



ENERGY TRUSTS OF NEW ZEALAND INC.

P O Box 109626

Newmarket

Auckland 1149

Phone: (09) 978 7673

www.etnz.org.nz

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ETNZ represents the Trust owners of electricity distribution businesses throughout New Zealand, the largest of which is the AECT and smallest of which is the Buller Electric Power Trust. The majority of the Trustees of these energy trusts are elected by electricity consumers who are the beneficiaries of the Trusts.

As the organisation representing consumer and community owners of EDBs, the Energy Trusts Association (ETNZ) has both an asset owner and a consumer perspective in addressing this topic.

Responses to Consultation Questions

1. Pricing challenges

a) Should distribution charges be separated from retail charges to preserve distributor price signals, or as an alternative should retailers be required to pass on distribution price signals to consumers? If not, why not?

EDBs are coming under increasing pressures to ensure that consumers receive clear signals on how they can best manage their electricity costs and quality expectations. These pressures reflect the efficiency gains arising from reducing peak demand growth, regulatory incentives/disincentives, and rapidly changing consumer requirements and demand-side capabilities.

Ideally, retail pricing should have parallel priorities, meaning that consumers received a reinforced signal to make efficient decisions. However, we recognize that factors such as the dominance of integrated generator/retailers, and the relatively weak market for demand-side options contribute to strong incentives for the retail industry to maximize energy demand.

One way forward could be to decouple the pricing signals that retailers and EDBs produce, e.g. through pricing arrangements that deliver more apparent consumer incentives based on longer term demand patterns, such as reduced peak demand over the preceding year.

b) What alternative options exist for ensuring consumers receive efficient distribution pricing signals?

As noted above, one way forward could be to decouple the pricing signals that retailers and EDBs produce, e.g. through pricing arrangements that deliver more apparent consumer incentives based on longer term demand patterns, such as reduced peak demand over the preceding year.

c) Do the issues discussed above accurately reflect your views of the pricing challenges and opportunities facing the sector?

Thought could also be given to the improved delivery of information to consumers to improve their understanding of distribution pricing signals.

d) What issues do you consider are the most important?

Finding a pricing structure that supports consumer needs, in contrast to the existing structure (which has a strong focus on optimizing Transpower's assets).

e) Are there any other issues that should be considered?

There is still no mechanism for consulting with consumers – who pay the bills - about what they actually want. ETNZ is becoming increasingly concerned that inadequate consumer engagement is contributing to a marketing environment where consumers will be suspicious of any pricing methodology changes.

Development of an effective consumer engagement process, in parallel with the current review, would be timely.

2. Pricing principles

a) Do the current pricing principles provide the appropriate guidance for distributors in establishing cost reflective distribution prices? If not, what changes do you suggest, and why?

In theory the Commerce Act and EA principles provide appropriate guidance. In practice they have been too easily over-ridden by ad hoc legislative interventions and, in the case of the Part 4, by a very tepid regulatory response to the 43 a) and 43 b) principles to provide incentives to invest and to promote energy efficiency.

A legislated requirement for regulators to focus in particular on delivering the incentives identified in those Part 4 principles, and perhaps a requirement for Ministers – in considering legislation that impacts on electricity prices – to take into account the Part 4 principles would be worth considering.

b) Which principles do you consider are the most important, and why?

In our view, of the four Part 4 principles, the first 2 - ensuring that distributors:

- . a) have incentives to innovate and to invest, including in replacement, upgraded, and new assets;
- . b) have incentives to improve efficiency and provide services at a quality that reflects consumer demands;

are the most important. Taken together, these two principles reflect the current focus on empowerment of transformative technologies and demand-side options. In contrast, the other two principles (sharing efficiency gains and curbing profits) have been a regulatory priority contributing to backward looking outcomes.

c) How should trade-offs between principles be reflected in distributors pricing methodologies?

In ETNZ's view, a dialogue with consumers to establish their priorities is required. We would expect different consumer groups, and consumers in different areas, to have their own priorities.

d) Could distributors improve their approaches to setting charges consistent with the pricing principles, and if so, how?

Almost certainly. However, this is a complex issue that would be easier to address through a further focused consultation phase.

3. Current legislative impositions

a) Do you consider that the current LUFC regulations impose barriers to cost reflective distribution pricing?

Yes, in terms of distribution pricing. However, in terms of overall consumer costs in a situation where transformative technologies such as EVs and improved storage options are emerging, they may contribute to more cost-reflective consumer outcomes. This is an issue that deserves further analysis.

b) Do you consider that the current Part 6 pricing principle for DG imposes barriers to cost reflective distribution pricing?

Again, yes, in terms of distribution pricing. However, in terms of overall consumer costs in a situation where transformative technologies such as small-scale solar, EVs and improved storage options are emerging, they may contribute to more cost-reflective consumer outcomes.

c) Do you consider that the current rural network price constraint imposes barriers to cost reflective distribution pricing?

Yes.

d) Should these be addressed? If so how and why?

The political decision to discard the original legislative termination date of 2013 should be reconsidered. Given the advances being made in alternative supply options for remote electricity consumers, a new termination date of – say – 2023 could be considered. This would give consumers and distributors a reasonable transition period.

4. Responding to consumer needs

a) Do you agree that distribution and retail pricing structures and options need to respond to changing consumer needs and demands? If not, why not?

Yes. Already at least some consumers are converting to solar plus battery installations, and it seems highly likely that this trend will accelerate, driven in part by high delivered energy costs. Distribution and retail pricing will need to deliver options that address, or at least recognize, the following:

- Existing remote generators do not pay for the greater part of the transmission/distribution cost involved in bringing their product to the point of consumption, and it seems inequitable for parties with battery-supported solar to be treated very differently. In fact, a remote generator needs transmission and distribution far more than an end user with solar and storage does.
- A rethink of the pricing function to ensure that consumers are more informed about the services they – and others – are paying for is overdue.
- As demand-side technologies arrive, a need is emerging for pricing signals that incorporate the range of consumer options and services that can be delivered by those technologies. As an example, it is probably time for the delivery of AUFLS signals to unaware domestic consumers to be recognized in pricing arrangements.

b) What are your key concerns and observations in addressing these challenges? Please provide examples and evidence where possible to support your views.

New Zealand is probably unique in the developed world in having a very large domestic electricity load. Domestic consumers in general have limited market power (in contrast to the relatively small number of major electricity users)

and are required to carry hidden costs – such as the targeted provision of AUFLS - that are not necessarily reflected in current pricing relativities.

A key concern for ETNZ is to ensure that domestic consumers' market power develops rapidly now that new technologies that present demand-side options are emerging. As noted above, greater transparency in pricing will be vital for this to occur.

5. Time of use or demand-based pricing

a) Do you support consideration of more cost reflective forms of pricing for the mass market (eg TOU/demand based, demand response), which are facilitated through advanced meter data/platforms?

Yes.

b) What are the barriers to implementing more time based pricing structures for mass market consumers?

Access to retailer data, privacy issues, inadequate regulatory recognition of costs associated with developing such structures for mass market consumers.

c) How can distributors, retailers and other stakeholders address these barriers?

As part of the consumer engagement process it may be useful to establish a focus group to identify what the issues are between the sectors that impede better pricing. The objective would be come up with constructive steps that satisfy consumers that their needs and concerns are being recognized and effective action is being taken.

A facilitated discussion – possibly via the Smart Grid Forum – could initiate such a process.

d) What consumer considerations need to be taken account of?

Avoiding price shocks, providing adequate but not unnecessarily complex information, emerging consumption trends that reflect transformative developments such as EVs and solar.

Developing processes which provide transparency in pricing.

e) What information protocols are required to protect privacy?

- Recognition that consumers own certain information (bearing in mind legal debate over the ownership of IP).
- Procedures for communicating with consumers on changes/potential changes that have an impact on their information or its use.
- Clarity on liabilities arising from use or misuse of information.

f) What issues would it create for you if more cost reflective distribution pricing approaches were mandated?

Trusts might need to consider changes to ways in which their dividends and other benefits are delivered.

6. Technological change

a) What impact do you expect technological advances (including solar PV, EVs) to have on your organisation, and how soon will this occur?

We consider that solar will have a profound impact on forward investment decisions, while EVs will also have some more localized impacts. We would expect these changes to become material within a few years.

b) What changes to distribution pricing structures and options are required to meet these technological advances?

As noted in our early responses, a shift in distribution pricing emphasis away from transmission-led signals and towards optimizing consumer outcomes will be required.

7. Structures?

a) Do you consider that there are issues with the current range of distribution tariffs?

We would not over-emphasize such issues. There are some legacy tariffs that could usefully be eliminated, and there is also scope for greater standardization of terms. However, in our view the primary reform priority should be on developing a new range of pricing arrangements that are more appropriate for emerging consumer needs.

A dialogue with regulators, and – if necessary - with policy makers on transition processes will be necessary.

b) If so, how should they be assessed against pricing efficiency objectives? What is more important and why?

See previous response.

c) Are there examples of distribution pricing approaches which you consider work well?

While much of the information disclosure burden facing EDBs seems of little value, regulatory disclosures have the potential to make all current distribution pricing approaches transparent for consumers. However, the unregulated processes where retailers repackage distribution prices (and sometimes fail to pass distribution price cuts through to consumers) undermine this transparency.

We are not aware of any examples that stand out. However, it would appear sensible to review changes that have occurred or are occurring in other countries where transformative technologies are having an impact already.

d) Conversely, which approaches are more difficult, and why?

See previous response.

8. Methodologies etc.

a) Are you aware of and do you use distribution pricing methodologies? If so, which pricing methodologies do you rate as best practice, and why?

N/A

b) Are you aware of and do you use distribution tariff schedules? If so, which ones do you prefer and why?

N/A

c) Are you aware of and do you use distribution price notifications? If so, which ones do you prefer and why?

N/A

d) What information is of most interest to you about distribution prices? Do you have access to this information?

Changes in distribution prices in the context of changes in overall delivered electricity prices and costs are of most interest. ETNZ has relatively good access to such information but we doubt whether the great bulk of consumers do.

e) What information, if any, about pass-through cost components (eg: transmission costs), are you interested in receiving from distributors?

Having such information available if required might be useful. We doubt whether it would be useful to require very granular information on pass-through costs made available. However, thought should be given to providing clear information on avoided pass-through costs.

Thank you for undertaking this very timely and significant consultation exercise.

Karen Sherry
Chair