

19 February 2019

Craig Evans
Electricity Authority
By email to submissions@ea.govt.nz

Dear Craig

Consultation Paper – More efficient distribution prices

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority Consultation paper – More efficient distribution prices, what do they look like? Published 11 December 2018.¹
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. In this submission MEUG:
 - Agrees most distribution prices need to change, with the pace and degree of change situational dependent;
 - Agrees with the proposed changes to the Distribution Pricing Principles;
 - Supports the EA publishing an annual star-rating of the efficiency of each distributors price structure to improve visibility and understanding by consumers and accountability on distributors; and
 - Suggests a workshop on complex and difficult implementation topics might be useful. Depending on the complexity of issues raised in submissions there may also be value in conducting a second-round consultation.
4. Responses to questions in the consultation paper follow:

Question	MEUG response
1. Do you agree that distributors need to reform their prices? What is the reason for your answer?	MEUG agrees that there are issues with most current distribution prices as discussed on paragraphs 2.9 to 2.18. The pace and degree of change is situational dependent.

¹ URL <https://www.ea.govt.nz/dmsdocument/24425-more-efficient-distribution-prices-consultation-paper> at <https://www.ea.govt.nz/development/work-programme/pricing-cost-allocation/distribution-pricing-review/consultations/#c17905>

Question	MEUG response
	<p>For example, for networks or parts of a network where expected demand is fast growing and network assets are nearing congestion and or needing replacement, the feasible range of efficient line tariffs are likely to be different from those for a region where demand may be decreasing, and assets are well maintained or do not need replacing in the foreseeable future.</p> <p>Distributors need not slavishly evolve their pricing using the example prices set out in the consultation paper; rather they should adopt a “horses for courses” approach and explain to consumers why prices deviate from the evolutionary path of price structures in the consultation paper.</p>
2. How important and urgent are the issues identified by the Authority?	We agree with the EA’s ranking of distribution pricing as one of the 6 highest ranking priority 1 projects for 2018/19. ²
3. Do you agree with the proposed Distribution Pricing Principles?	Yes, agree with proposed changes.
4. What, if any, changes would you recommend are made to the proposed Distribution Pricing Principles, and why?	Not applicable as agree with proposed changes.
5. What if any changes would you propose to the star-ratings to better reflect the relative efficiency of distribution prices?	<p>MEUG agrees that there will be value in publishing an annual star-rating of the efficiency of each distributors price structure to improve visibility and understanding by consumers and accountability on distributors.</p> <p>The inaugural mechanics of the proposed star-ratings may need adjustment as the EA, distributors and consumers gain experience in applying and interpreting the comparative ratings of distributors. MEUG suggests the EA plan for time and resources in its future work programmes to review and improve the star-rating comparators.</p> <p>Where a distributor finds itself to be an outlier on the star-rating metrics, there should be an opportunity for the distributor to explain why it is an outlier. Distributors that are outliers need not be viewed as automatically being not best practice.</p>

² EA 2018/19 work programme, table 1, 30 June 2018, refer <https://www.ea.govt.nz/dmsdocument/23834-201819-work-programme>.

Question	MEUG response
	<p>Nevertheless, it is important that distributors are held accountable for why they have chosen current tariff structures instead of other options.</p> <p>Distributors should be encouraged to suggest changes to the star-rating regime that will assist consumers understand why prices may diverge from the generic suite used by the EA.</p>
<p>6. How long do you think distributors would reasonably need to introduce the different price structures discussed above?</p>	<p>As noted in response to question 1, the pace and degree of change is situational dependent.</p>
<p>7. Can you illustrate how and to what extent the LFC regulation hinders price reform?</p>	<p>This is a question for distributors to answer.</p>
<p>8. How accurately has the Authority categorised distributor revenues and costs? How could this be done more accurately?</p>	<p>The consultation paper example assumes distributors have a homogeneous network. That may be true of a few distributors, but not most.</p> <p>Sub-networks within individual distribution networks often exhibit different cost structures for different regions for the same or similar classes of consumer.</p> <p>For example, Powerco in its CPP proposal had around 7 discrete regions with different cost structures. Where there are materially different costs for different regions, then prices should also be regionally differentiated. That might lead, for example, to some of the 7-regions Powerco provides lines services having a pathway over time to dynamic demand charge pricing, whereas in other regions existing flat unit rate variable pricing may be sufficient.</p> <p>As new technology uptake by consumers picks up there may be pockets within some or all of Powerco's 7-regions where it is desirable to have further granular sub-regional pricing to meet the objective of tariffs being cost-reflective and benefit-based subject to implementation costs "do not place unreasonable transaction costs on distributors, retailers or consumers, that is, such transaction costs need to be justified by the benefits."³</p>

³ Consultation paper, paragraph 3.7, last bullet point in list of attributes of efficient distribution prices.

Question	MEUG response
	MEUG is wary of distributors deciding what the LPMC is expected to be for step 5 (paragraph 4.32 to 4.35) of the process for developing more efficient prices. The risk of bias leading to inefficient price signals at the margin is high. MEUG does not have a solution in mind to this risk; rather we believe the Authority should assess this risk and if it agrees with MEUG, find ways to minimise the risk or find an alternative to using LPMC.
9. What, if any, would be better indicators of the efficiency of distribution prices, or the ambition of and progress being made by distributors on their price reforms?	-
10. What assistance could the Authority (or other stakeholders) offer distributors in order to speed up the reform process, or help to remove or reduce barriers to distribution price reform?	A workshop as discussed in paragraph 5 below.

5. We are interested in the response of EDB to this initiative by the Authority. Depending on feedback from submitters there may be benefit in a workshop to delve into complex or difficult aspects to facilitate implementation that meets the needs of distributors, retailers, the Authority and consumers. A potential workshop topic is the extent that current prices for households across an EDB that are based on averaged costs of supply (and assumed uniform benefits accruing to every household) might change to reflect regional or sub-regional differences as discussed in response to question 8 above. Depending on the complexity of issues raised in submissions there may also be value in conducting a second-round consultation.

Yours sincerely



Ralph Matthes
Executive Director