



MAJOR ELECTRICITY USERS' GROUP

20 December 2016

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By email to submissions@electricity.org.nz

Dear Graeme

New Pricing Options for Electricity Distributors

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Networks Association (ENA) discussion paper "New Pricing Options for Electricity Distributors" published 3 November 2016.¹
2. Attached and to be read as part of this submission is a report by Mike Hensen of the New Zealand Institute of Economic Research (NZIER) "Electricity distribution business pricing reform – Analysis of Electricity Networks Association pricing review and proposed changes" dated 16 December 2016. The key points summary in the NZIER report follows:

Key points

EDB approaches to fixed charges vary widely in terms of both the type of fixed charge (daily/ monthly, maximum demand or maximum capacity) and the proportion of revenue earned through fixed charges. This means that EDB potential exposure to a change in revenue due to a change in energy supplied to residential customers also varies widely. This variation appears to have existed for some time, which suggests EDB are not converging to a single 'preferred or ideal' pricing structure.

Solar PV installation is gradually replacing electricity supplied by EDB for some customers but at the moment the growth rate is linear rather than exponential. Unregulated and to a lesser extent small to medium sized regulated EDB are much more exposed to reduced demand for electricity supply due to solar PV growth than large regulated EDB.

NZIER Key points continued on next page

¹ URL <http://ena.org.nz/wp-content/uploads/2016/11/New-Pricing-Options-technical-discussion-paper.pdf> at <http://ena.org.nz/new-pricing-options/#more-1162>.

NZIER Key points continued from prior page

Our sample of EDB pricing methodologies indicates that the most common method of allocating transmission costs is based on contribution to RCPD (for customers for whom this can be measured) and contribution to anytime maximum demand for mass market customers (if contribution to RCPD cannot be measured or the EDB has summer and winter peaks attributable to different customer groups).

The proposal to abolish RCPD based allocation of transmission costs and implement a combination of area of benefit charge and residual charge allocated on historical network use is likely to be replicated in EDB pricing.

The ENA pricing option summary table describes the main types of pricing option available to EDB and includes criteria that cover both achieving the objective of efficient pricing and considering stakeholder attitudes. The next steps in improving the assessment of the components could be:

- recognising that EDB are likely to use bundles of the components for the same group of customers rather than one component
- cross-checking the assessment of the components against current EDB pricing plans, recent experience of rationalising pricing plans and stated intentions for change
- describing the case for change for types of EDB.

3. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
4. MEUG congratulates ENA on the quality and breadth of analysis of the discussion paper on what is a very complex subject with no single text book optimal solution. Distribution pricing practices are varied within the 29 distributors in New Zealand and practices vary internationally. Incentives, opportunities and risks for distributors, retailers and consumers are in flux and uncertain and that leads to difficulties in setting a regulatory framework for all parties to ensure outcomes that maximise the long-term benefit to consumers. MEUG supports the approach by the Electricity Authority (EA) to work with and let distributors and ENA take the lead on transitioning distribution pricing and the revised regulatory frameworks needed for a changing world. Hence MEUG view this discussion paper by ENA as a useful milestone towards that goal.

5. Responses to questions in the consultation paper follow:

Question	MEUG response
<p>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.</p> <p>(a) Are there any features which you consider should be added, removed or changed in the above list?</p> <p>(b) Which of the above features are the most important in determining future distribution pricing?</p>	<p>The features listed are reasonable and as the paper notes there are trade-offs that need to be considered as some of the features can be contradictory. For example a simple pricing structure may lead to grand averaging of costs and cross-subsidies and therefore contradict the need to be cost-reflective.</p> <p>There can also be subtleties in how the features are interpreted. For example a pricing regime that is "stable" is viewed by MEUG as one that has a stable regulatory and process foundation that facilitates changes efficiently rather than a pricing tariff that never changes.²</p> <p>The over-arching check list for proposed changes to distribution pricing are the EA pricing principles and economic and decision making framework.³ The EA documents are pre-eminent because it is against those measures that the efficiency and effectiveness of distributors' price plans will be judged by the EA.</p>
<p>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 later?</p>	<p>The paper mentions several cutting edge pricing options⁴. While cutting edge pricing options may not be feasible immediately, a distributor can only decide what the best transitional path it needs to take knowing what the long-term goal is. Therefore they should be considered earlier rather than later.</p>
<p>3. Do you consider that retail competition can be relied upon to ensure consumers face appropriate distribution price signals?</p>	<p>Yes but only if distributors provide appropriate distribution pricing signals in the first place.</p>

² An example of having a stable process rather than stable prices can be inferred from the Commerce Commission publication "Our vision and strategy 2017-2022" paper, published 2016, section 2.3 Strategic Objective Two: Consumers and businesses are confident market participants, that lists "the regulatory regime is predictable" as an important factor not predictable price paths, refer <http://comcom.govt.nz/dmsdocument/14857> at <http://comcom.govt.nz/the-commission/about-us/#vision>.

³ The ENA paper, section 9.2 Assessment of types of pricing, p71 notes the assessment criteria for assessing the five types of pricing have been developed using these EA guiding documents.

⁴ For example critical peak and real-time pricing (listed in Qu. 2 and discussed on p23, footnote 55, p41) and "locational and dynamic pricing" on p viii.

Question	MEUG response
4. Do consumers see value in load control and ripple control, and is this likely to change in future?	That is for current and future consumers to decide. The role of distributors in deciding long-term pricing goals and the transition path towards those is to ensure the potential of load control is an option for consumers to exercise or not.
5. Do you agree that distributors should engage with end consumers about distribution pricing?	Agree because when distributors decide the degree of granularity to ensure cost-reflective and service-based distribution pricing; that is best done with an understanding of the needs and aspirations of end consumers of their line services rather than in a vacuum.
6. Is there additional information that should be included in this paper about stakeholder engagement?	-
7. How should distributors balance feedback from different stakeholders?	<p>Part 2 of the discussion paper, Consultation with stakeholders – consumers and retailers, should be very helpful for distributors as it is comprehensive and uses recent experience from Australian distributors that are going through a similar process.</p> <p>MEUG confirms that we are willing and able to discuss pricing changes with any distributor that wishes to do so.⁵</p> <p>Note that it is not a matter of balancing feedback received from different stakeholders; it's a matter of sifting through all feedback for new information and suggestions that would lead to a better outcome consistent with the overarching objective of the long-term benefit for consumers. An overwhelming number of submissions on one topic relative to other topics may have merit or they may simply be a well organised special interest group of stakeholders protecting or enhancing a subsidised position. Only arguments with merit should be weighed when making decisions.</p>
8. Do you prefer two rate or three rate ToU pricing plans (or any other alternative)?	See general response on TOU consumption pricing option to Qu.10.

⁵ The ENA paper lists MEUG as a list of possible parties for discussion under the sub-heading "Audience", p28.

Question	MEUG response
<p>9. 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?</p> <p>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?</p>	<p>See general response on TOU consumption pricing option to Qu.10.</p>
<p>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)?</p>	<p>A seasonal component would be desirable to match winter peak demand and peak network service costs.</p>
<p>11. Do you agree with the ToU consumption pricing template?</p>	<p>See general response on TOU consumption pricing option to Qu.10.</p>
<p>12. Do you agree with the Customer Demand template?</p>	<p>It would be useful to know if the example Anytime Maximum Demand (AMD) of \$0.20/kW/day in the Customer Peak Demand template on p51 reflects the long run marginal cost (LRMC) for expansion of the low voltage (LV) local distribution for an average household.</p> <p>Similarly any EDB proposing an AMD component in their tariff schedule should explain the underlying cost assumptions used to calculate that charge.</p> <p>AMD charges may have a role to play in some situations; though we tend to agree with the paper that states network (ie more related to lumpier and larger high voltage (HV) expansion costs) and the use of co-incident maximum demand (CMD) prices are "considered the most cost-reflective option in this paper".⁶</p>
<p>13. If Network Demand pricing is used, should it be based on fixed or dynamic network peak pricing?</p>	<p>See general response on Network Demand pricing (CMD) option to Qu.16.</p>
<p>14. Are annual or monthly resets for demand pricing more appropriate?</p>	<p>See general response on Network Demand pricing (CMD) option to Qu.16.</p>
<p>15. What tools might consumers need access to be aware of Network Demand pricing signals?</p>	<p>See general response on Network Demand pricing (CMD) option to Qu.16.</p>

⁶ ENA paper, p52, first paragraph.

Question	MEUG response
<p>16. Do you agree with the Network Demand template?</p>	<p>It would be useful to know if the example CMD of \$0.140/kW/day in winter and \$0.07/kW/day in summer in the Network Peak Demand template on p59 reflects the LRMC for expansion of the HV network for an average household.</p> <p>Similarly any EDB proposing a CMD component in their tariff schedule should explain the underlying cost assumptions used to calculate that charge.</p>
<p>17. 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>The consumer, in all circumstances, choice "a".</p>
<p>18. 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>Decide by testing the market and experimenting with different size and number of price bands to find the mix that maximises benefits to end consumers. Different distributors and even different areas within a distributors' network may have different price band preferences.</p>
<p>19. 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>If no cost then "e" as often as they want.</p> <p>There will be a cost to the distributor and that cost should be passed through to consumers that change booked capacity. Such a transaction cost would meet both the cost-reflective and service-based criteria.</p>

Question	MEUG response
<p>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?</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>21. Do you agree with the Booked Capacity template?</p>	-
<p>22. 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>	Refer NZIER advice to MEUG attached, section 3, pp 21-23.
<p>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?</p>	Refer NZIER advice to MEUG attached, section 3, pp 21-23.
<p>24. What do you consider is the optimal combination of pricing components?</p>	Refer NZIER advice to MEUG attached, section 3, pp 21-23.
<p>25. Do you foresee any challenges to obtain and supply required data for implementation of preferred price structures?</p>	-
<p>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?</p>	-
<p>27. What are the potential changes that could be required by Registry because of moving to service-based price structures?</p>	-

Question	MEUG response
28. What are the potential challenges to Electricity Information Exchange Protocols (EIEPs) because of moving to service-based price structures?	-
29. What are the potential challenges for your data management and billing systems in implementing service-based price structures?	-
30. What other technical implementation challenges do you foresee that can impact on implementation of service-based price structures?	-
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?	Prefer voluntary adoption.
32. What is a reasonable timeframe over which to shift to cost reflective pricing?	The timeframe for shifting to cost-reflective and service-based pricing needs to be short enough to precede the accelerated adoption of technology that is already concentrating network costs among a smaller group of customers.
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?	-
34. What transition issues or challenges do consumers face in the move to cost reflective pricing?	-
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?	Be as open, transparent and inclusive of all interested parties as possible. The effect on current and future pricing paths for individual consumers relative to other consumers is the most important piece of information.

Question	MEUG response
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?	-
37. Are there any matters not covered in this paper that the industry needs to consider in relation to distribution pricing?	<p>Refer NZIER advice to MEUG attached, section 3, and in particular the conclusion in section 3.3 p23.</p> <p>As noted in response to Qu. 2 we think it would be better to assess earlier rather than later the pros and cons of cutting edge pricing options.</p> <p>The paper notes (p5) small scale distributed generation exports and peer-to-peer options and how to price those are not considered because the EA is considering both. Once the EA work is concluded those could be included in the ENA work programme to provide a comprehensive pricing options package for all regulated line services.</p>

6. We look forward to the ENA considering this submission.

Yours sincerely



Ralph Matthes
Executive Director