if it was supported by clear expectations in the practice note and the Code.
3.	(a) Do you agree that a combination of TOU tariffs and load control (appliance) tariffs would be useful for the smart management of peak demand? (b) Do you consider that TOU pricing could have unintended consequences for congestion on the LV network? (c) 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?	Yes.
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?	Yes, see further commentary in the body of this submission.
20.	Do you agree with the problem statement for connection pricing?	Yes, however we think it is worth highlighting that all of the issues set out in the problem statement vary across the 29 distributors. Understanding and working with the different connection processes and pricing methods for each distributors is very challenging for our efforts to establish the Zero charging network nationwide.
21.	Do you agree with the Authority's preferred pricing approach for connection charges?	Yes. However, we would also like to see more standardization in terms of process and complementary measures.

22.	Do you have any thoughts on the complementary measures mentioned above and to what extend work on these issues could lead to more efficient outcomes for access seekers?	Meridian strongly supports the complementary measures outlined in the issues paper. We think that opening up more information about things like capacity and locations would greatly simplify processes and costs, and also be very positive for both access seekers and the distributors. Currently it can take multiple, costly, repeated requests to networks to establish capacity at different locations. This is unlikely to be a good use of distributor time and resource, especially when a capacity map is a viable alternative. Meridian also strongly supports the proposal to offer a pool of alternative providers when procuring capital works. This is likely to add some competitive pressures and therefore drive costs to more efficient levels.
23.	Are there other options you think the Authority should consider for connection pricing?	We would like the Authority to consider options to standardize processes, so that there is more predictability in working across the 29 distributors.
24.	Which if any of the above options do you consider would best support distribution pricing reform in the area of connection pricing?	Meridian supports a regulated option such as prohibiting certain approaches in the Code or mandating the use of standard cost building blocks to develop pricing. We would also support the establishment of a call-in regime.
25.	(a) Do you agree with the assessment of the current situation and context for retailer response? (b) [For retailers] What plans do you have for responding to distribution pricing signals as distributors reform their price structures? What barriers do you see to responding efficiently?	(a) Yes. (b) We offer a range of alternative tariffs across both our brands. However a key driver for us in offering non-uniform tariffs is in innovating to suit customer preferences and needs.
26.	Do you agree with the problem statement for retailer response?	Meridian does not agree that continued use of deemed or residual profiles presents a problem. Retailers operate in a market and are subject to competitive pressures. If savings can be found, then there will be an incentive on retailers to pass these on to customers. This should result in a move away from deemed/residual profiles.

27.	(a) Do you have any comments on the Authority's preferred pricing? (b) [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?	There should be flexibility to opt out of non-uniform tariff options, in the case of non-responsive meters.
29.	Which if any of the above options do you consider would best support distribution pricing reform in the area of retailer response?	We support the Authority's suggested approach, which is to support the transition to billing on actual energy and network purchases, develop more guidance on tariff assignment, and to monitor retail pricing. We do not see any case for regulation of retailer response to distribution pricing. The retail market is highly competitive and there are strong market incentives for retailers to adopt non-uniform tariffs where there is consumer demand and/or cost savings that can be realized.