



Flick Energy Limited

Response to

Electricity Networks Association

New Pricing Options for Electricity
Distributors

A discussion paper for industry feedback

November 2016

Dated 20 December 2016

For email to feedback@electricity.org.nz by 20 December 2016

Flick Submission Responses

Thank you for this opportunity to consult on the Electricity Networks Association's ('ENA's') discussion paper *New Pricing Options for Electricity Distributors*.

We agree with ENA that there is a need for change to current distribution pricing models and appreciate ENA's aim in preparing this paper, to develop a resource document providing technical guidance on matters relating to cost reflective pricing structures.

We agree that there is a need for distributors to understand consumer preferences in designing alternative pricing structures, and that change should be informed by consumer preferences. However, Flick does consider that retailers must play a part in this process, as they have the direct relationship with consumers, and have legal obligations to them. We would therefore encourage ENA to urge their members to discuss and agree approaches with retailers before consulting consumers.

Although the assessment of the different options in the paper is thorough and will be a useful resource, Flick considers that it does not necessarily fully address the reality of the implementation difficulties with demand and capacity charges. Flick believes that demand charges will lead to higher prices for customers in general. As it is impossible for the retailer to pass on the demand charge as a price signal at time of use there will be uncertainty for retailers about how much they will be charged by the network company. This will mean that retailers will increase their charges to cover the risk of customers increasing their peak demand. Likewise, prices would increase to cover the administrative burden of capacity charges.

Flick strongly encourages ENA to urge its members to implement Time of Use pricing. Time of Use charges are the most appropriate way to present cost reflective pricing to the residential customer in a way that is easy to understand and more equitable in recovering the costs that are peak oriented from all customers. We also consider it will be most easily understood by customers, and therefore drive efficient investment in new technologies while reducing costs for distributors and, in turn, consumers. Time of Use pricing has the additional benefit of allowing retailers to either directly pass through – or to incorporate into various tariffs. Time of Use pricing is therefore an enabler of innovation.

Consultation questions

Question	Flick Response
<p>Q1. 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.</p> <p>(a) Are there any features which you consider should be added, removed or changed in the above list? Please explain your reasons.</p> <p>(b) Which of the above features are the most important in determining future distribution pricing?</p>	<p>(a) We consider that efficient and effective distribution pricing should also give effective price signals and enable consumer choice, and be easy for retailers to pass through.</p> <p>(b) Simple, stable and predictable.</p>
<p>Q2. 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 later?</p> <p>Please provide your reasons.</p>	<p>We agree that other pricing options such as critical peak and real-time pricing should be left for consideration later. However, we disagree that Demand and Capacity charges are among the best types of pricing to be considering at this time. We consider that the ENA should be focusing on the best way for network companies to introduce transparent Time of Use pricing to consumers.</p>
<p>Q3. Do you consider that retail competition can be relied upon to ensure consumers face appropriate distribution price signals?</p> <p>Please explain why or why not.</p>	<p>Without distribution prices that are easy to pass through and provide meaningful cost reflective price signals, we consider that it would be difficult for retailer competition alone to produce appropriate distribution price signals. As acknowledged at paragraph 3.2 of the discussion paper, repackaging can dilute price signals, however some network tariffs are difficult to pass through as they are (for example, Demand based charges). Although retailer competition provides incentive for tariff innovation, we consider that the retailer should at least have the option to pass through a tariff directly and that Time of Use pricing is an enabler of innovation.</p>

<p>Q4. Do consumers see value in load control and ripple control, and is this likely to change in future?</p>	<p>Yes, load control and ripple control are clearly understood by consumers and enable savings for those who take part. If managed correctly, these could work alongside Time of Use prices as a previously agreed form of shifting load during peak hours.</p>
<p>Q5. Do you agree that distributors should engage with end consumers about distribution pricing? Why/ Why not? Please provide your reasons.</p>	<p>Consultation on what pricing would be easiest for end consumers to understand and respond to would be very beneficial for the structure of updated distribution pricing models, and could help consumer engagement. However, such consultation should be done only following discussion and agreement with retailers on the best way to manage this.</p>
<p>Q6. Is there additional information that should be included in this paper about stakeholder engagement? If so, please explain what should be addressed.</p>	<p>We consider the paper adequately covers this.</p>
<p>Q7. How should distributors balance feedback from different stakeholders?</p>	<p>By prioritising the interests of the consumer, and how they can best be served by innovative retail competition and efficient distribution pricing.</p>
<p>Q8. Do you prefer two rate or three rate ToU pricing plans (or any other alternative)? Please provide your reasons.</p>	<p>Either are fine as long as there are clear price signals.</p>
<p>Q9. (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. (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.</p>	<p>We consider that any of these options could work as long as there are clear price signals to enable consumers to engage and respond.</p>
<p>Q10. 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.</p>	<p>We consider that these decisions could be left up individual network companies and the conditions present in their areas. As long as the peak months were clearly defined and the additional charges were</p>

	possible to pass through to the customer in a transparent way.
<p>Q11. Do you agree with the ToU consumption pricing template?</p> <p>Please explain why/why not.</p>	<p>Yes, although the network peak might be different in different network areas. In theory, we do agree with this template, and it is good to have consistency across networks. However, we understand when different networks may need to put different parameters around their time of use pricing because of the different conditions present.</p>
<p>Q12. Do you agree with the Customer Demand template?</p> <p>Please explain why/why not.</p>	<p>We have no comment on the template. We do not consider that Demand charges meet the features of efficient and effective distribution pricing.</p>
<p>Q13. If Network Demand pricing is used, should it be based on fixed or dynamic network peak pricing?</p> <p>Please provide your reasons.</p>	<p>See response to question 12.</p>
<p>Q14. Are annual or monthly resets for demand pricing more appropriate?</p> <p>Please provide your reasons.</p>	<p>See response to question 12.</p>
<p>Q15. What tools might consumers need access to be aware of Network Demand pricing signals?</p>	<p>See response to question 12.</p>
<p>Q16. Do you agree with the Network Demand template?</p> <p>Please explain why/why not?</p>	<p>See response to question 12.</p>
<p>Q17. When consumers are moved to a booked capacity plan for the first time, who should choose their plan?</p> <p>a. The consumer, in all circumstances</p> <p>b. The distributor, in all circumstances</p> <p>c. The distributor, but only if the consumer is unsure of, or does not nominate, their preferred plan</p> <p>Please provide your reasons.</p>	<p>See response to question 21.</p>
<p>Q18. Distributors could offer several Booked Capacity price plans (or bands) to choose from. What is a reasonable number of plans to choose from?</p>	<p>See response to question 21.</p>

Please provide your reasons.	
<p>Q19. Assuming it comes at no cost to the consumers, how often should a consumer be allowed to change Booked Capacity plans?</p> <p>a. Never</p> <p>b. Once per year</p> <p>c. Twice per year</p> <p>d. Three times per year</p> <p>e. As often as they want</p> <p>Please provide your reasons.</p>	See response to question 21.
<p>Q20. 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?</p> <p>a. Pay a higher rate for the usage above the plan</p> <p>b. Receive a rebate if they stay within plan</p> <p>c. Automatically moved up to a higher plan</p> <p>Please provide your reasons.</p>	See response to question 21.
<p>Q21. Do you agree with the Booked Capacity template?</p> <p>Please explain why/why not.</p>	We have no comment on the template. We do not consider that Capacity charges meet the features of efficient and effective distribution pricing.
<p>Q22. Do you agree with the list of pricing assessment criteria presented in Section 9.2?</p> <p>a. If not, what criteria should be considered?</p> <p>b. What are the most important assessment criteria and why?</p>	<p>a. We agree the criteria adequately covers the necessary factors.</p> <p>b. We consider that the most important assessment criteria are:</p> <p>1c – Prices reflect the cost incurred because of an individual consumer’s actions and/or enable cost recovery from consumers who benefit from service provided;</p> <p>2a – Consumers can choose to respond to pricing to manage their electricity usage and bills; and</p>

	<p>3c – Retailers are likely to transparently pass through pricing structures.</p>
<p>Q23. 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?</p>	<p>Overall we agree with the high-level assessment of the pricing options. In our view the assessment clearly shows that Time of Use charges are the best option.</p> <p>As acknowledged in the discussion paper, a Time of Use tariff has the smallest impact on consumers. It is more cost reflective than the flat rate structure that is widely used currently, and results in a more equitable way to recover costs. We also consider it results in a fair balance between the features that are important for efficient and effective distribution pricing outlined in question one.</p> <p>Further, as the discussion paper references at page 13, in relation to the Rocky Mountain Institute’s report, Time of Use based charging has been shown to reduce consumer energy peak consumption by up to 50 percent in the US without compromising consumer acceptance.</p> <p>Such a reduction in New Zealand would lead to reduced investment in infrastructure over time and therefore bring about savings for consumers, without increasing costs for distributors.</p> <p>We also consider that the disadvantages for Demand and Capacity charges in respect of billing system restrictions and implementation costs that have been identified are significant and will be hard to overcome.</p> <p>Demand based charging, which is not easy for customers to understand, will be less effective in reducing peak demand. This is because customers will not be able to easily recall what energy use habits caused their demand during peak times, and reduce future use accordingly. In this respect, we disagree with the assessment that a Network Peak Demand charge would create more demand response than Time of Use pricing. Unfair outcomes could result if consumers are charged a higher price than they would</p>

	<p>pay on Time of Use tariffs for consumption at peak demand but are not easily able to review what usage contributed to their peak. This is because they would likely either receive the bill for their demand charge much later, or their peak charge would be estimated by the retailer and recovered in regular bills. Further, as such demand charges would need to be repackaged, the price signals would be less effective.</p> <p>There is a very good paper published as part of the Montpelier, VT: Regulatory Assistance Project¹ for smart rate design which addresses demand charges and finds that “Demand charges are generally inappropriate for residential and small commercial customers who share distribution transformers with other consumers, and where implemented should not exceed the cost of the final transformer, about \$1/kW/month. They are never appropriate for upstream distribution costs that can be recovered in a TOU rate.”</p> <p>Time of Use pricing is more equitable in recovering the costs that are peak oriented from all customers. It is a clear signal that consumers can work with. If peak use falls outside of this for a consumer, this doesn’t create a further burden on the Network so they should not be required to pay more for this as they would with a Customer Peak Demand tariff.</p> <p>Another of the pricing assessment criteria is “signals efficient investment in emerging technologies”. Network Peak Demand has two pluses for this in the assessment table. However, the Montpelier paper referred to above comments on this, specifically, the use of demand charges for solar customers, noting that they may not be so effective at signalling efficient investment in emerging technologies. The paper states:</p>
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¹ Lazar, J. and Gonzalez, W. (2015). Smart Rate Design for a Smart Future. Montpelier, VT: Regulatory Assistance Project. Available at: <http://www.raponline.org/document/download/id/7680>
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	<p>“Some of these analysts suggest [using demand charges] is an appropriate way to ensure that solar customers contribute adequately to system capacity costs. This option is inapt for most situations for several reasons. The only distribution system component sized to individual customer demands is the final line transformer. The relatively small portion of cost of service represented by the line transformer required to serve solar customers amounts to only about \$1/kW/month. In addition, the diversity of customer demand at any given time of the day, and the lack of understanding of the potentially complex concept, suggest against this option.”</p> <p>Lastly, it is important to consider with regard to ‘adoption costs’, that there will be additional costs that will be passed to consumers because of the risk of uncertainty for the retailers with Demand and Capacity charges, as well as the ongoing administration charges with the Capacity charge options.</p>
<p>Q24. What do you consider is the optimal combination of pricing components?</p>	<p>A combination of fixed price and Time of Use tariff.</p>
<p>Q25. Do you foresee any challenges to obtain and supply required data for implementation of preferred price structures? Please provide your reasons.</p>	<p>For demand based pricing, we would not be able to obtain adequate information in time for weekly billing, meaning these charges would be very hard for us to pass through and would lead to increased costs for the consumer.</p> <p>We do not foresee any challenges in providing a Time of Use tariff as we have the necessary half hour data for all customers.</p>
<p>Q26. 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?</p>	
<p>Q27. What are the potential changes that could be required by Registry because of moving to service-based price structures?</p>	

Q28. What are the potential challenges to Electricity Information Exchange Protocols (EIEPs) because of moving to service-based price structures?	
Q29. What are the potential challenges for your data management and billing systems in implementing service-based price structures?	As there is no real-time metering or demand information available to retailers or the customer we are unable to communicate the actual cost of consumption for the customer at Time of Use. It is impossible for Flick to pass on demand charges accurately as part of its transparent pass-through pricing and its weekly billing process.
Q30. What other technical implementation challenges do you foresee that can impact on implementation of service-based price structures?	Lack of advanced metering technology.
Q31. 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?	Flick does not believe that there should be subsidies to encourage change. Rather distribution (and retail) companies to implement pricing that sends real time price signals that will lead to positive benefits to network companies – and consumers alike. We consider that a mandatory approach could lead to better consistency. With the interposed model, it is up to retailers to determine how distribution pricing is shown to customers. Legacy pricing leading to different pricing is inefficient.
Q32. What is a reasonable timeframe over which to shift to cost reflective pricing?	As soon as possible. We consider that the timeframe outlined in the roadmap provided on 29 November 2016 is too long and that Time of Use pricing structures could be implemented much sooner.
Q33. What are your preferred approaches to managing adverse price changes (e.g. see types of pricing presented in pages 72 to 74) and why? What other approaches should be considered?	We consider that education around the way service based (Time of Use) pricing works would help to manage adverse price changes. As well as installing maximum AMI and working out an approach that is fair to consumers in areas where AMI is unavailable.
Q34. What transition issues or challenges do consumers face in the move to cost reflective pricing?	Understanding the concept for those areas that have not had Time of Use pricing previously, and customers adjusting their usage accordingly, especially if maintaining their previous usage patterns would result in higher bills overall under new pricing. This will be

	<p>more easily understandable for customers if more of the charges are made up of Time of Use charges, without complicated layering of Demand charges and Capacity charges.</p>
<p>Q35. 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?</p>	<p>Liaising closely with retailers to ensure that consumers are receiving consistent coherent messages about the changes and how this will affect their bill.</p>
<p>Q36. What issues or challenges arise for other stakeholders (i.e. 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?</p>	<p>Timely information on distributors plans for pricing change will be critical during the transition period and consultation on the best way to engage with consumers.</p>
<p>Q37. Are there any matters not covered in this paper that the industry needs to consider in relation to distribution pricing?</p>	