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Electricity Authority
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Submission on: Targeted Reform of Distribution Pricing – Issues paper

1. Executive summary

- 1.1. The Consumer Advocacy Council (the Council) recommends that the Electricity Authority (the Authority):
- 1.1.1. Actively considers the effects of distribution pricing options on domestic and small business consumers.
 - 1.1.2. Investigates and consults on the case for a single comprehensive pricing methodology.
 - 1.1.3. Requires metering equipment providers (MEPs) to reprogramme meters where possible rather than replace the meters.
 - 1.1.4. Requires retailers to use half hour data for electricity invoicing rather than the cumulative meter registers.
 - 1.1.5. Introduces pricing based on each consumer group's consumption (standardisation of installation control point (ICP) referenced network pricing) as the preferred network pricing methodology.
 - 1.1.6. Introduces a national mechanism to ensure domestic and small business consumers pay a consistent and transparent share of target revenue, at a rate lower than is typically paid today.
 - 1.1.7. Adopts option 6.23(c) for target revenue to mandate specific approaches.
 - 1.1.8. takes a balanced approach to connection charges that favours low capital contributions for domestic and small businesses and full (or close to full) cost recovery for large users for whom the capital cost is part of a business investment decision.
 - 1.1.9. Mandates that retailers pass distribution pricing features through retail pricing, without disadvantaging consumers who cannot shift their usage.
 - 1.1.10. Includes consideration of wider issues (including consumer generation, intermittent generation, data access, cost to change meters, multiple trading relationships, and consumer education) when developing options for distribution pricing regulatory options.

2. Introduction

- 2.1. The Council thanks the Authority for the opportunity to make a submission on *Targeted Reform of Distribution Pricing: Issues paper* (the issues paper).
- 2.2. This submission is from the Consumer Advocacy Council (the Council), the independent advocate for residential and small business electricity consumers (consumers) in Aotearoa New Zealand.
- 2.3. The Council agrees the regulatory settings for distribution pricing must be reviewed. However, we are concerned that the issues paper is concentrated on the impacts on distributors and retailers and does not effectively consider the situation of domestic and small business consumers.
- 2.4. The Council highlights the statutory objective of the Authority “to protect the interests of domestic consumers and small business consumers in relation to the supply of electricity to those consumers”.¹ Given this mandate, the Authority should actively consider the effects of options on domestic and small business consumers.
- 2.5. The Council has chosen not to respond in the format of questions provided in the consultation paper. We have chosen instead to provide comments below.

Recommendation:

The Council recommends that the Authority actively considers the effects of distribution pricing options on domestic and small business consumers.

3. The issues paper lacks consideration of vulnerable consumers

- 3.1. The paper assumes price signals will lead to changes in consumer usage patterns. However, many consumers (particularly those in hardship) have little capacity to change their usage in response to price signals.
- 3.2. We therefore consider more robust analysis is needed to assess the problems faced by different groups of electricity consumers and the likely effects on these groups of changes to the regulatory settings.
- 3.3. Of concern, the paper makes minimal mention of the effects on vulnerable consumers of the potential for higher prices during peak demand periods.² Higher peak prices will increase payment difficulty for consumers on prepay meters and likely increase auto-disconnections.³
- 3.4. Vulnerable consumers who restrict electricity consumption are at higher risk of hypothermia, heat-related illnesses, exacerbation of existing health conditions, and winter mortality.⁴ We consider the lack of analysis of these effects is a major gap in the paper.

¹ [Section 15\(2\) Electricity Industry Act 2010.](#)

² The [Electricity Price Review](#) estimated that more than 100,000 households in New Zealand experience energy hardship (p. 1). For the year ended June 2022, the Ministry of Business, Innovation and Employment [reports](#) that 110,000 households stated they could not afford to keep their homes adequately warm.

³ [O'Sullivan, K. C., Stanley, J., Fougere, G., & Howden-Chapman, P. \(2016\). Heating practices and self-disconnection among electricity prepayment meter consumers in New Zealand: A follow-up survey. Utilities Policy, 41, 139-147.](#)

⁴ [Marmot, M., Geddes, I., Bloomer, E., Allen, J., & Goldblatt, P. \(2011\). The health impacts of cold homes and fuel poverty. Marmot Review Team.](#)

- 3.5. The shortcomings of the issues paper constrain our ability to comment in detail on the Authority's proposed actions. We would welcome the opportunity to discuss the research needed to inform the Authority's decision making on regulatory settings.
- 3.6. The Council is currently carrying out survey research to assess consumers' capacity to shift electricity use to off-peak times. When the findings of this research are available, we would be happy to discuss them with the Authority.
- 4. The Authority's assessment of distribution pricing indicates the current approach does not deliver cost-reflective or fair prices for consumers**
- 4.1. The issues paper states that in certain areas distribution prices are not cost-reflective and may not lead to efficient network use or investment. Additionally, it notes that material off-peak charges are common and there has been little progress in establishing price signals that reward flexibility.
- 4.2. We also note that the statement "The Authority is pleased with some of the improvements we have observed with respect to pricing methodologies and use-of-system charges. In particular (c) the sector is following the phase-out path for the low fixed charge (LFC) regulations". This assessment is based on a report prepared for the Electricity Retailers' Association of New Zealand (ERANZ).⁵ We believe analysis intended to inform regulatory change should be based on independent research. A report prepared for retailers which focuses on the future, not analysis of what has occurred, is insufficient evidence to conclude that retailers are reducing variable charges, particularly given the potential impacts of the phase-out on many low-income households.⁶
- 4.3. A key argument advanced for removing the tariffs was that they created a barrier to network companies amending their prices. However, the issues paper suggests the phase-out has not seen significant changes in network pricing that would benefit consumers.
- 4.4. We further note the Authority's comment that there is little evidence of a reversal of the trend of distributors allocating an increasing share of network costs to domestic consumers.⁷ The Electricity Price Review estimated that householders' average yearly bill could be reduced by about 4.5 per cent (about \$90) if business and domestic allocations were undertaken on a "more equivalent basis".⁸
- 4.5. Given these issues, we do not consider a continuation of the Authority's current approach of relying on pricing principles, guidance (e.g., distribution pricing practice note) and distribution pricing scorecards is appropriate.
- 5. A single comprehensive pricing methodology should be investigated**
- 5.1. The issues paper states that mandating a single comprehensive pricing methodology is unlikely to be appropriate. The absence of a standardised pricing methodology means that retailers pass through increased costs and risks to consumers.
- 5.2. A multitude of network pricing structures encourages retailers to standardise retail pricing structures and smear network prices, or not enter a network area, each of which can disadvantage consumers. Even modelling commissioned by the industry has shown price

⁵ [Targeted Reform of Distribution Pricing – Issues paper \(para. 2.22\(c\)\).](#)

⁶ [Quantifying the LFC counterfactual \(Concept Consulting, 2020\).](#)

⁷ Ibid. (para. 6.13).

⁸ [Electricity Price Review – Technical Paper.](#)

impacts for individual consumers can vary widely around the average, even within the same consumer groups.⁹ Often those least able to pay are worst affected.

- 5.3. Under a single distribution price methodology, retailers are not faced with a high management overhead to manage the pricing structure, reducing risks and costs to consumers.
- 5.4. There is no evidence given to support the Authority's claim that a single methodology is inappropriate. The Council believes a single methodology should be investigated further.

Recommendation:

The Council recommends that the Authority investigates and consults on the case for a single comprehensive pricing methodology.

6. Many consumers cannot change their electricity usage in response to signals

- 6.1. As previously mentioned, many consumers (particularly those in hardship) have little capacity to change their electricity usage in response to price signals. As an example, consider a family of five, living in substandard rental housing. For that family, dinner needs to be cooked at dinner-time, heating needs to be utilised when the family is home in the evening and consumption will be high because of lack of insulation and the like. For this family and the 110,000 families that MBIE assesses experience energy hardship, the proposals for peak pricing and off-peak pricing will see their costs increase.¹⁰ The Authority and distributors should be aware of distributional impacts on consumers in energy hardship.
- 6.2. Rather than simply rewarding flexibility, the current cost-plus revenue model will lead to a redistribution of costs and introduce perverse cross subsidies. For example, consumers that cannot afford to purchase off-grid power systems (e.g., solar photovoltaic systems and batteries) or discretionary load devices (such as smart appliances) will bear the cost of higher peak rates. Similarly, consumers in rental premises who do not have the option to renovate their house or install devices that conserve or use electricity more efficiently will face increased costs. These are, not coincidentally, some of the most vulnerable consumers.

7. Distribution prices should reflect actual network use and the cost for customers to change pricing plans should be minimised

- 7.1. The lack of progress establishing price signals that reflect the real cost of network use for individual consumers is concerning. Uniform usage tariffs provide poor incentives for efficient network use and results in some consumers subsidising others. As previously noted, many consumers cannot respond to price signals, and fairness needs to be considered when distributing costs.
- 7.2. Uniform usage tariffs based on grid exit point (GXP) pricing do not reflect the real cost of network use for the individual consumer. Additionally, because aggregate prices consolidate and blend the individual cost of network use, consumers are discouraged from reacting to price signals.
- 7.3. The Council would like to see analysis undertaken to demonstrate how cost allocations are made to ensure that costs are not unfairly allocated between components within pricing plans.

⁹ [New Pricing Options for Electricity Distributors: A discussion paper for industry feedback \(p. 56\).](#)

¹⁰ [Report on energy hardship measures: Year ended June 2022 \(p. 7\)](#)

- 7.4. In GXP pricing, retailers determine the network prices and pricing structures that are passed on to consumers. These are more likely to follow the retailers' contracted position rather than a distributor's capital cost deferment model, where the distributor's cost signals are not necessarily fully reflected in the retailer's customer pricing plan. The Council agrees with the Authority's preference that GXP pricing should be avoided. Alternatively, the Council supports placing price pass-through requirements in the Code as retailers should not be responsible for calculating customer network prices.
- 7.5. The Council suggests pricing based on each consumer group's consumption (standardisation of ICP referenced network pricing) as the preferred network pricing methodology.
- 7.6. Additionally, the current practice of some retailers requiring new meters or rewired meters when a consumer changes price plans imposes unnecessary costs to consumers. The Council believes that this can be easily avoided in many instances by requiring:
- 7.6.1. metering equipment providers (MEPs) to reprogramme meters where possible rather than replace the meters, and
 - 7.6.2. retailers to use half hour data for electricity invoicing rather than the cumulative meter registers.
- 7.7. Currently, if a customer changes pricing plans,¹¹ retailers and MEPs may require a change in meter rather than remotely reprogramming a meter. The cost to replace a meter is passed to the customer, which removes the incentive for retailers and MEPs to remotely reprogramme a meter or use the half-hour metering data instead of accumulating channel readings. In the event that there are network pricing plan changes that require different time periods,¹² the requirement (and cost) for customers to replace their meter is a barrier for networks to change pricing plans and for customers to take advantage of new distribution pricing options.
- 7.8. MEPs, or a centralised metering database, could easily offer templating of data (aggregating half hour data into time periods), removing the need to reprogramme or change meters. This may also assist distributors if they wished to develop or remove congestion pricing for certain parts of their networks.

Recommendation:

The Council recommends that the Authority:

- a. Requires MEPs to reprogramme meters where possible rather than replace the meters.
- b. Requires retailers to use half hour data for electricity invoicing rather than the cumulative meter registers.
- c. Introduces pricing based on each consumer group's consumption (standardisation of ICP referenced network pricing) as the preferred network pricing methodology.

8. Target revenue allocation should be reformed to avoid cross-subsidisation

- 8.1. As mentioned above, the Council is concerned about the allocation of distribution costs between business and domestic consumers. If distribution network costs were proportional

¹¹ For example, changing from Anytime (UN24) and Controlled (CN17) to day/night or Time Of Use (TOU) for a customer with AMI metering.

¹² For example, converting the accumulating channels for an anytime meter to day/night.

to GWh demand, the proportion of network costs recovered from consumers should equal their share of GWh demand. However, as noted in the issues paper, distributors are increasingly allocating a greater proportion of the network cost recovery burden to domestic consumers.¹³

- 8.2. The Council agrees with the Authority that the approach to allocations should be subsidy-free and actively managed to minimise harm and promote efficiency. Distributors should have a clear view of how allocations to consumer groups sit within the subsidy-free range to ensure a transparent and purposive approach. We also recommend the Authority actively considers distributional impacts and ensures consumers are protected from perverse cross-subsidisation.
- 8.3. The Council recommends the Authority adopts option 6.23(c) for target revenue to mandate specific approaches.

Recommendation:

The Council recommends that the Authority:

- a) introduces a national mechanism to ensure domestic and small business consumers pay a consistent and transparent share of target revenue, at a rate lower than is typically paid today.
- b) adopts option 6.23(c) for target revenue to mandate specific approaches.

9. Nationally consistent and transparent connection charges based on incremental pricing would incentivise domestic and small business connections and efficient use of the network

- 9.1. The current approaches to connection charges prejudice and disincentivise new domestic and small business connections. High connection charges are a significant barrier for consumers who wish to connect to the electricity grid. There is at times a first mover disadvantage where the customer that requires a new connection or an increase in connection capacity may face significant cost as it is required to pay for capacity beyond what it actually needs. Subsequent customers connecting receive a benefit as their connection cost will be significantly less as the increased infrastructure capacity has been paid for by the first mover. Additionally, including deferred maintenance costs or payment for capacity that will not be used by the customer in the connection charge subsidises existing customers and subsequent connections.
- 9.2. Regulating the approach to connection pricing can ensure that a customer does not pay for unneeded capacity and the additional capacity is purchased by customers who will eventually use it. The Council supports a balanced approach that favours low capital contributions for domestic and small businesses and full (or close to full) cost recovery for large users for whom the capital cost is part of a business investment decision.

¹³

[Targeted Reform of Distribution Pricing – Issues Paper \(para. 6.13\).](#)

Recommendation:

The Council recommends the Authority takes a balanced approach to connection charges that favours low capital contributions for domestic and small businesses and full (or close to full) cost recovery for large users for whom the capital cost is part of a business investment decision.

- 10.1. Voluntary pass through of distribution pricing features to retail pricing is likely to inflate electricity prices**
- 10.2. Permitting voluntary pass through of distribution pricing features to retail pricing allows retailers to manipulate pricing and inflate the costs of consumer electricity usage.
- 10.3. As noted in the Council's submission on *Price Discovery in a renewables-based electricity system – Options Paper*, there are very few measures aimed at alleviating market power.¹⁴ Ultimately, the absence of a clear connection between network costs and retail prices erodes consumer trust and leaves consumers at the mercy of an opaque and potentially unfair electricity pricing system.
- 10.4. The fact that some electricity distributors point to the absence of retail pass through as a justification to postpone reforming their own pricing practices is a concern. This stance avoids accountability for their own pricing decisions and indicates reluctance to embrace necessary changes that would benefit the long-term welfare of consumers and the health of the energy market. It is essential for the industry to proactively address concerns about pricing fairness instead of using the absence of one element as an excuse to hinder progress.
- 10.5. The Council supports mandating pass through of distribution pricing features to retail rates. However, it is equally important to consider the distributional impacts on consumers who cannot shift demand.

Recommendation:

The Council recommends that the Authority mandates that retailers pass distribution pricing features through retail pricing, without disadvantaging consumers who cannot shift their usage.

- 10. These issues must be considered in conjunction with wider issues**
- 11.1. As mentioned previously, the issues paper is concentrated on the impacts on distributors and retailers and does not effectively consider the situation of domestic and small business consumers. To ensure the needs and rights of consumers are protected, the Council believes the matters discussed in the issues paper need to be considered in conjunction with the broader context of the energy system and underlying issues that must be addressed.
- 11.2. The decarbonisation of New Zealand's energy system will increase demand for electricity at the same time as fossil-fuelled generation is phased out. Network resilience is needed to accommodate this demand. Distributors will increasingly rely on consumer generation and distributed energy resources (DER) to manage capacity and should facilitate and encourage consumer generation as much as possible. Consumer generation and DER have the capacity to empower consumers and ease the transition by facilitating more efficient use of existing

¹⁴

[Council submission on Price discovery in a renewables-based electricity system.](#)

resources. Market and regulatory settings must be stable and consistent to encourage investment and ensure consumers receive the benefits from the energy they generate.

- 11.3. Innovative smart appliances will increase consumers' role in the operation of the electricity grid. The Energy Efficiency and Conservation Authority (EECA) intends to include uniform demand response capability requirements in minimum energy performance standards (MEPS) for a range of appliances.¹⁵ It is important public sector agencies collaborate and that distribution regulatory settings are aligned with demand response standards. Additionally, the Council believes it is important that consumers can make choices about how they manage their own generation and appliances.
- 11.4. As mentioned in our submission on the *Issues and options paper: Review of forecasting provisions for intermittent generators in the spot market*, the share of supply from intermittent generation will drastically increase over the coming years. Maintaining balance in the power system will become increasingly difficult as more variable generation is integrated. Under the current network pricing models, this will lead to pricing outcomes that deliver a cross-subsidy from those who cannot afford in-home generation to those who can. It is important that the Authority considers structure and suitability of the system to ensure the increase in intermittent generation does not lead to higher costs for consumers.
- 11.5. The issue of data access is longstanding and persistent, without a satisfactory resolution. Access to meter data could enable many technology benefits for consumers. Under the current regulatory settings, a customer's retailer (and only a single retailer) manages the consumer interface and the point of connection to a network. The lack of access to historic and real-time data consumption also limits distributors' capacity to manage congestion and prevents consumers from managing their consumption and finding the best pricing plans through switching sites such as Powerswitch.
- 11.6. The Council believes that access to historic and real-time data is needed to support consumers' access to the best pricing plans. This would also facilitate the operation of flexibility services, management of congestion and the capacity for hosting consumer generation and DER and facilitate the operation of flexibility service trading platforms.
- 11.7. Multiple-trader-relationships (MTR) and peer-to-peer (P2P) trades will also be key to maintaining the stability, security, supply, and affordability of electricity. MTR and P2P trades enable specialists to actively trade flexible load and offer the best pricing for the load. The Council recommends that the Authority include the facilitation of MTR and P2P trades in its work plan. This will likely require changes to the Electricity Industry Participation Code, electricity registry and reconciliation system, and might require some form of centralised access to metering data.
- 11.8. First movers and early adopters will reap the benefits of connecting to the electricity network. This could potentially lead to an inequitable distribution of advantages among consumers. The Council believes that the industry should offer cost-effective alternatives that enable all consumers to engage in the electricity sector, facilitating both the generation and consumption of electricity in an affordable manner.

¹⁵ [Regulation Impact Statement for Decision: 'Smart' Demand Response Capabilities for Selected Appliances.](#)

Recommendation:

The Council recommends that the Authority includes consideration of wider issues (including consumer generation, intermittent generation, data access, cost to change meters, multiple trading relationships, and consumer education) when developing options for distribution pricing regulatory options.

11. Conclusion

- 12.1. We wish to thank the Electricity Authority for the opportunity to submit on the Targeted Reform of Distribution Pricing.
- 12.2. If you have any further queries regarding the submission do not hesitate to contact Tammy Peyper – Consumer Advocacy Council Manager, on either info@CAC.org.nz or 021 829 931.

Yours sincerely,



Deborah Hart

Chair – Consumer Advocacy Council