Consumer Advocacy Council

6 September 2022

Electricity Authority

Transmission charge pass-through – Guidance Note Review

Email: Distribution.Pricing@ea.govt.nz

To whom it may concern,

1. Executive Summary

1.1. The Consumer Advocacy Council (the Council) recommends:

a. Distributors should ensure that retailers have information to respond efficiently to customer queries if pricing plan rates change due to changes in transmission charges.
b. All industry bodies need to agree upon consistent messaging to small consumers about the nature of any changes and why they are occurring.
c. A mix of fixed and variable charges should be introduced.
d. The guidelines should include recommendations on spreading adjustments over an implementation period so that no consumer's overall retail electricity cost exceeds a 5% increase in any one year.
e. Allocation of pass-through of costs should be transparent and consistent with the distributor's pricing methodology required by the Commerce Commission.

2. Background

2.1. The Council is the independent advocate for residential and small business electricity consumers (small consumers) in Aotearoa New Zealand. Our role is to advocate on behalf of these consumers and protect their interests in relation to electricity. We represent approximately 5 million residential consumers and 530,000 small businesses.

2.2. Our focus in this submission is only on residential and small business consumers.

2.3. Our recommendations are consistent with New Zealand's decarbonisation aims, rather than economic purity.

3. Ensuring that distributors manage pricing changes

3.1. The proposals will likely cause changes to distributors' pricing plans which, in turn, will likely cause changes to retailers' pricing plans with their customers.

3.2. The single price a customer sees on an invoice usually includes the cost of transmission, lines, retail and other charges. The distributors' price signals aren't easily identifiable so small consumers will not automatically understand why these pricing changes are happening.

3.3. The Consumer Care Guidelines states in its intended outcomes, paragraph 5.A that retailers should work proactively with consumers to minimise harm. Any changes made to retail electricity price should be consistent with the intent of the Consumer Care Guidelines, particularly when increases could trigger difficulty in customers' ability to pay for their electricity. We recommend a similar recommendation is placed in this guideline.

3.4. We recommend that all industry bodies agree upon consistent messaging to small consumers about the nature of the change and why it is occurring.

Recommendations:

1. Distributors should ensure that retailers have information to respond efficiently to customer queries if pricing plan rates change due to changes in transmission charges.
2. All industry bodies need to agree upon consistent messaging to small consumers about the nature of any changes and why they are occurring.

4. Minimising price increases to consumers

4.1. The guideline discusses allocating costs across their customers "*.....– including across network locations, consumer types (for example, residential vs. non-residential and small vs. large) and price components (for example, daily and energy-based charges).....*"[1]

4.2. A fixed charge will disadvantage some consumers. This cross subsidy is likely to be from smaller consumers of electricity, some of whom may least afford to pay, to larger electricity consumers.

4.3. A mix of fixed and variable charges would be fairer. This would be more reflective of demand on the network and transmission system. It would ensure that small consumers accessing the system on an intermittent basis, (such as holiday homeowners), also contribute to costs.

4.4. When a distributors' pricing methodology changes pricing plan rates, the rate of change is limited, which could lead to large increases for smaller consumers. Again, we believe this to be unfair and suggest the guidelines include smoothing any changes over a period of time to ensure that retail electricity costs don't exceed a 5% increase in any one year.

[1] Para 3.2

> **Recommendation:**
> 3. A mix of fixed and variable charges should be introduced.
> 4. The guidelines should include recommendations on spreading adjustments over an implementation period so that no consumer's overall retail electricity cost exceeds a 5% increase in any one year.

Transparency of allocation costs

4.5. The Commerce Commission requires distributors to publicly disclose a pricing methodology that describes "..... the methodology, in accordance with clause 2.4.3, used to calculate the prices payable or to be payable; "[2]

4.6. While the proposed guideline includes a recommendation that pass-through of costs should be transparent[3], we recommend that it be more explicitly connected with the distributor's pricing methodology required by the Commerce Commission. Consequently, we consider that:

- The allocation methodology is included in the individual distributor assessments in the "Distribution pricing scorecard - Interpretation Guide"[4]; and
- Principles are included in the "Distribution Pricing Practice Note 2021 2nd edition"[5].

4.7. This will ensure consistency across the regulators.

> **Recommendation:**
> 5. Allocation of pass-through of costs should be transparent and consistent with the distributor's pricing methodology required by the Commerce Commission.

5. Liability charges and the daily use of the grid

5.1. Throughout the document a preference is expressed to recover transmission pass through charges as a fixed cost to customers. However, para 4.24 notes that a usage charge could be considered.

[2] https://comcom.govt.nz/__data/assets/pdf_file/0024/272931/Electricity-Distribution-Information-Disclosure-Determination-2012-Consolidated-version-9-December-2021.pdf Section 2.4

[3] Para 3.5

[4] https://www.ea.govt.nz/assets/dms-assets/1/Distribution-Pricing-Scorecards-2020-An-Interpretation-Guide.pdf

[5] https://www.ea.govt.nz/assets/dms-assets/29/Distribution-Pricing-Practice-Note-2021-2nd-edition.pdf

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5.2. We recognise that the cost of transmission investment needs to be met. However, including recommendations that a user is unable to alter its liability for charges by altering its day-to-day use of the grid[6] could reduce incentives for efficient use of electricity. For example, removing an incentive for consumers to move load from high demand periods to lower demand periods could have perverse unintended consequences. This could see changes in the need for new infrastructure, as electricity demand increases unduly.

5.3. Passing through transmission prices as a fixed charge that doesn't incentivise consumers to avoid or lessen their electricity use, may seem an efficient pricing approach from a purely economic point of view but we suggest not practical. Examples where it may have unintended consequences, including:

- variation in energy consumption amongst customers. A single fixed cost for say all residential customers would over-charge smaller customers for their share of costs, and under-charge large residential customers for their share of costs;
- daily fixed charges reducing incentives for our achieving New Zealand's renewable energy goals, such as energy efficiency, reducing energy consumption, and development of flexibility load; and/or
- an accurate allocation of costs to load groups essential to preventing cross subsidies developing between different customers.

6. Conclusion

6.1. We wish to thank the Electricity Authority for the opportunity to submit on the Transmission charge pass-through – Guidance Note review.

6.2. If you have any further queries regarding the submission do not hesitate to contact Jane Budge –Consumer Advocacy Council Lead, on either jane.budge@cac.org.nz or (021) 393-112.

Yours sincerely,

Deborah Hart
Chair – Consumer Advocacy Council

[6] Para 1.13(a)