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Richard Le Gros

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WELLINGTON

By email: submissions@electricity.org.nz

Dear Richard,

New Pricing Options for Electricity Distributors

Genesis Energy Limited welcomes the opportunity to provide a submission to the Electricity Networks Association ("ENA") on the consultation paper "New Pricing Options for Electricity Distributors" dated November 2016 ("the Consultation Paper").

Retailers are operating in a highly competitive market developing retail offerings which meet their customers' wants while endeavouring to ensure that input costs, such as distribution charges, are cost-reflective. We do not agree distributors should develop pricing options that focus on changing end-consumer behaviour as this is an objective that is out of their control. Instead, we encourage distributors to focus on what pricing methodology is best for their networks. We believe the new pricing options for electricity distributors should focus on the following key objectives:

1. Reflecting the cost of operating their network; and,

2. Encouraging efficient investment by distributors and end-consumers.

Collaboration

While we encourage distributors to consider the costs of operating their network, we strongly believe that the best way to achieve effective future pricing options is with collaboration between distributors and retailers. Distributors understand the cost of operating their network and future investment requirements; retailers are in the best position to develop retail offerings for end-consumers. By working in collaboration, tariffs can be adapted to meet the requirements of both end-consumers and distributors.

We would encourage collaboration between retailers and distributors to trial pricing options. Learnings could then be shared through the ENA to promote the adoption and evolution of effective, efficient and consistent tariffs. We believe this is a cost effective and pragmatic way to achieve efficient and effective distribution pricing across the industry. We look forward to working with distributors to achieve this.

Communication

This is a challenging time for the energy sector, and there is much to communicate to end-consumers. If distributors and retailers are not co-operative and consistent in our communications with retailers' customers, we are likely to confuse, rather than inform end-consumers. We encourage distributors to pro-actively engage retailers in any planned end-consumer engagement. Electricity retailers deliver energy services for customers and bundle pricing plans in different ways to meet the demands of their customers; network charges are one component of the customer's energy bill that may or may not be material to each end-consumer. In addition to this, there are a number of privacy and legal considerations to be taken into account when communicating with end-consumers.

Timeframes

We understand that different distributors will have varied timelines to transition their network to new pricing options. We see this as an opportunity; those distributors who are ready to trial tariffs with retailers can do so and then share those learnings in order to facilitate consistent and well-managed implementation across the industry. A commitment to change and a clear plan to do so, by each distributor, will assist retailers to adapt and ensure a smooth transition for end-consumers.

If you would like to discuss any of these matters further, please contact me on 04 495 3348.

Yours sincerely

Rebekah Cain
Acting Regulatory Affairs Manager

Appendix A: Responses to Consultation Questions

QUESTION	COMMENT
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. (a) Are there any features which you consider should be added, removed or changed in the above list? Please explain your reasons. (b) Which of the above features are the most important in determining future distribution pricing?	We consider the following features most important: 1. Actionable: pricing that can be packaged easily into a retail offering by retailers. This is important as network charges are only one component of the end-consumer's energy bill. 2. Cost-reflective: pricing that reflects the cost of operating the network, including the benefit (or cost) of distributed generation connected to the networks e.g. solar installations and any future (or avoided) network investment. 3. Durable: pricing that can encompass and reflect the value of new technology connected to the networks, as energy flows may increasingly shift to and from the network. Stability and predictability are only necessary to the extent that inherent cost uncertainty is removed. Although it is understood that there will always be cost unknowns there are some elements of distributor charges which cause disproportionate uncertainty for retailers, for example, the post-dating of demand charges by Orion. Further, the retrospective element of distributor pricing makes it difficult for retailers to develop retail tariffs that closely reflect the actual costs incurred by networks. It is unpalatable for retailers to pass-on these retrospective charges to end-consumers and, therefore, distributor costs on those networks that adopt this type of charging will never be reflected in end-consumers energy bills. We do not believe that "Service-based" adds anything to the need for pricing to be "cost-reflective".

QUESTION	COMMENT
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 at a later date? Please provide your reasons.	We suggest the ENA focuses on fewer pricing types to limit the complexity of change. Our preferred pricing types are time of use ("ToU") and network peak demand. We are of the view that ToU is the easiest to implement for end-consumers. However, network peak demand is most likely to ensure that the cost of operating the network is reflected in the pricing available to end-consumers.
Q3: Do you consider that retail competition can be relied upon to ensure consumers face appropriate distribution price signals? Please explain why or why not.	Yes. We believe this will be enhanced if distribution pricing focusses on reflecting the cost of operating the network, and there is less diversity in pricing options across the distribution networks.
Q4: Do consumers see value in load control and ripple control, and is this likely to change in future?	Like everything consumers spend their money on, some consumers value attributes that other consumers do not. Equally, some consumers have the capacity to make changes to the way they use energy; others do not. Replacing appliances to increase energy efficiency (or enable ripple control) can be extremely costly, and may not be an option available to all consumers. Similarly, changing load in the way that would benefit the network may be equally difficult for consumers due to work or other constraints.
Q5: Do you agree that distributors should engage with end consumers about distribution pricing? Why / why not? Please provide your reasons.	Distributors should only engage with end-consumers in collaboration with retailers. Network charges are one component of the energy bill end-consumers receive each month and, therefore, the extent to which those energy bills reflect a distributor's tariffs is limited.

QUESTION	COMMENT
Q6: Is there additional information that should be included in this paper about stakeholder engagement? If so, please explain what should be addressed.	Information and learnings that distributors gain during this process should be shared through the ENA. This will ensure that all distributors can benefit from the outcome of any tariff trials.
Q7: How should distributors balance feedback from different stakeholders?	Distributors and retailers need to work collaboratively on these changes. Changes cannot be reflected to end-consumers unless the price changes are actionable by retailers. Feedback from retailers of all sizes, mass market and niche, must be considered.
Q8: Do you prefer two rate or three rate ToU pricing plans (or any other alternative)? Please provide your reasons.	We would prefer two rate ToU pricing. There needs to be a level of simplicity, particularly when these changes are initially made.
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.	We prefer weekday only with public holidays excluded. We believe this best reflects the demands on the networks.
Q10: Should peak prices apply throughout the entire year or should they apply only during clearly defined peak months (such as winter months of May-Sept)? Please provide your reasons.	We would support ToU during the winter months (based on daylight savings time).It is the increased demand on the network during the winter months that is driving network peaks.

QUESTION	COMMENT
Q11: Do you agree with the ToU consumption pricing template? Please explain why / why not.	Yes, this is useful. We would support the simplest ToU options, and suggest removing the "alternative peak definition".
Q12: Do you agree with the Customer Demand template? Please explain why / why not.	We believe 'network demand' is more cost-reflective than 'customer demand'.
Q13: If Network Demand pricing is used, should it be based on fixed or dynamic network peak pricing? Please provide your reasons.	We would support fixed network pricing for mass market customers for the following reasons: 1. It is easier to communicate and implement; 2. It avoids the need to repackage; 3. It avoids wash-ups; 4. End-consumers have greater clarity for investment decisions; and 5. End-consumers are more able to respond by reducing load either through "set and forget" programming, manual load shifting, or energy management software. We do not believe that dynamic peak period demand is actionable by retailers, durable, simple, cost-reflective, stable or predictable. By way of example, Orion's peak demand pricing cannot be reflected in charges to end consumers, and forces repackaging by retailers and costly wash-ups.
Q14: Are annual or monthly resets for demand pricing more appropriate? Please provide your reasons.	Annual resets are more appropriate. Monthly resets would increase complexity to retail pricing without achieving a consequential benefit.
Q15: What tools might consumers need access to be aware of Network Demand pricing signals?	We do not agree that distributors need to provide consumers with tools to make them aware of each network's operational needs. Retailers will provide retail offerings demanded by end consumers, which will include network charges and will reflect those costs to varying degrees.
Q16: Do you agree with the Network Demand template? Please explain why / why not.	We generally agree.

QUESTION	COMMENT
Q17: 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.	The distributor, in consultation with the retailer, should determine the booked capacity plan. However, we have concerns that this pricing option will be difficult to implement generally. We would need to see additional work on the mechanics before providing further comment.
Q18: 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.	We have no reason to offer alternatives to the three options proposed in the paper, however, we are interested in the implementation of this.
Q19: 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.	Once per year seems the most appropriate to avoid seasonal arbitrage and disproportionate administrative costs.

QUESTION	COMMENT
Q20: Sometimes consumers will choose a Booked Capacity plan that is not most suited of 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 the plan? (c) Automatically moved up to a higher plan? Please provide your reasons.	A rebate if a consumer stays within a plan is appropriate and end-consumer focussed.
Q21: Do you agree with the Booked Capacity template? Please explain why / why not.	We generally agree.
Q22: 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?	We generally agree. Important factors for Genesis Energy are: 1. Consistency across distributors with pricing that reflects the cost of operating the network; 2. Contained implementation costs and a well-signalled transition period; and 3. Durable and technologically agnostic pricing to ensure pricing can adapt to an uncertain future.
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?	We generally agree.
Q24: What do you consider is the optimal combination of pricing components?	No clear preference at this stage.

QUESTION	COMMENT
Q25: Do you foresee any challenges to obtain and supply required data for implementation of preferred price structures? Please provide your reasons.	The pricing should reflect the cost of operating the network. We believe the feeders distributors have in the network are sufficient for a distributor to determine what to charge. We do not agree that distributors need half-hourly meter data to determine the cost of operating their network.
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?	The danger of profiles is that they only work for specific groups and quickly become out-dated if they are not regularly (i.e. monthly) updated. We do not support their use for variable consumption. Any missing period data should be left to the trader to estimate and supply in the files as those handling half-hour data will already be doing this. If a distributor is to offer a half-hour price, it needs to accept that there will never be 100% data availability and offer a substitute non half-hour price as well.
Q27: What are the potential changes that could be required by the Registry because of moving to service-based pricing structures?	None. This should also refer to cost-reflective pricing rather than service-based pricing.
Q28: What are the potential challenges to Electricity Information Exchange Protocols (EIEPs) because of the moving to service-based pricing structures?	We do not envisage any challenges. The EIEPs are part of a process and if the format needs to adapt once the pricing structures are adopted then such changes will be made.
Q29: What are the potential challenges for your data management and billing systems in implementing service-based price structures?	These are unknown. We are unable to determine implementation requirements until we know the price structures and what is to be delivered. This is why we believe tariff trials undertaken by distributors and retailers together would be beneficial, provided any learning is then shared with other participants.
Q30: What other technical implementation challenges do you foresee that can impact on implementation of service-based price structures?	Any form of aggregation/combination involving half-hour data is system intensive (due to the large amounts of data involved). Significant development time would be required before implementation. Ongoing monthly data delivery times may have to move out from the current day 4 / day 5 delivery times.

QUESTION	COMMENT
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 (e.g. see figures 43 and 44)? What other matters do distributors need to consider under each?	Adoption should be voluntary, initially. This will allow for adaption of tariffs by retailers and distributors to best meet the demands of end-consumers. Once uptake has reached a critical mass, mandatory adoption could be considered.
Q32: What is a reasonable timeframe over which to shift to cost reflective pricing?	Given that we do not support mandatory adoption initially, distributors and retailers should collaborate to introduce tariffs.
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?	One of the concerns with current distribution pricing is inefficient investment in technology by end-consumers leading to, in some cases, cross-subsidisation between customers. Prices need to signal the value of, for example, solar installations for a distribution network, thereby allowing end-consumers to make investment decisions based on the most accurate information at the time. This requires determining how the new charges will operate coupled with clear and ongoing communication through retailers, in collaboration with distributors where necessary.
Q34: What transition issues or challenges do consumers face in the move to cost reflective pricing?	See above.
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?	See above.
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?	Communication needs to be through retailers who have the day-to-day relationship with the end-consumer, and the infrastructure, such as call centres and monthly communication, to disseminate information and limit confusion.

QUESTION	COMMENT
Q37: Are there any matters not covered in this paper that the industry needs to consider in relation to distribution pricing?	No. We would, however, emphasise the need for this to be a collaborative process and transition for the sector.