

20 December 2016

Graeme Peters
Chief Executive
Electricity Networks Association
P O Box 1017
Wellington 6140

By email: submissions@electricity.org.nz

Dear Graeme,

RE: New Pricing Options for Electricity Distributors

Pioneer Energy (Pioneer) appreciates the work ENA has been undertaking to identify new cost reflective pricing options for electricity distributors.

Pioneer does not re-bundle distribution charges but passes these charges straight on to its consumers ensuring the signals designed in distribution tariffs are faced by our customers.

Service based and cost reflective distribution prices

Pioneer agrees with the ENA's description that networks are built and operated to both:

- provide access to the network at a given level of capacity
- make sure that consumers' demand for electricity at peak times can be met.¹

We also agree that "it is peak demand that predominately influences network costs".²

The Discussion Paper states that the EA has identified three services that distributors provide³:

1. Transporting electricity to a consumer's premises at a level of quality and reliability
2. Keeping a certain amount of distribution network capacity available for the consumer to use at the "flick of a switch" whenever they want
3. Acting on a consumer's behalf to manage the consumer's use of the distribution network.

In our view, points 1 and 2 are consistent with the ENA's description of the services provided by network companies.

¹ Page 5 of Discussion Paper

² Page 9 of Discussion Paper

³ Page 5 of Discussion Paper

Pioneer suggests that point 3 is a service that the consumer provides to the network company. We assume this refers to load control which is managed for residential consumers by offering controlled tariffs. While the distribution company can offer these tariffs, the service is only available to the distribution company if a consumer decides to go on the controlled tariff. The service is provided by the consumer.

We appreciate that the ENA has not addressed in this Discussion Paper the services provided by distribution companies to distributed generation or the services distributed generation provides to distribution companies. Pioneer and the Independent Electricity Generators Association are keen to work with the ENA to identify the range of services provided to and by distributed generation to ensure cost reflective and services based charges are in place.

Preferred option

Pioneer agrees that pricing structures should reflect the current and future use of the network. However, fixed charges that reflect the relatively high proportion of fixed costs of networks should not ensure guaranteed revenues when there is a long term reduction in volume transported over the network – network companies must be open to reviewing the valuation of their assets, asset stranding and deploying the most economic solutions for delivering electricity over time.

Partly for this reason, Pioneer favours Time of Use charging over the other options discussed. TOU charging gives both the consumer and the network company choices about how they use / manage the network. We agree that peak demand volumes drive investment in infrastructure – both distribution, transmission and generation capacity. TOU network charging can be easily combined with TOU charges for energy to give consumers appropriate signals about when their consumption will have the most impact on driving the need for new infrastructure investment. The ultimate pricing structure would be to have TOU for all the components required for delivering electricity – generation, transmission and distribution charges.

We note that the ENA has received initial feedback “that the industry’s billing systems and data management systems are generally not capable of the half hour billing for residential and small business connections that is required for many of the identified types of pricing”.⁴ This is obviously a barrier for implementing our preferred option. Pioneer urges the industry to make this investment to maximise the value of the metering infrastructure that is already being rolled out and consumers are paying for. The use of profiles for billing and reconciliation is out of date with the future we are designing for with the consumer as the central focus point.

We believe a pricing roadmap could, for example, include TOU and half-hourly pricing as the ultimate end-goal, with interim changes to existing tariff structures to make them more TOU-like and ensure progression. These interim pricing measures could be adopted whilst the billing and reconciliation infrastructures were further developed.

⁴ Page viii of Discussion Paper

Other pricing options

It is obvious that the ENA has put in considerable effort to analyse and propose these future pricing options. In our view, TOU charges will be easiest to communicate to consumers and to implement. We do not have the resources to provide detailed feedback on the other options but suggest maybe one or some distribution companies could trial offering as an option one or more of these options and share the experience with ENA members and retailers.

It may also be useful for the ENA to run a sample of consumer focus groups, designed to “reality test” some of these new options before they are universally adopted. These focus groups could also be jointly run between ENA and ERANZ to help establish consensus on how these network pricing structures interpose with retail energy pricing.

In conclusion, we commend the ENA for this work on future pricing options and look forward to working with you on cost reflective service based pricing for the services provided to and by distributed generation. Please read our response to the specific questions in conjunction with this letter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Grant Smith', with a long, sweeping underline that extends to the left.

Grant Smith
General Manager, Strategy & Business Development