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Dear Tim

## Targeted Reform of Distribution Pricing

1. This is a cross-submission from the Major Electricity Users' Group (MEUG) on the Electricity Authority's (the Authority's) Issues Paper "*Targeted Reform of Distribution Pricing*"<sup>1</sup> published for consultation on 5 July 2023.
2. MEUG members have been consulted on the approach to this cross-submission. This submission does not contain any confidential information and can be published on the Authority's website unaltered. Members may lodge separate submissions.

### Cross-submissions process effectively expands the discussion

3. MEUG welcomes the Authority's decision to seek cross-submissions on this Issues Paper, ahead of the industry workshops in September 2023. This additional step has enabled all stakeholders to bring greater detail to the table, providing examples<sup>2</sup> and analysis<sup>3</sup> that will further the debate. We consider that this will support more informed discussion at the workshops and provide more insights for the Authority as it considers the next steps.
4. It is encouraging to see electricity distribution businesses (EDBs), electricity retailers and industry bodies all actively engaged in this discussion. All parties recognise the important, enabling role that EDBs will play through the energy transition. There appears to be general consensus on the need for cost-reflective pricing and also a willingness to undertake further work in this space alongside the Authority.

<sup>1</sup> [https://www.ea.govt.nz/documents/3367/Issues\\_Paper\\_-\\_Target\\_reform\\_of\\_Distribution\\_Pricing.pdf](https://www.ea.govt.nz/documents/3367/Issues_Paper_-_Target_reform_of_Distribution_Pricing.pdf)

<sup>2</sup> For example, Vector provides examples of the pricing changes it has implemented in April 2023, see paragraph 6, Vector submission, [Vector - Targeted Reform of Distribution Pricing - Submission Aug 2023.pdf \(ea.govt.nz\)](#)

<sup>3</sup> For example, Figure 1 of Wellington Electricity's submission which looks at the total revenue impact of each component of the cost-reflective pricing reform, [Wellington Electricity - Targeted Reform of Distribution Pricing - Submission Aug 2023.pdf \(ea.govt.nz\)](#)

5. MEUG has only briefly reviewed the 37 submissions received through the first round of consultation. Consequently, we have focused our comments on only selected areas that are of most interest to our members. As we have publicly noted,<sup>4</sup> this is an extremely busy time for the energy sector, with numerous consultations currently out for discussion. It is difficult for organisations such as MEUG to always provide detailed submissions across the broad range of issues under discussion in the sector. This point was also raised by Vector, who noted that they were “*disappointed that this consultation coincided with the Commerce Commission’s (Commission) consultation on its Input Methodologies (IM) draft decision*”<sup>5</sup> and how this may impact the quality of submissions received.
6. In this cross submission, we focus our comments on the following points:
  - The expected timeframe and approach to regulatory options for the distribution pricing reform, including the need to ensure coordination with the Commerce Commission.
  - The need to ensure the view of the customer is at the centre of this distribution pricing reform.
  - How to progress the discussion around target revenue allocation.
  - Views on the connection processes across the country, with MEUG welcoming the positive recommendations to progress work in this space.
  - Discussion on the alignment between the Transmission Pricing Methodology (TPM) and distribution pricing reform.
7. We expand on these points below.

#### **Measured approach to regulation, with need for greater guidance**

8. From submissions, it is evident that the reform of distribution pricing will need to be a staged work programme as the EDBs across the country grapple with the challenges and opportunities of the energy transition and greater electrification. We acknowledge the view raised by Wellington Electricity that “*there are external factors and barriers that are slowing EDB’s transition to cost-reflective prices, like the Low Fixed User (LFU) restrictions*”.<sup>6</sup> The ENA also succinctly capture this point, noting that while the Authority has recognised the progress made by EDBs to date, the reform of distribution pricing “*cannot be completed overnight*”.<sup>7</sup>

#### **Balancing the objectives and focus for this work**

9. We support Transpower’s comments on the “*importance of pricing signals being ‘useable and useful’ with a preference for pragmatic pricing over interpretations of economic purity*”.<sup>8</sup> Transpower also states that it is not “*sure the Authority should only consider the efficiency impact of distribution pricing for end-consumers without*

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<sup>4</sup> We refer to the MEUG Chair update for July 2023, [www.meug.co.nz](http://www.meug.co.nz) and our recent cross submission to the Commerce Commission on the IMs review, <http://www.meug.co.nz/node/1310>

<sup>5</sup> Paragraph 2, Vector submission.

<sup>6</sup> Page 3, Wellington Electricity submission, [Wellington Electricity - Targeted Reform of Distribution Pricing - Submission Aug 2023.pdf \(ea.govt.nz\)](http://www.ea.govt.nz/submission-aug-2023.pdf)

<sup>7</sup> Page 3, Electricity Networks Aotearoa(ENA) submission, [https://www.ea.govt.nz/documents/3553/ENA - Targeted Reform of Distribution Pricing - Submission Aug 2023 3.pdf](https://www.ea.govt.nz/documents/3553/ENA_-_Targeted_Reform_of_Distribution_Pricing_-_Submission_Aug_2023_3.pdf)

<sup>8</sup> Paragraph 25, Transpower submission, [Transpower - Targeted Reform of Distribution Pricing - Submission Aug 2023.pdf \(ea.govt.nz\)](http://www.ea.govt.nz/submission-aug-2023.pdf)

considering issues around consumer welfare and protection”.<sup>9</sup> Aurora also notes that “a singular focus on cost-reflective pricing ignores the nuances of the trade-off between long-term consumer impacts and short-term consumer affordability”<sup>10</sup>. Distribution pricing is a broad ranging issue that affects many parts of the sector. We encourage the Authority to not take a solely efficiency-based lens to this work.

10. We support Manawa Energy’s call for the “Authority to focus on one or two key problems first, consistent with its targeted reform approach”.<sup>11</sup> There are many issues raised through this consultation process, some sector wide, some specific to a group or individual EDB. We agree with ENA’s call for the Authority to prioritise “issues that deliver benefits for consumers.”<sup>12</sup> This is particularly important when both the Authority and EDBs have limited resources to deliver this work (alongside their broader work programmes).

#### Clear desire for greater guidance for EDBs and sector-led reforms

11. From our review of submissions, it is evident that EDBs still feel a need for the Authority to provide greater guidance to the distribution sector (or tailored advice to individual EDBs), before pursuing other regulatory options. For example:
  - “Our preference would be for the Authority to place greater emphasis on the scorecards by committing to regular publication timeframes and being more transparent about their measurement criteria”<sup>13</sup> (Aurora Energy).
  - “The Authority should consider providing more detailed guidance to individual EDBs, on how their pricing can or should be reformed.....Through the scorecard process, individual EDB feedback is scarce; the reasoning behind the scores for each category should be provided, as well as recommendations from the Authority as to how to improve scores”<sup>14</sup> (ENA)
12. MEUG would be interested in discussing this matter during the industry workshops. At a principal level, greater guidance could be a more efficient and cost-effective option rather than stronger regulatory interventions, given the different levels of progress and change made across the sector.
13. We welcome the distribution sectors’ call to shape and drive this work and to make it a key priority going forward. For example:
  - “We think that there is an opportunity for EDBs (via the Electricity Networks Association (ENA)) and the EA to work together to develop common pricing methodologies and common pricing processes to accelerate pricing reform”<sup>15</sup> (Wellington Electricity)
  - “Engagement and Industry collaboration should be considered as a fourth option” (Orion).

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<sup>9</sup> Paragraph 5, Transpower submission.

<sup>10</sup> Paragraph 5, Aurora Energy submission.

<sup>11</sup> Page 1, Manawa Energy submission, [https://www.ea.govt.nz/documents/3560/Manawa - Targeted Reform of Distribution Pricing - Submission Aug 2023.pdf](https://www.ea.govt.nz/documents/3560/Manawa_-_Targeted_Reform_of_Distribution_Pricing_-_Submission_Aug_2023.pdf)

<sup>12</sup> Page 3, ENA submission.

<sup>13</sup> Paragraph 13, Aurora Energy submission, [https://www.ea.govt.nz/documents/3581/Aurora - Targeted Reform of Distribution Pricing - Submission Aug 2023.pdf](https://www.ea.govt.nz/documents/3581/Aurora_-_Targeted_Reform_of_Distribution_Pricing_-_Submission_Aug_2023.pdf)

<sup>14</sup> Page 4, ENA submission.

<sup>15</sup> Page 3, Wellington Electricity submission.

- *“We encourage Authority staff to engage more deeply with distributors about pricing in practice”*<sup>16</sup>(Powerco).
14. While we consider that there have been mixed results to date, we believe that sector driven initiatives still have merit. We welcome thoughts on how EDBs see these sector-led groups working going forward. It is important to not only incorporate the Authority but to ensure that the views of customers and retailers are considered.

#### **Need to ensure coordination with the Part 4 regime led by the Commerce Commission**

15. There is considerable overlap between the work the Authority is pursuing through this Issues Paper and the responsibilities and work of the Commerce Commission under Part 4 regulation. Stakeholders question the coordination between these two agencies and how this will work will progress going forward, for example:
- Electricity Networks Aotearoa would *“like to have visibility of the ongoing dialogue between the Authority and the Commission to ensure the overlaps between the DPP and this workstream on distribution pricing are understood (see 53V of Commerce Act). The outcomes of this engagement should be clearly documented in both parties’ consultation papers.”*<sup>17</sup>
  - Orion believes that the *“Commerce Commission should be involved in any changes that materially impacts costs faced by EDBs and consumers, including connection costs.”*<sup>18</sup>
16. MEUG considers that it would be beneficial if Commerce Commission staff are able to attend the upcoming industry workshops and it would be helpful to hear how they see the work being coordinated.

#### **Workstream must be informed by and driven by needs of customers**

17. EDBs, retailers and sector groups have all called for a greater focus on the needs of all customers when considering pricing reform, and the impact on customers of any possible changes to distribution pricing.
18. We agree with the Consumer Advocacy Council that the *“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.”*<sup>19</sup> This is illustrated through the Issues Paper’s discussion from primarily an EDB and retailers’ perspective, not the view of the end customer. ERANZ also raises an essential point:
- *“Customers’ preferences are not homogenous. Similarly, electricity provision is not a homogenous product, despite some outside appearances to the contrary”*<sup>20</sup>

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<sup>16</sup> Page 2, Powerco submission, [https://www.ea.govt.nz/documents/3568/Powerco\\_-\\_Targeted\\_Reform\\_of\\_Distribution\\_Pricing\\_-\\_Submission\\_Aug\\_2023.pdf](https://www.ea.govt.nz/documents/3568/Powerco_-_Targeted_Reform_of_Distribution_Pricing_-_Submission_Aug_2023.pdf)

<sup>17</sup> Page 5, ENA submission.

<sup>18</sup> Page 1, Orion submission, [https://www.ea.govt.nz/documents/3567/Orion\\_-\\_Targeted\\_Reform\\_of\\_Distribution\\_Pricing\\_-\\_Submission\\_Aug\\_2023.pdf](https://www.ea.govt.nz/documents/3567/Orion_-_Targeted_Reform_of_Distribution_Pricing_-_Submission_Aug_2023.pdf)

<sup>19</sup> Paragraph 2.3, Consumer Advocacy Council, [https://www.ea.govt.nz/documents/3584/Consumer\\_Advocacy\\_Council\\_-\\_Targeted\\_Reform\\_of\\_Distribution\\_Pricing\\_-\\_Submissi\\_29Dm4Ub.pdf](https://www.ea.govt.nz/documents/3584/Consumer_Advocacy_Council_-_Targeted_Reform_of_Distribution_Pricing_-_Submissi_29Dm4Ub.pdf)

<sup>20</sup> Page 2, Electricity Retailers Association of New Zealand (ERANZ) submission, [https://www.ea.govt.nz/documents/3554/ERANZ-Targeted\\_Reform\\_of\\_Distribution\\_Pricing\\_-\\_Submission\\_Aug\\_2023.pdf](https://www.ea.govt.nz/documents/3554/ERANZ-Targeted_Reform_of_Distribution_Pricing_-_Submission_Aug_2023.pdf)

19. It is important to focus on **why** customers are using electricity and the **value** they receive from this essential service. For MEUG members, it enables us to make essential products like pulp and paper, steel, aluminium, and dairy products, which in turn supports our regional communities and employs hundreds or thousands of people in well-paying jobs.
20. Many submitters noted the possible negative outcomes that could arise from reforming distribution pricing:
- *“...We caution the Authority against developing prescriptive regulatory measures in this area without close consideration of the costs and the ability of those bearing them to pay. There is a risk of isolating certain consumer groups, particularly those that are vulnerable and unable to access flexible services due to higher product costs (e.g., EVs are \$68,000 on average) or personal belief”<sup>21</sup> (Genesis Energy)*
  - *“It is important that EDBs send the right signals, but equally these need to be as simple and transparent as possible otherwise there is a risk of over complexity and poor consumer outcomes..... We echo IPAG who note that “electricity price risk management and technology innovation is not a core skill for most customers - particularly vulnerable residential customers”<sup>22</sup> (Mercury).*
21. We support the call for the Authority to engage more widely with customers<sup>23</sup> We believe that Nova’s recommendation that detailed customer research is undertaken has merit.<sup>24</sup> Wellington Electricity provides detail on the consultation process it undertook last year by way of example, which garnered strong feedback that it should be transitioning prices slowly.<sup>25</sup>
22. We agree with 2degrees and Electric Kiwi that more *“can be done by both the Authority and distributors to explain the benefits of distribution pricing reform. For example, we would like to see quantified analysis of the impact of peak-usage/TOU pricing on electricity consumption/timing of electricity consumption and what this translates to for network investment requirements/future electricity pricing”<sup>26</sup>*. Vector also considers that engagement with customers needs to go further, engaging with customers on tariffs and the forward investment plans under the DPP.<sup>27</sup> We support these suggestions and consider that engagement on all elements in a coordinated manner would be more helpful, particularly as customers do not generally distinguish between decisions set by the Authority and those set by the Commerce Commission.

<sup>21</sup> Page 6 of Genesis Energy submission, [https://www.ea.govt.nz/documents/3557/Genesis - Targeted Reform of Distribution Pricing - Submission Aug 2023.pdf](https://www.ea.govt.nz/documents/3557/Genesis_-_Targeted_Reform_of_Distribution_Pricing_-_Submission_Aug_2023.pdf)

<sup>22</sup> Pages 1-2, Mercury submission, [https://www.ea.govt.nz/documents/3561/Mercury - Targeted Reform of Distribution Pricing - Submission Aug 2023.pdf](https://www.ea.govt.nz/documents/3561/Mercury_-_Targeted_Reform_of_Distribution_Pricing_-_Submission_Aug_2023.pdf)

<sup>23</sup> 2 degrees / Electric Kiwi, Mercury, Orion, Transpower, and Vector.

<sup>24</sup> Nova Energy submission, [https://www.ea.govt.nz/documents/3566/Nova - Targeted Reform of Distribution Pricing - Submission Aug 2023.pdf](https://www.ea.govt.nz/documents/3566/Nova_-_Targeted_Reform_of_Distribution_Pricing_-_Submission_Aug_2023.pdf).

<sup>25</sup> Page 4, Wellington Electricity submission.

<sup>26</sup> Page 5 of 2degrees / Electricity Kiwi submission, [https://www.ea.govt.nz/documents/3579/2degrees - Electric Kiwi - Targeted Reform of Distribution Pricing - Submissi\\_omjFWC9.pdf](https://www.ea.govt.nz/documents/3579/2degrees_-_Electric_Kiwi_-_Targeted_Reform_of_Distribution_Pricing_-_Submissi_omjFWC9.pdf)

<sup>27</sup> Paragraph 21, Vector submission.

### Target revenue allocation

23. Target revenue allocation is a topic of interest to MEUG and its members, given perceptions of how costs are allocated to different customer groups. We agree with Contact Energy's statement that:
- *"...allocating costs between different consumer groups is a difficult balance. However, we believe the Authority's analysis underplays the impact of allocating more costs to businesses, which may result in marginal businesses closing, and harming incentives to decarbonise."*<sup>28</sup>
24. Wellington Electricity provide a useful example of the impact on commercial prices, from a change in the cost driver approach.<sup>29</sup> It asserts that *"calculating an accurate subsidy-free range is not trivial and needs to be a focus area for both the EA (providing guidance and support) and EDBs (to develop a common calculation methodology)."*
25. MEUG remains committed to the view that improving the transparency of target revenue allocation across EDBs will be an important first step, before considering what further intervention or standardisation is required. We support the comments from ENA that:
- *"ENA would like further information from the Authority on the issues it sees with the EDBs approach to the calculation of the subsidy-free (incremental to stand-alone) band."*
  - *"In its submission to the Electricity Price Review, ENA noted "ENA members are prepared to collaborate on industry guidelines on cost allocation that would standardize the various approaches." ENA remains prepared to begin this work in earnest. This would be an excellent candidate for the Authority to prioritise co-development with ENA members."*<sup>30</sup>
26. We would welcome discussion on this work at the industry workshops and the Authority's view on prioritising this work for the coming year.

### Improving the connection process

27. The connection process was the subject of robust discussion across the range of submissions received, highlighting the importance of this work to the electricity sector and consumers. Participants raised issues with:
- The need for more transparency and standardisation with connection charges, with evidence provided on the variation in connection quotes (Manawa Energy, Meridian).
  - How there is competition in some markets for the connection process (Aurora Energy), which we view as a positive.
  - The need for deeper engagement on how the contribution policies are applied in practice (Powerco).
  - The link between a network's customer capital contribution policy with a network's allowances (Wellington Electricity).

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<sup>28</sup> Bullet point 3, page 1, Contact Energy submission. [https://www.ea.govt.nz/documents/3585/Contact\\_Energy\\_-\\_Targeted\\_Reform\\_of\\_Distribution\\_Pricing\\_-\\_Submission\\_Aug\\_2023.pdf](https://www.ea.govt.nz/documents/3585/Contact_Energy_-_Targeted_Reform_of_Distribution_Pricing_-_Submission_Aug_2023.pdf)

<sup>29</sup> Figure 1, Wellington Electricity submission.

<sup>30</sup> Page 9 – 10, ENA submission.

- The need for a more predictable and straight-forward process for the access seeker (Meridian).
  - The recommendation of a joint project on connection pricing between the Authority, MBIE and the Commerce Commission (Contact Energy). As noted in our cross-submission to the Commerce Commission on the 2023 Input Methodologies Review,<sup>31</sup> we consider that there is merit in exploring this proposal further.
28. As a first step, we support Auroa Energy's observation that there are "*opportunities to standardise language and terminology across EDBs capital contributions policies to improve understanding for consumers*".<sup>32</sup> This point is also raised by ENA who:
- *"...agrees there is room for greater consistency between distributors in their terminology, processes, and approaches to connection pricing. In conjunction with its members, ENA is to develop a connection pricing guide. This guide will follow the footsteps of the ENA's pricing guidelines for electricity distributors. ENA is targeting a 4th quarter 2023 release."*<sup>33</sup>
29. We believe this is a proactive first measure, that would certainly assist customers across the country, including some of MEUG's members.

#### Need to articulate the link between TPM and distribution pricing

30. MEUG has raised concerns with how distributors are passing through transmission charges under the new TPM. We note that this issue was also raised in submissions by Transpower and Vector:
- Transpower comments on the difference in approach the Authority has taken to distribution and transmission pricing, [which] goes much further and deeper than a "*targeted approach to distribution pricing*" versus "*the more comprehensive framework for transmission pricing*".<sup>34</sup> It also comments that pass-through of transmission charges is not necessarily a straightforward exercise for distributors.<sup>35</sup>
  - Vector discusses how it would be valuable for stakeholders to understand how these TPM principles translate into distribution pricing. "*A reconciliation of principles across the distribution pricing and transmission pricing, in our view is fundamental to giving confidence on consistency of approach and application.*"<sup>36</sup>
31. Given the scale of the impact of new TPM charges being passed down to customers, we consider that the Authority must include this issue in its ongoing work programme for distribution pricing.

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<sup>31</sup> <http://www.meug.co.nz/node/1307>

<sup>32</sup> Paragraph 10, Aurora Energy submission.

<sup>33</sup> Page 11, ENA submission.

<sup>34</sup> Paragraphs 27 – 30 of Transpower's submission.

<sup>35</sup> Paragraphs 31 – 33 of Transpower's submission.

<sup>36</sup> Page 6 of Vector submission.

**Next steps**

32. We look forward to engaging with stakeholders and the Authority through the upcoming industry workshops. If you have any questions regarding our cross-submission, please contact MEUG on 027 472 7798 or via email at [karen@meug.co.nz](mailto:karen@meug.co.nz).

Yours sincerely



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