

Introduction

Electric Kiwi is very supportive of cost reflective prices. We have provided a summary of the overall distribution pricing reform, these comments are intended to help move distribution pricing further forward as opposed to specific individualised feedback on individual distributor pricing options.

Don't overstate simplicity

While Electric Kiwi support not making distribution pricing more complex than it needs to be, if the key criteria for distribution pricing is cost reflective, and pricing approaches are made as complex as they need to be, then translating these prices into simple and effective retail prices is a source of retail innovation. As retailers see cost reflective distribution pricing they will innovate and compete to get demand response from their customers in a way that minimises wholesale transmission and energy costs.

Legacy IT systems at some retailers shouldn't be allowed to hold the industry back based on an argument that these legacy systems are expensive to modernise. The industry and consumers should not settle for less efficient price signals and higher total costs so that some retailers can avoid investing in forward looking technology.

Cost reflective is the key criterion

Electric Kiwi strongly believe that cost reflective is the key criterion. Any pricing approaches that are limited in their contribution to this key criterion should be discounted.

If retailers see cost reflective pricing some will innovate to get the maximum engagement from their customers in minimising distribution costs. Others may choose not to engage customers but ultimately they won't remain competitive if other retailers have a lower cost base. Retailers will be forced to pass on the savings to customers due to competitive pressures. If you believe the retail market is competitive then you should believe this process will happen.

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 present in retail market. Electricity Distribution Businesses (EDBs) should not try to solve the problem of what consumers will respond to as part of this process. Cost reflective pricing should be the focus and will mean retailers will be sent the right signal to encourage new products that engage consumers in the right ways. If retailers don't encourage customer engagement they will be surpassed by those who do.

Cost reflective should be the key criterion, not simplicity or ease of use.

Time of Use and Coincident Maximum Demand pricing are the most cost reflective.

The higher charge periods of Time of Use (ToU) pricing can be chosen (and adapted over time) to align with network peaks. This is reflective of the situations when network costs are highest and is cost reflective.

Likewise Coincident Maximum Demand (CMD) approaches align signals at the customer level with network peaks. If EDB's send retailers cost reflective CMD price signals it doesn't necessarily follow that retailers will show a similar backward looking price to consumers (for example like The Lines Company has done with poor public relation consequences). Indeed that is an appropriate risk for Retailers to manage internally. A core competency of a retailer is wholesale risk management and this can extend to distribution pricing. Electric Kiwi would take the approach of modelling and forecasting the charges, just as it does for wholesale energy prices, and translate the price signals we see into a forward looking product we think consumers will understand and respond to. We may not get it right the first time and we'll be competing with the rest of the retail sector to do the best job of this. Electric Kiwi would have no problem dealing with a CMD charge and indeed it may be the most cost reflective.

The ENA's paper points out that the primary driver for network cost and investment is network congestion. In Electric Kiwi's view the paper should then conclude that pricing approaches which provide the strongest customer signals at times of network congestion must form the primary component of distribution pricing for most customers. We believe these are CMD and ToU. Any tariff which discourages high ICP consumption when network demand is low is not cost reflective.

Using a forward looking Time of Use approach Electric Kiwi is already seeing customers shifting an average of 6% of their winter evening peak load into off peak periods.

Don't discourage consumers using the network heavily at times when overall network load is low - Anytime Maximum Demand is not a cost reflective mechanism for the mass market.

Anytime Maximum Demand (AMD) discourages consumers using the network heavily when coincident network demand is low and the marginal cost of consumption is near zero. This is inefficient and not cost reflective.

A reality of load shifting given today's appliances that Electric Kiwi is observing among its customer base is that consumers typically take action once a day to shift load. For example someone may delay using the dishwasher, dryer and washing machine during the evening peak if sent the right signal. But they will then turn all of those appliances on at once in an off peak period. This response is good for the network but consumers behaving like this could be penalised under AMD. Demand response is likely to rely mainly on these manual interventions by consumers for at least the next 5-10 years until smart appliances penetrate the market to a higher degree. It is not realistic to expect consumers to drastically change their lifestyle, rather simple changes that are cost reflective of any effort to consider electricity usage.

Peak customer capacity pricing approaches, such as AMD should be options only for secondary pricing approaches where customer capacity is a strong driver on network costs, i.e. low density, high distance lines.

Symmetry of pricing for imports and exports

There is broad consensus that overtime batteries will play some role in our electricity sector and some of these will be behind the meter. It may be possible for households with batteries to be net exporters during peak network times, this should be encouraged. An efficient pricing methodology should reward exports at peak network times to the same degree as reduced consumption is rewarded. Symmetry of distribution pricing for imports and exports will mean that investments behind the meter are efficient. For example it may be more efficient for a retailer to put 1 battery capable of exporting 10 kW into one ICP on a street, rather than 5 batteries capable of exporting 2 kWh. Both of these investments might deliver the same benefits to the network but they will not be incentivised equivalently if pricing is not symmetric for imports and exports.

Kind Regards,



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