



New Pricing Options for Electricity Consumers

Compilation of questionnaire responses

February 2017

Prepared by the

Electricity Networks Association

Introduction

The Electricity Networks Association (ENA) is examining different ways to price electricity distribution services. Improvements in technology, the falling cost of that technology, and changing consumer behaviour, are driving the need for change.

In November 2016, we released a discussion paper which sets out alternative ideas on how to price distribution services. Throughout that paper we asked interested stakeholders to provide feedback, including on specific questions on the pricing options, the consultation process, and implementation.

We received responses from 21 submitters. This document comprises a high-level summary compilation of the responses to the questionnaire. This was compiled by PwC.

Twelve submissions were received from retailers (including ERANZ), six from other consumer and industry representative organisations, and three from other submitters.

Table 1 – List of submitters

Retailers	Industry bodies /associations /consumer representatives	Others
Contact Energy	Electricity Retailers' Association of New Zealand (ERANZ)	Allan Carvell
Electric Kiwi	Consumer New Zealand	New Zealand Institute of Economic Research (NZIER)
Flick Energy	Grey Power	Transpower
Genesis Energy	Independent Electricity Generators Association (IEGA)	
Mercury	Major Electricity Users' Group (MEUG)	
Meridian Energy	Sustainable Electricity Association New Zealand (SEANZ)	
Nova Energy	Utilities Disputes Ltd	
Pioneer Energy		
Pulse Energy		
Simply Energy		
Trustpower		

Summary of submissions

This section provides a high level summary of the submissions received for each of the questions raised in the discussion paper.

General themes

In general, most submitters are supportive of more cost reflective approaches to distribution pricing. Where submitters specify a preference, most support either Time of Use (ToU) or network demand pricing, usually in combination with some other form of pricing. Other pricing options have limited support.

In general, there is little consensus on the more detailed technical aspects of pricing design.

Most submitters agree that retailers will face incentives to pass on distribution pricing signals due to the effect of competition. However, submitters emphasise the need for consistency and co-ordination across distributors to lower the costs that retailers may face in passing through distribution pricing signals and engaging with end-consumers.

Submitters support the ENA's leadership role in co-ordinating distributor efforts, although some submitters call for either an pan-industry working group or for greater collaboration between the ENA and ERANZ to ensure a smooth transition to future distribution pricing structures.

Submitters are concerned with how distributors will engage with consumers and other stakeholders, with many suggesting that retailers should be involved throughout the process given they typically hold the consumer relationship and set final prices.

Most submitters agree that the industry faces implementation challenges, particularly in relation to upgrading data and billing systems and management of data. However, these challenges are not insurmountable, and will be minimised where distributors can align their pricing structures.

Part 1: The need for change

Question 1

The following features of efficient and effective distribution pricing have been identified: (1) actionable; (2) compliant; (3) cost-reflective; (4) effective in the long term (durable); (5) service-based; (6) simple; (7) stable and predictable.

- (a) *Are there any features which you consider should be added, removed or changed in the above list? Please explain your reasons.*

Submitters generally support the seven features of efficient and effective pricing.

Submissions suggest:

- adding a number of other pricing features, including “consistency”, “equity”, “efficiency”, and “manageable costs for retailers”.
- clearer definitions for the features to assist in developing pricing and prioritisation of the features.

A key theme in many submissions is the need for consistent approaches to be adopted amongst distributors, making it easier for retailers to implement pricing packages and pass them on to

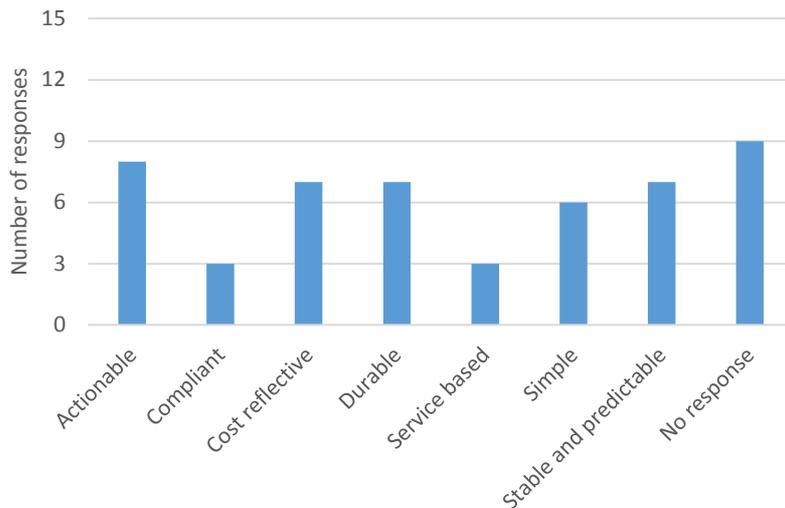
consumers. Submitters suggest that while each network has unique characteristics, the ENA could have a role in recommending which pricing approaches would be most useful to address particular network characteristics; so distributors can structure their pricing in a similar way.

(b) Which of the above features are the most important in determining future distribution pricing?

The most important features identified by submitters were “cost-reflective”, “actionable”, “effective in the long term (durable)”, “simple”, “stable and predictable”.

Submitters also note the trade-offs between the various features.

Figure 1: Summary of response to question 1(b)



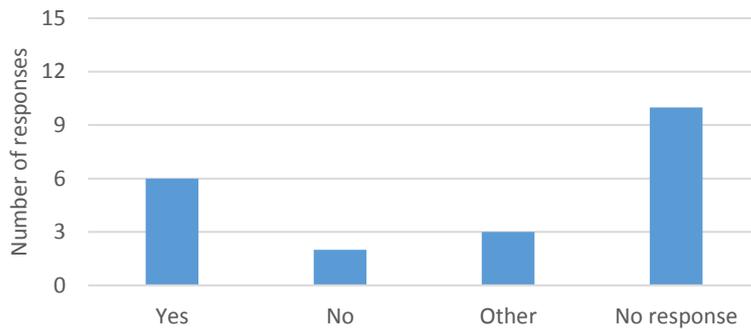
Question 2

The ENA has identified five pricing types that it considers in detail in this paper: time of use consumption; customer demand; network demand; booked capacity and installed capacity. Do you agree that these are the five best types of pricing to consider now? Do you agree that other cutting edge pricing options (such as critical peak and real-time pricing) should be left for consideration at a later date? Please provide your reasons.

Submitters generally agree with the options being considered now, although there is less support for capacity based charges and customer demand charges.

Submitters are divided in their views as to whether other cutting edge pricing options should be considered now, with three in favour and four against. Those in support argue that distributors should make use of modern technology now to promote stable pricing in the long term (ie to avoid another major structural change in the future). Those against argue that cutting edge pricing options are too complex to implement and to understand.

Figure 2: Summary of response to question 2



Question 3

Do you consider that retail competition can be relied upon to ensure consumers face appropriate distribution price signals? Please explain why or why not.

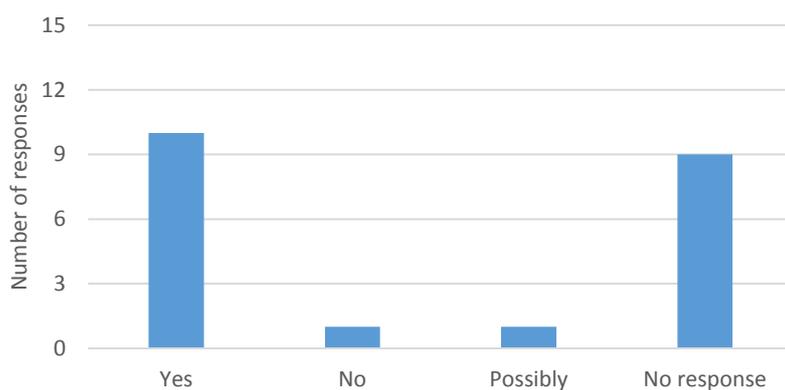
The majority of respondents agree that retail competition can be relied upon to ensure consumers face appropriate distribution price signals.

Various submitters note that retailers will likely have to pass-through new distribution pricing structures in order to compete for margins and consumers. Transpower, for example, submits that retail competition will lend itself to pricing where consumers save money, provided that distributors set useful and usable pricing signals. Retailers which do not pass-through distribution pricing may find themselves at a competitive disadvantage.

Submitters highlight that simple and consistent distribution pricing structures will reduce costs to retailers, improving the likelihood and pace of retailer pass-through to end consumers.

Four submitters are of the view that distribution charges should be passed through to consumers and not repackaged by the retailer. For example, SEANZ did not believe that retailers would pass-through pricing transparently, suggesting that retailers will focus their own pricing on selling energy, not network capacity.

Figure 3: Summary of response to question 3



Question 4

Do consumers see value in load control and ripple control, and is this likely to change in the future?

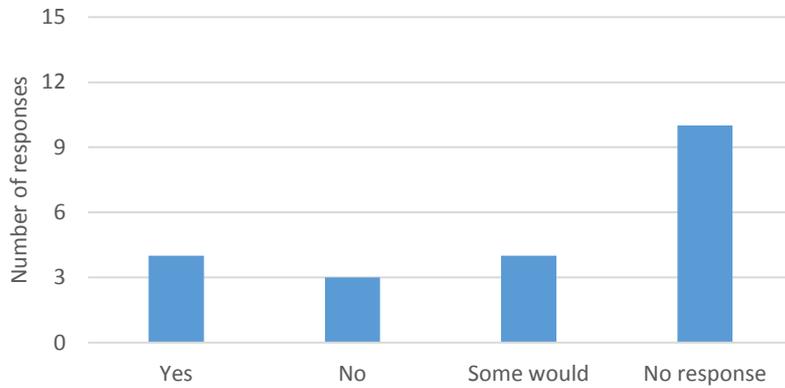
Opinions are divided over whether consumers see value in load/ripple control.

Four submitters agree that consumers see value in load/ripple control, three submitters consider that consumers don't, and four believe that only some consumers see value.

Submitters are also concerned over whether consumers actually understand the benefits of load control and ripple control.

Submitters note that these services are not open to competition, as they are generally controlled by the distributor.

Figure 4: Summary of response to question 4



Part 2: Consultation with Stakeholders

Question 5

Do you agree that distributors should engage with end consumers about distribution pricing? Why/ Why not? Please provide your reasons.

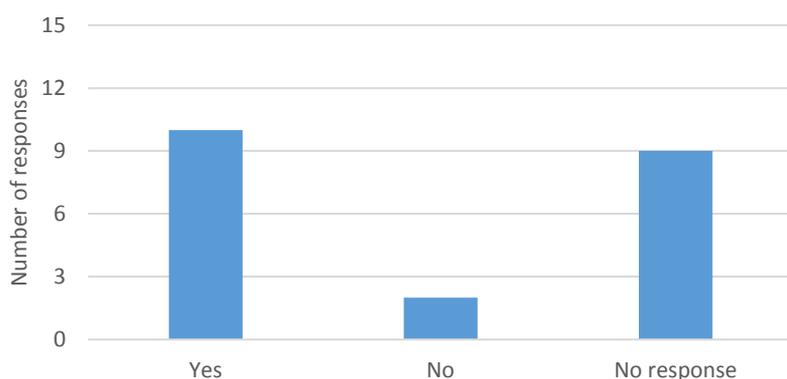
Most submitters agree that distributors should consult with end-consumers, albeit in close partnership with retailers.

Ten submitters agree that distributors should consult with consumers on new distribution pricing. However, many also suggest retailers should be involved throughout this engagement process, recognising retailers hold the contractual relationship with end-consumers. For instance, six submitters responded that retailers should be consulted first to seek their feedback and to check whether any messages regarding pricing and consumer impacts would be misleading. This recognises that distribution charges are only one component of the final retail bill, which may not be passed-through by retailers as the distributor intends.

Meridian and Trustpower disagree with distributors consulting with consumers, preferring that retailers consult directly with consumers on new pricing, using information provided by the distributor.

It is noted that retailers need early engagement to give them time to train call centre staff and develop their own marketing material, prior to distributors engaging with consumers.

Figure 5: Summary of response to question 5



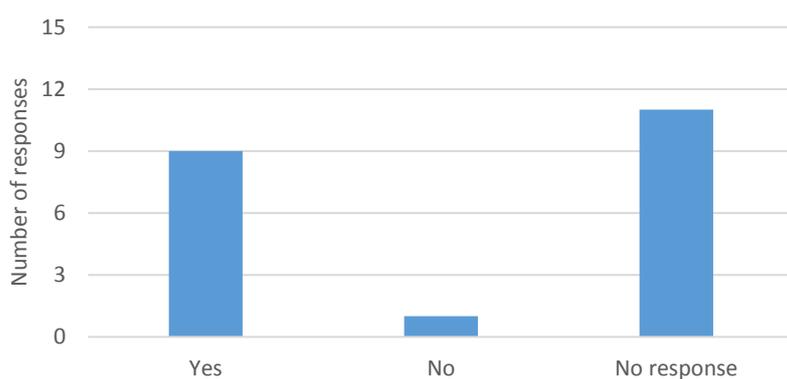
Question 6

Is there additional information that should be included in this paper about stakeholder engagement? If so, please explain what should be addressed.

Submitters make various suggestions on what should be considered for stakeholder engagement. These include:

- addressing the impact of retailers repackaging distribution charges
- co-ordination between the ENA and ERANZ on the consultation process
- formation of a pan-industry steering group on distribution pricing
- careful consideration of vulnerable and medically dependent customers
- emphasising equity and fairness in communications, over cost-savings
- sharing the findings of individual distributor pricing trials, via the ENA
- distributors sharing with the industry and the ENA what they are doing to ensure consistency
- setting aside more time (at least a year) for consultation with stakeholders.

Figure 6: Summary of response to question 6



Question 7

How should distributors balance feedback from different stakeholders?

Submitters put forward a range of views on balancing feedback from stakeholders, including:

- the formation of a pan-industry steering group on distribution pricing to co-ordinate efforts and develop best practice
- prioritising end-consumer feedback, in particular, giving more weighting towards vulnerable consumer needs
- distributors working closely with retailers to ensure prices are actionable by retailers

- using the guiding pricing features outlined in Question 1 of the discussion paper
- focusing on arguments of merit rather than protection of special interests
- using fairness and equity as the primary filter.

Part 3: The types of pricing

Time of use pricing

General comments

There is broad support for TOU pricing.

Question 8

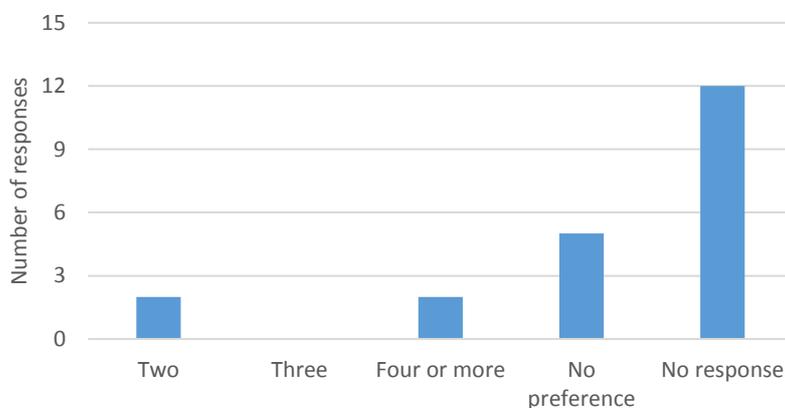
Do you prefer two rate or three rate ToU pricing plans (or any other alternative)? Please provide your reasons.

There is no consensus on the preferred number of TOU rates.

Genesis supports two rates and Pulse Energy supports two unless there are specific reasons to choose three. Meridian and SEANZ suggested new approaches which supported four or more rates. Five submitters stated no preference, while Trustpower noted that it was too early to determine the number of rates.

Submitters generally agree that TOU pricing structures need to be simple as well as consistent between distributors. Some highlight the trade-off between fewer rates, which makes pricing simpler, and more rates which may be better at signalling when load could be shifted.

Figure 7: Summary of response to question 8



Question 9

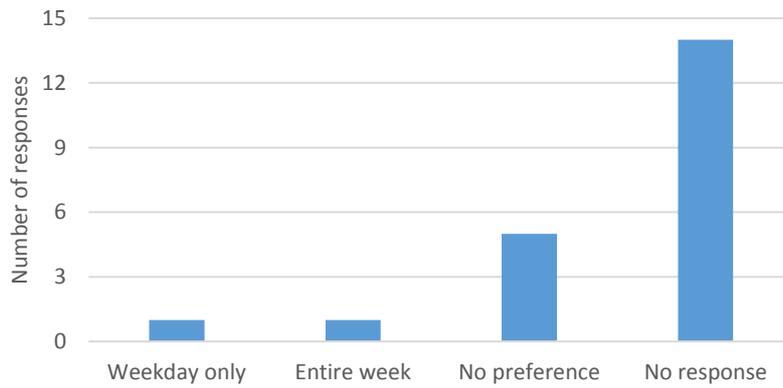
(a) Do you prefer ToU pricing plans that apply peak prices across the entire week (Mon-Sun); or ToU pricing plans that have peaks that apply over weekday (Mon-Fri) only? Please provide your reasons.

There is no clear preference on the treatment of weekends in TOU pricing.

While Meridian suggests separate day and night rates for weekdays and weekends across the week, their initial impression is that there was limited justification for applying peak prices in the weekend. Genesis supports TOU pricing over weekdays only. The remaining submitters express no clear preference and note that it depends on the distributor's preferences in balancing network and consumer needs.

Most submit that the plans must be implementable by retailers and that consumers must be able to engage and respond.

Figure 8: Summary of response to question 9(a)

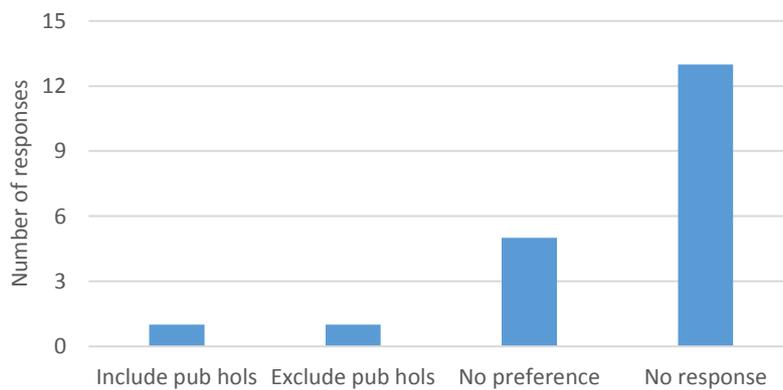


(b) *If you prefer peak prices to apply over weekdays (Mon-Fri) only, do you prefer the definition of weekdays for peak prices to include or exclude public holidays? Please provide your reasons.*

There is no clear preference on whether to include or exclude public holidays during weekdays.

Only Genesis suggests that public holidays should be excluded from the definition of weekday. Meridian submits that they should be included in weekdays. Others submitters do not express a preference.

Figure 9: Summary of response to question 9(b)



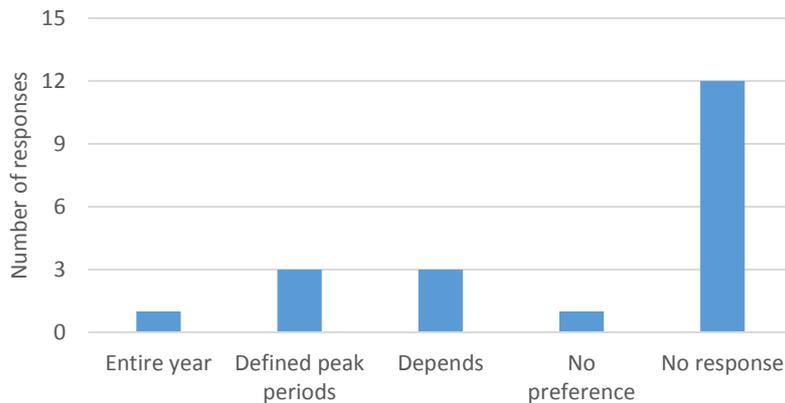
Question 10

Should peak prices apply throughout the entire year or should they apply only during clearly defined peak months (such as the winter months of May-Sept)? Please provide your reasons.

There is no clear preference for applying prices over the entire year or during a defined period.

Three submitters do agree that peak prices should apply only in winter because that is when the increased demand occurs on most networks. SEANZ suggests a modest year round peak price since it signals average cost differentials within the day for the service offered. 3 submitters consider that it depends on the distributor and should reflect the characteristics of their network (eg some networks may be summer peaking).

Figure 10: Summary of response to question 10



Question 11

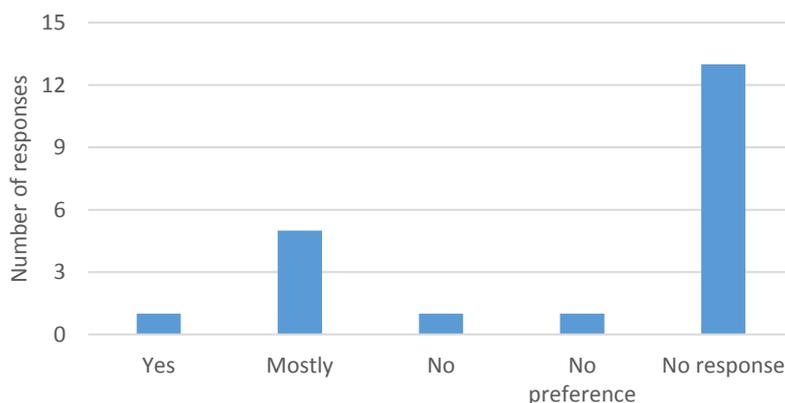
Do you agree with the ToU consumption pricing template? Please explain why/why not.

There is broad support for the proposed TOU pricing template subject to some suggested changes.

Six submitters broadly agree with the proposed pricing template. Meridian suggests an alternative four rate TOU plan. Several submitters suggest changes to the peak definition (eg summer/winter definitions could be included), and note that the pricing time slots may need to be different across networks, reflecting differences in peak demand.

To support consistency between distributors, Trustpower suggests that the template should include summer/winter pricing and peak/off peak/shoulder pricing and that distributors can choose whether to apply the same price across the different slots.

Figure 11: Summary of response to question 11



Demand Pricing

General comments

Network demand pricing (based on Coincident Maximum Demand (CMD)) is clearly preferred over customer demand charges (based on Anytime Maximum Demand (AMD)).

Seven submitters support network demand pricing, however a number of concerns are raised with customer demand charging, such as it is not as cost reflective as other pricing options.

Mercury and Flick do not support any form of demand charging and Meridian and MEUG express limited support due to concerns over how demand charging would be implemented.

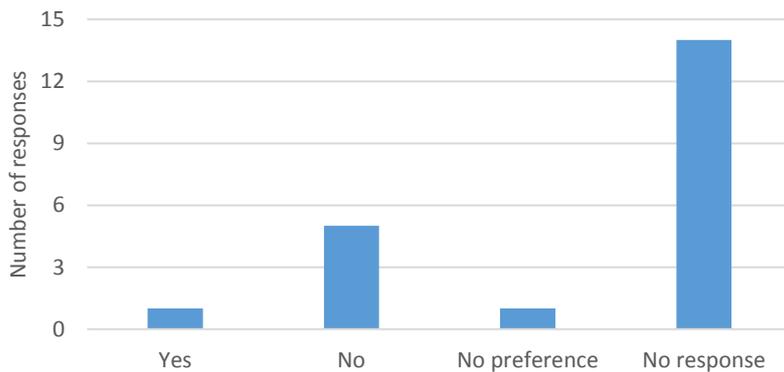
Question 12

Do you agree with the Customer Demand template? Please explain why/why not.

There is little support for the Customer Demand template or the customer demand pricing option in general.

Only Pulse Energy agrees with the pricing template. Five submitters do not agree with the template as they preferred other pricing options. Most submitters state that they needed more information in order to provide an opinion.

Figure 12: Summary of response to question 12



Question 13

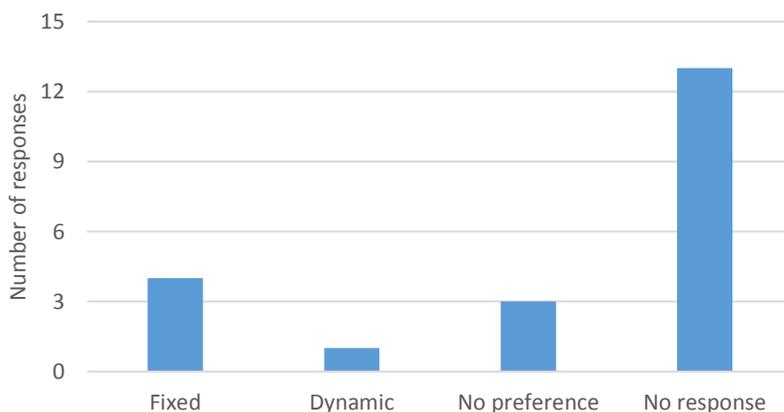
If Network Demand pricing is used, should it be based on fixed or dynamic network peak pricing? Please provide your reasons.

There was a slight preference for fixed network peak pricing.

Four submitters prefer fixed network peak pricing over dynamic peak pricing. SEANZ supports dynamic network peak pricing outright and Trustpower notes that both approaches have pros and cons. Meridian does not support demand based pricing.

Submitters favour a fixed period approach as it is easy to communicate and easy for consumers to respond to. Dynamic periods are considered unpredictable; they are likely to work only if sufficient warning is given to customers; they may need to be repackaged; and they may require more wash ups.

Figure 13: Summary of response to question 13



Question 14

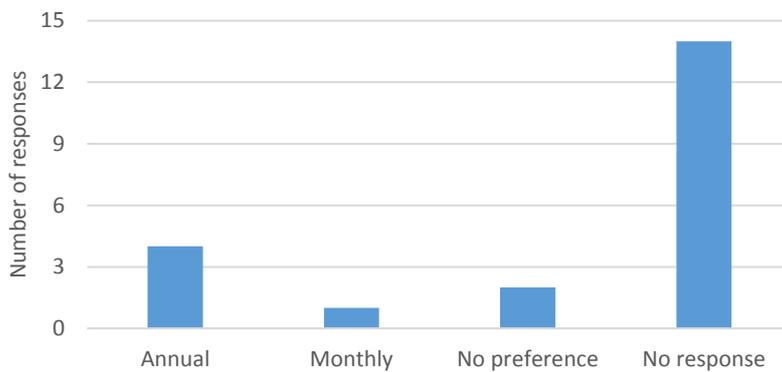
Are annual or monthly resets for demand pricing more appropriate? Please provide your reasons.

There is a slight preference for annual resets.

ERANZ, Genesis, SEANZ and Greypower support annual resets, while Trustpower supports monthly resets. Others did not express a preference, with a couple of submitters noting that it depends on what is most cost-reflective.

While annual resets are less complex, submitters note that customers will be affected for a longer period of time and will have less ability to respond to pricing (eg due to a single isolated demand spike). It was also unclear how billing quantities would be established when customers switch retailers or move premises.

Figure 14: Summary of response to question 14



Question 15

What tools might consumers need access to be aware of Network Demand pricing signals?

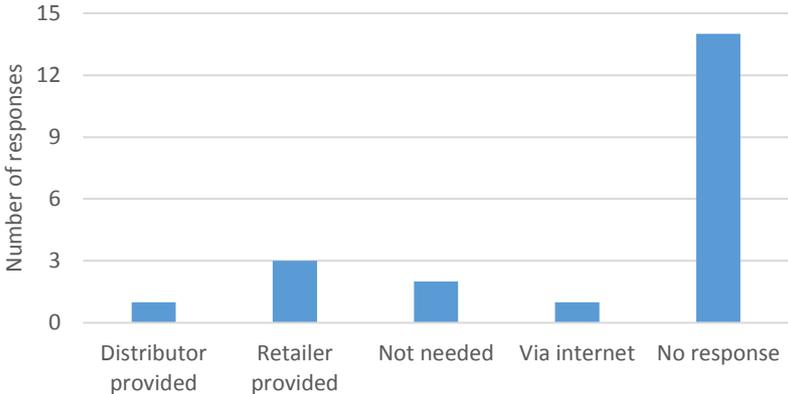
Tools will likely need to be provided to consumers, with a preference expressed for the retailer providing them.

Four submitters agree that tools should be provided to end-consumers, with three wanting retailers to offer them. Pulse Energy submits that distributors must provide demand information for free for this pricing to be successful.

SEANZ submits that the internet could be used to provide information (ie through smart phones, in house displays, email alerts etc).

Contact notes that not all consumers want these tools and engagement with pricing information will vary widely across consumers, and therefore methods of engagement will need to be tailored to different consumers.

Figure 15: Summary of response to question 15



Question 16

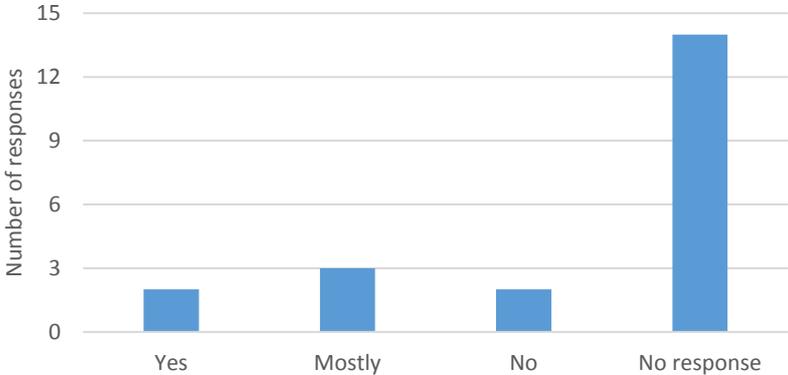
Do you agree with the Network Demand template? Please explain why/why not?

There is general support expressed for the proposed network demand template.

Five submitters agree with the template, one submitter disagrees with demand charges in general, and another submitter requires further explanation of the specific costs included in the template.

Meridian wanted to understand the timeframes for when billing information would be provided.

Figure 16: Summary of response to question 16



Capacity Pricing

General comments

There is little support for capacity charges.

At least four submitters are against and only one in favour of capacity charges. A number of submitters share concerns about the plans, which are viewed as difficult to understand and administer. Excess charges are also seen as punitive for consumers that exceed their booked capacity.

Mercury was the only submitter to support booked capacity on the basis that it would smooth energy bills over the course of the year, avoiding winter bill shock.

Grey Power views installed fuses as a safety device and did not consider them as appropriate for setting capacity based pricing.

Trustpower does not believe that the installed capacity plan would be compliant with the LFC regulations as it is practically a fixed charge.

Question 17

When consumers are moved to a booked capacity plan for the first time, who should choose their plan?

- (a) The consumer, in all circumstances*
- (b) The distributor, in all circumstances*
- (c) The distributor, but only if the consumer is unsure of, or does not nominate, their preferred plan*

Please provide your reasons.

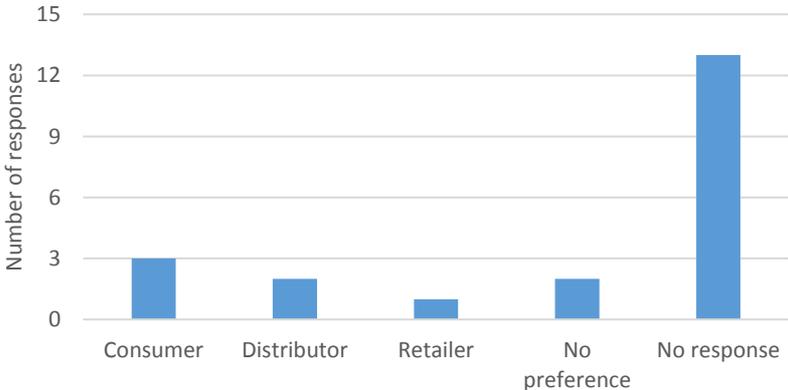
No clear preference is stated for who should initially choose the booked capacity plan.

Three submitters believe the consumer should choose, two others suggest the distributor should choose, and one submitter recommends the retailer choose.

There is concern that consumers need to be educated first to ensure they pick the most appropriate option.

If distributors do choose, it is suggested that they should consult with retailers and review the selection annually. Trustpower, which is in favour of the retailer choosing, submits that it is the retailer that pays for booked capacity (regardless as to whether they charge the end-consumer) so it is in their interests to get the plans right to ensure they win customers and not lose money.

Figure 17: Summary of response to question 17



Question 18

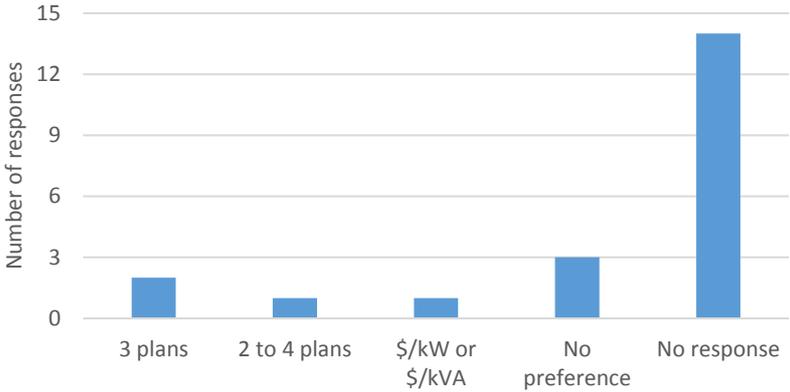
Distributors could offer several Booked Capacity price plans (or bands) to choose from. What is a reasonable number of plans to choose from? Please provide your reasons.

There is no clear preference as to the number of capacity band options, but submissions note a balance needs to be struck between simplicity and consumer choice.

Genesis suggests no bands in favour of a generic \$/kW or \$/kVA charge. Mercury and Pulse Energy suggest the number of bands need to be considered by distributors alongside the number of other charges offered in the pricing package (ie including demand charges or fixed daily charges etc).

MEUG suggests that distributors need to test the market to determine the optimal number of price plans and type of plans.

Figure 18: Summary of response to question 18



Question 19

Assuming it comes at no cost to the consumers, how often should a consumer be allowed to change Booked Capacity plans?

- (a) Never
- (b) Once per year
- (c) Twice per year
- (d) Three times per year
- (e) As often as they want

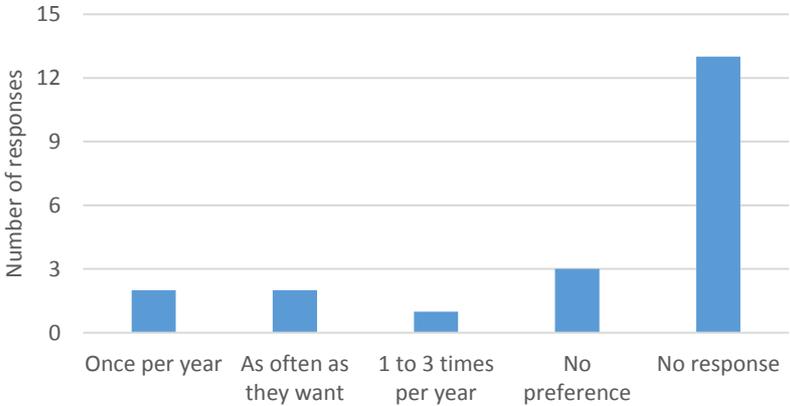
Please provide your reasons.

There is no clear preference for how often consumers can change their booked capacity plans.

Two favour (b) 'once per year', two submitters favour (e) 'as often as they want' and one favours one to three times per year. Less frequent changes are seen to avoid seasonable arbitrage and disproportionate administration costs. MEUG suggests that costs associated with the change should be passed through to consumers.

A couple of retailers also queried what happened when consumers change property, suggesting that they should be allowed to revisit their booked capacity at such time.

Figure 19: Summary of response to question 19



Question 20

Sometimes consumers will choose a Booked Capacity plan that is not most suitable or they have a period of high usage meaning that they go over the capacity of the plan they have chosen. What should happen if the consumer breaches their plan?

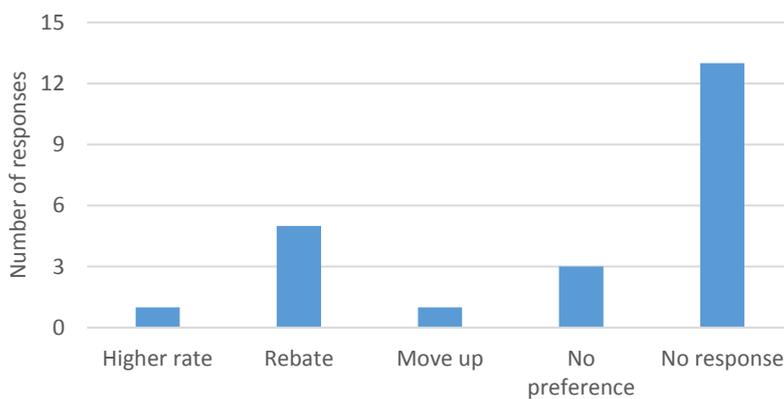
- (a) *Pay a higher rate for the usage above the plan*
- (b) *Receive a rebate if they stay within plan*
- (c) *Automatically moved up to a higher plan Please provide your reasons.*

There is general support for a rebate as this is not punitive to consumers.

Five submitters support a rebate, as this would not be viewed as punitive by consumers. Trustpower supports either a higher rate or a rebate, as these could easily be repackaged by the retailer to the end-consumer. No one supports automatically moving up to a higher plan – this was seen as punitive and exposes the consumer to abnormal usage events.

One submitter suggests that allowances should be made for the first breach or minor breaches.

Figure 20: Summary of response to question 20



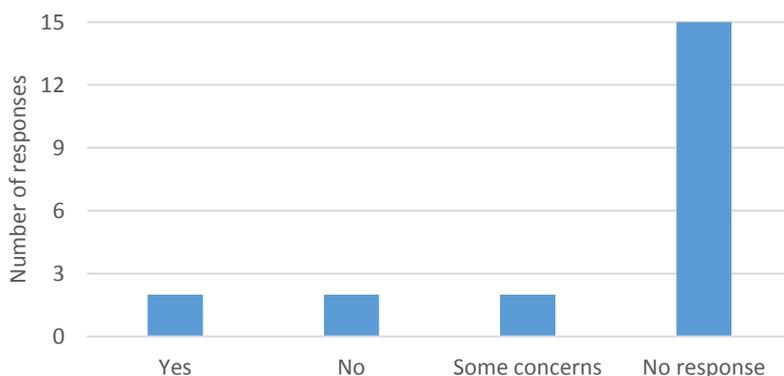
Question 21

Do you agree with the Booked Capacity template? Please explain why/why not.

Support is limited for the Booked Capacity template as it stands, and for capacity pricing generally.

Two submitters agree with the template, while two do not support capacity pricing in general. A number of submitters are concerned that a booked capacity plan would be very difficult for end-consumers to understand.

Figure 21: Summary of response to question 21



Pricing assessment

Question 22

Do you agree with the list of pricing assessment criteria presented in Section 9.2?

- (a) If not, what criteria should be considered?
- (b) What are the most important assessment criteria and why?

There is general support for the pricing assessment criteria, subject to various feedback.

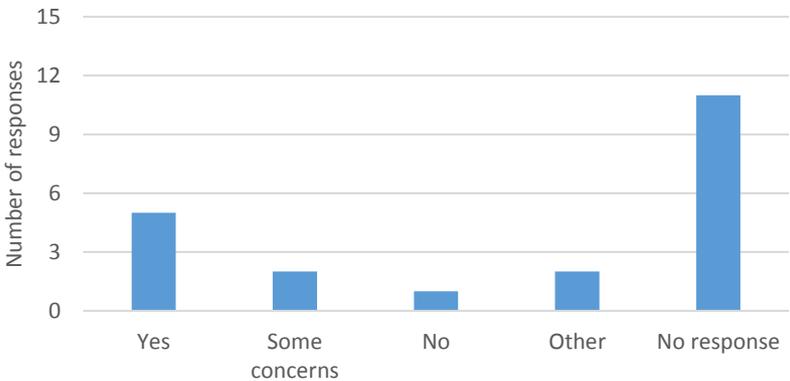
There were a number of additional suggestions, including:

- alignment to the pricing features outlined in question 1 (actionable, cost-reflective, durable etc)
- more research, trials and analysis into the long term benefit of each option for New Zealand
- assessment of how various pricing options could be combined and packaged to resolve specific network issues (ie a cook book approach)
- greater consideration of vulnerable and medically dependent customers
- consideration of the compatibility and alignment of the pricing options with expected changes in transmission pricing.

Submitters express varying views on what the most important assessment criteria is. The most important assessment criteria appeared to be:

- cost reflectivity and economic efficiency
- retailer pass through of pricing
- consistency among distributors
- durability.

Figure 22: Summary of response to question 22



Question 23

Do you agree with the ENA’s high level assessment of each pricing option against the assessment criteria (presented in Section 9.2)? What in your view are the relative benefits, costs, or challenges associated with each pricing option?

A range of views are expressed on the assessment of each pricing option with no clear consensus.

Three submitters agree with the high level assessment of each pricing option and three do not.

A number of submitters call for more research, analysis and evidence to anchor the assessment.

Several submitters suggest that the assessment should focus on whether the pricing option meets the needs of the network.

There is concern that the assessment assumes that end-consumers would only face the distributor pricing signal in its entirety, when in reality it is only one component of a consumer’s bill.

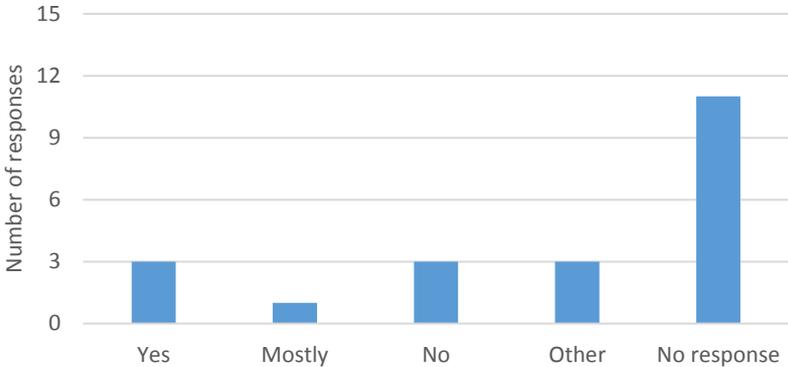
The benefits identified for TOU pricing include that it has the smallest impact on consumers, is more cost reflective than current pricing, and has been shown empirically to shift demand. One submitter, however, believes that it will be difficult to communicate, has significant seasonal impacts, and TOU only works if there is a significant difference in peak and off-peak charges.

Those opposed to peak demand pricing believe it is less effective at reducing peak demand and harder to understand than TOU. Customer peak demand charging in particular is not supported because an individual consumer's peak may not coincide with network peaks, meaning it is not as cost reflective.

Mercury, the only submitter to support capacity pricing, believes it has the advantage of smoothing bills over the year.

SEANZ notes that capacity charging is not an appropriate 'service charge' as consumers are primarily concerned with energy transportation, not network capacity. It also notes that booked capacity encourages wastage if consumers do not usually use the full extent of their booked capacity.

Figure 23: Summary of response to question 23



Question 24

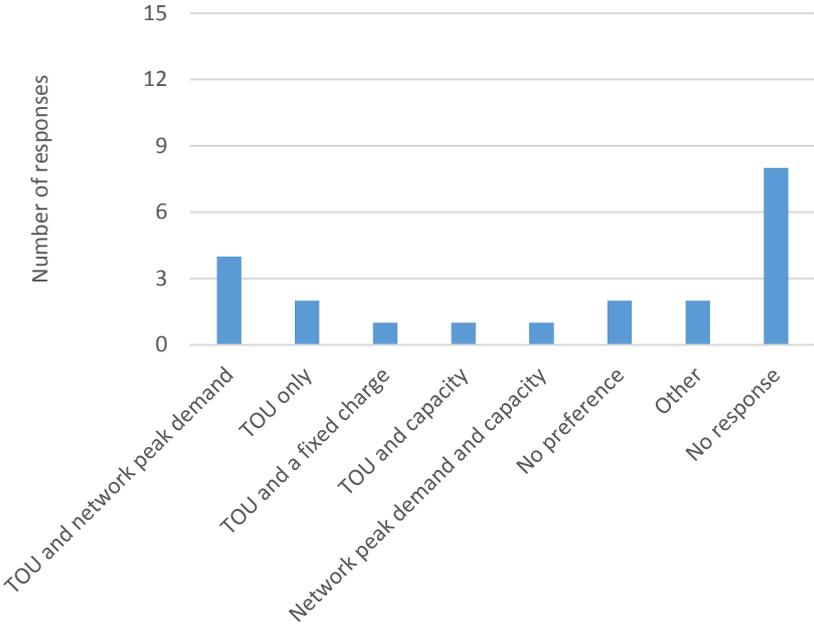
What do you consider is the optimal combination of pricing components?

The figure below shows the number of submitters in support of each pricing component combination. It shows that TOU is the most preferred among submitters, particularly when used in combination with other charges.

In Consumer NZ's survey of its members, TOU was the most popular option identified (with support from 32% of survey respondents) with the status quo coming in second (23%) and network peak demand third (20%). 11% were undecided and 7% supported customer peak demand, respectively.

None of the submitters support customer peak demand.

Figure 24: Summary of response to question 24



Part 4: Implementation and Transition

Implementing new pricing

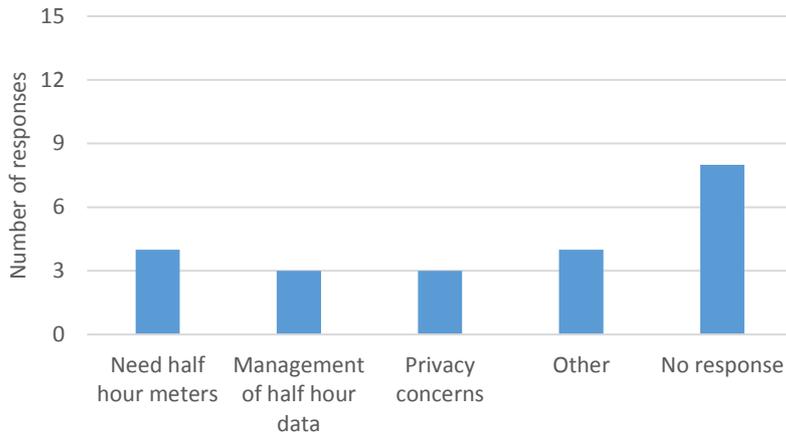
Question 25

Do you foresee any challenges to obtain and supply required data for implementation of preferred price structures? Please provide your reasons.

The primary challenges identified by submitters include management of half hour data (three submitters), customer privacy and data security issues (three submitters), and the need to deploy half hourly meters and obtain validated data across a critical mass of consumers (three submitters).

Submitters note that it is unlikely that every ICP will have half hourly data, so exceptions will be required. Billing systems will need to evolve. Several retailers note they can assist distributors with billing information. Submitters also do not believe that monthly-based pricing structures provide much time to verify and process billing data (compared to annual-based pricing structures), and that demand based pricing may be difficult to pass through.

Figure 25: Summary of response to question 25



Question 26

What is your view on the use of data estimates / profiles for implementation of preferred price structures? How should gaps in information in half hour data be addressed?

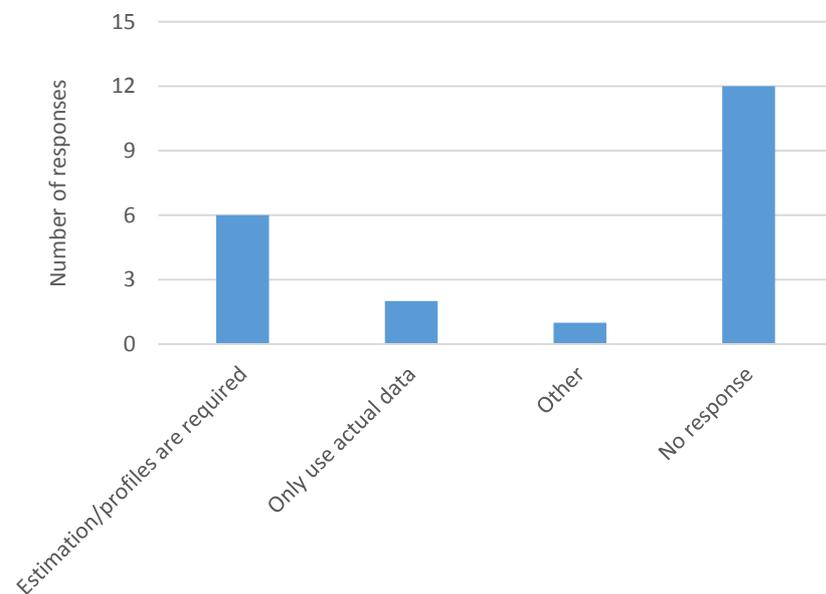
Submitters agree that some estimation is inevitable due to less than 100% penetration of smart meters and validation of this data.

Pricing structures should be planned with this in mind.

Other points raised by submitters are as follows:

- two submitters do not support using a general estimation profile if data is not available.
- retailers/consumers should not be forced to install half hourly meters for distribution pricing.
- retailers should be responsible for processing estimates.
- if profiles are used they need to be reviewed regularly, and their use should be limited.
- before a pricing structure requiring half hourly data is implemented, there should be a large penetration of verified smart meters or alternatively the pricing structure should only be offered to those consumers with smart meters.

Figure 26: Summary of response to question 26



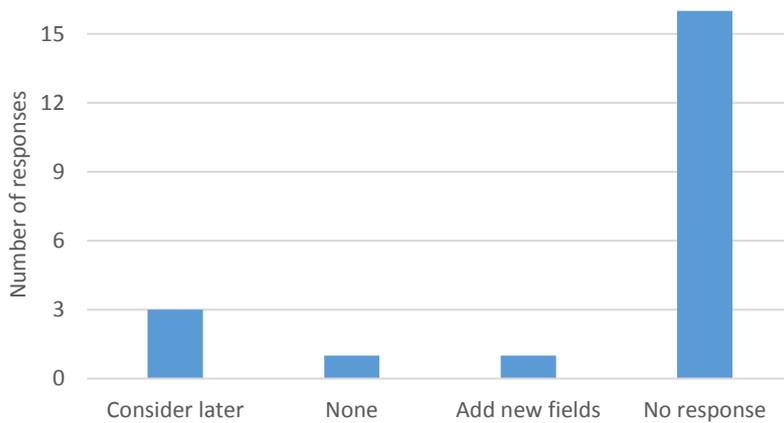
Question 27

What are the potential changes that could be required by Registry because of moving to service-based price structures?

No significant changes to the Registry were identified.

Genesis and Mercury submit that no changes are required. Trustpower submits that new fields could be added if required. Other submitters note that any changes can be considered at a later stage once the pricing options are progressed.

Figure 27: Summary of response to question 27



Question 28

What are the potential challenges to Electricity Information Exchange Protocols (EIEPs) because of moving to service-based price structures?

The industry may need to work more closely together to look at issues that arise and consider any required changes.

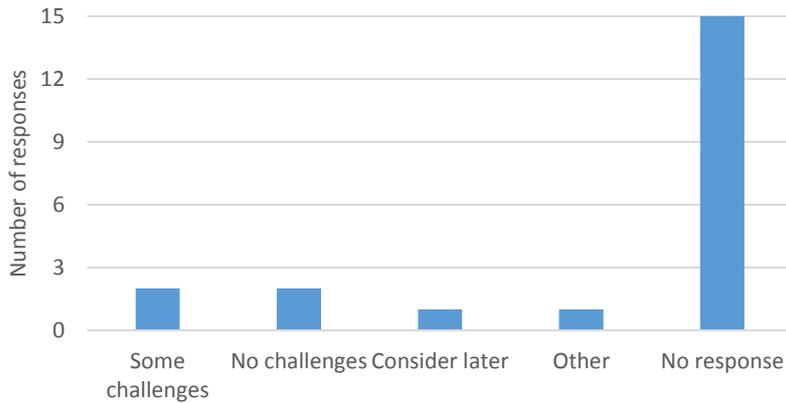
Genesis and Mercury believe there are no challenges. ERANZ submits that existing protocols could be used albeit there may be a number of limitations.

Contact submits that this should be considered later once pricing options are more progressed.

Genesis suggests the formation of an industry wide working group to look at the impact of each pricing option before it is implemented.

Several submitters note that the current As-Billed or Incremental Normalised methodologies may not be compatible with the five distribution pricing options and that the industry may need to move to the Replacement Normalised methodology.

Figure 28: Summary of response to question 28



Question 29

What are the potential challenges for your data management and billing systems in implementing service-based price structures?

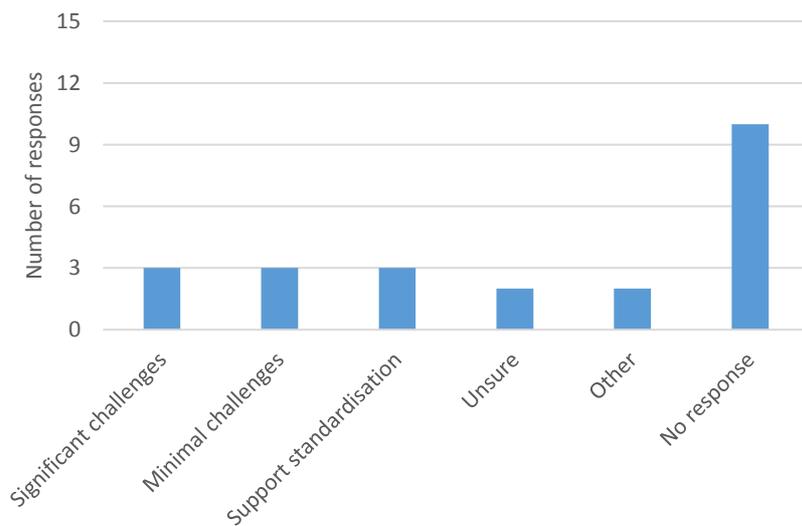
The time and cost to upgrade systems and interfaces are seen as key challenges.

Not all billing systems are currently set up to manage half hourly billing data, therefore several submitters suggest there is a requirement for retailers to upgrade billing systems for the new pricing options. Submitters warn that this will take time to implement, with one suggesting implementation time frames of up to two years. Pioneer Energy and Electric Kiwi submit that these system investments should not hold the industry back as forward looking technology will provide more efficient price signals.

A number of submitters note that standardisation of charges across distributors will help to minimise system upgrade costs.

Others submit that it is too difficult to answer this question now without further trials or information.

Figure 29: Summary of response to question 29



Question 30

What other technical implementation challenges do you foresee that can impact on implementation of service-based price structures?

Various technical implementation challenges are raised in submissions.

These include:

- the need for minimum penetration of smart meters prior to deployment of new pricing structures
- alternative approaches and exceptions where half hour data is not available
- upgrades of retail and distributor systems and interfaces
- validation of half hour meter data and installed fuse data
- education of consumers and retail call centre staff on the different pricing options
- the data and system intensity of processing half hour pricing data
- data privacy.

Question 31

How can distributors encourage greater uptake of cost reflective types of pricing? Do you prefer mandatory or voluntary adoption approaches, or a combination of both (eg see figures 43 and 44)? What other matters do distributors need to consider under each?

There is no clear consensus on whether adoption should be mandatory or voluntary.

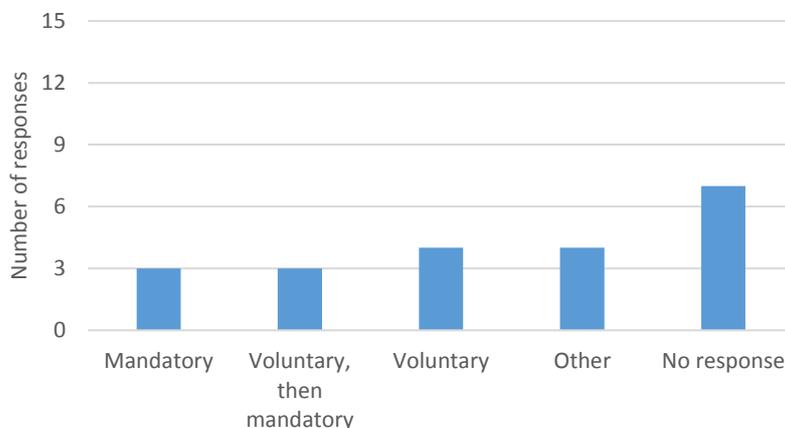
Three submitters support a mandatory approach, four support a voluntary approach, and three other submitters support a voluntary approach initially, followed by a mandatory approach once there is critical mass.

A mandatory approach is considered to lead to more consistency across the industry. Mercury notes that if the approach is initially voluntary, pricing structures can be trialled and retailers can adapt more easily, before mandatory pricing is applied.

In order to encourage greater uptake, submitters support reward rather than penalty approaches, in order to maximise consumer involvement in pricing.

A couple of submitters also note that while distribution pricing may be applied on a mandatory basis to retailers, it should not be mandatory for retailers to pass through distributors' prices to consumers.

Figure 30: Summary of response to question 31



Question 32

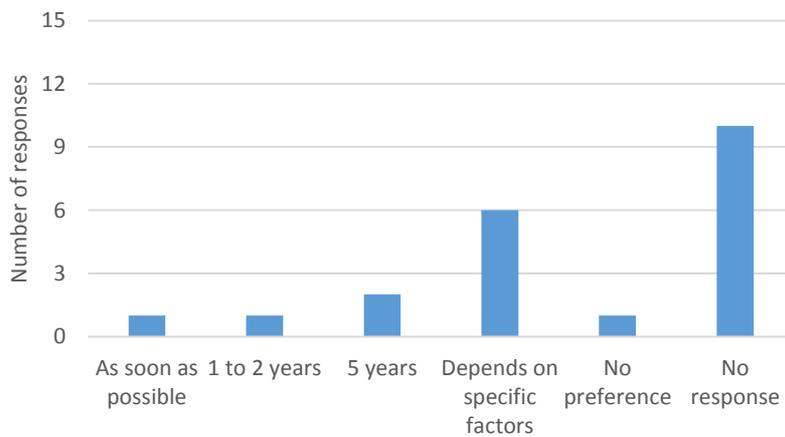
What is a reasonable timeframe over which to shift to cost reflective pricing?

There is no clear consensus over the appropriate timeframe to shift to more cost reflective pricing.

Submitters' opinions range from as soon as possible to up to 5 years. Several submitters mention that this will depend on the pricing structure chosen, the deployment of smart meters, and the network's individual characteristics.

Several retailers emphasise the need for distributors to make their plans known early (consistent with the Electricity Authority's views) to give retailers and consumers time to prepare.

Figure 31: Summary of response to question 32



Question 33

What are your preferred approaches to managing adverse price changes (eg see types of pricing presented in pages 72 to 74) and why? What other approaches should be considered?

There are a wide range of views on how to manage adverse price changes.

These include:

- leaving it to the retailer
- adopting TOU pricing as it will minimise bill shock. One approach proposed is to gradually adopt TOU charges, by making interim changes to existing charges to make them more TOU-like
- adopting capacity pricing as it will smooth billing
- distributors engaging with retailers early to assess the potential impacts and determine how they can be managed
- running legacy pricing in parallel for an appropriate transition period
- more research on the impact of pricing on consumers.

Transition Strategies

Question 34

What transition issues or challenges do consumers face in the move to cost reflective pricing?

A variety of transition issues for consumers are raised by submitters.

These include:

- the need for effective consumer education and engagement

- inconsistent messaging and communications across distributors
- lack of standardisation of pricing across distributors
- lack of transparency on distribution pricing in retail bills
- prioritisation of the needs of the most vulnerable, eg customers may pay substantially more in winter under new pricing, when they most need electricity.

Trustpower notes that retailers may be better placed to transition customers given they have the contractual relationship and will determine when and how to pass-through distribution pricing.

Question 35

What can distributors do to effectively communicate and engage with consumers during the transition period? What information is most important to provide to consumers during this transition period?

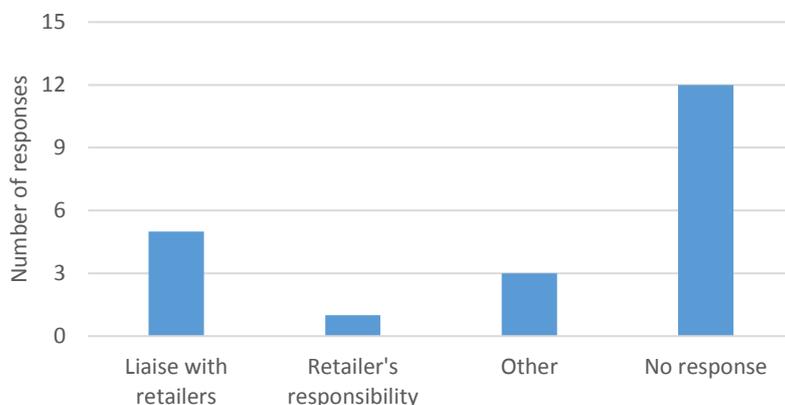
Distributors and retailers need to work closely together when communicating with consumers during the transition period.

Four submitters prefer that distributors liaise with retailers before communicating with consumers, given consumers are primarily concerned about their retail bill. Two submitters prefer that only the retailer communicate with consumers during the transition period.

Other submissions note a need for:

- open, transparent and consistent communications
- clear and convincing explanations for why pricing reform is necessary
- clear explanations regarding how a consumer’s total costs will change over time
- consistent messaging across distributors and retailers to avoid confusion.

Figure 32: Summary of response to question 35



Question 36

What issues or challenges arise for other stakeholders (ie non-consumers) during the transition period? How would you prefer for distributors to communicate and engage with you during the transition period? What information would you like distributors to provide you during this transition period?

Submitters agree that clear and ongoing communication with other stakeholders is important during the transition period.

Mercury and Contact suggested that the ENA has a crucial role in coordinating distributors in planning for, and during, the transition period. It is important for distributors to engage retailers early and for information to be timely.

Comments on the information submitters would like distributors to provide were limited. A couple note the need to consider distribution pricing in coordination with transmission pricing reform. Several submitters encourage

distributors to provide information on their current plans for implementing new pricing structures, including what they are trying to achieve.

Question 37

Are there any matters not covered in this paper that the industry needs to consider in relation to distribution pricing?

Other matters raised by submitters are as follows:

- the need to consider distributed generation pricing
- the need for further research and analysis to support the DPWG's work to date, eg bill shock analysis; will costs actually reduce in the long term?
- the role of capital contributions
- encouraging battery use in peak periods
- distributor trials of pricing options and sharing findings with the ENA/industry
- the impact of the low fixed charge regulations.