21 December 2016

Graeme Peters
Chief Executive
Electricity Networks Association

By email: submissions@electricity.org.nz

Dear Electricity Networks Association,

ERANZ submission to the ENA New Pricing Options for Electricity Distributors (November 2016)

Thank you for the opportunity to comment on the Electricity Networks' Association (ENA) discussion paper: *New Pricing Options for Electricity Distributors* (the discussion paper). ERANZ appreciates the effort ENA and its members have put into the new pricing options discussion paper and consideration of the issues that moving to new distribution tariffs will give rise to. There is benefit in implementing distribution pricing that sends efficient signals for future investment and avoids unintentional cross-subsidies between consumers.

As I said to the presentation to the ENA CEO's Forum on 21 June 2016, fundamentally, network companies are a key enabler of consumer choice. This is because EDBs provide the security of supply at a network level essential for the market. EDBs can provide common processes and services that retailers can use for creating new products. The analogy that ERANZ has used before is from computing whereby the EDBs are like the operating system providing the underlying service platform. But retailers are the app developers that innovate and change to reflect the actual users' preferences and needs.

Summary

Electricity retailers are extremely interested in the outcomes of this process as it could have significant impact on them and their customers. We are all on a journey as an industry as this new pricing develops and we each have our part to play to deliver the long-term benefits to the end-consumer. The new pricing will allow retailers to develop more packages or brands to appeal to different customer demands. As this is still evolving from a distributor view, so is it too from a retailer point of view.

We had intended to answer the questions in the survey provided, but found that they were difficult to answer as a number of high-level principles needed to be addressed first.

As I said at the EA distribution pricing conference on 17 August, the key factors for retailers were the "3 C's":

- Consistency
- Communication

- Clear timeframes

This has not changed, but the thinking has developed following the release of the ENA discussion paper. The "3 C's" can now be further refined to include a number of sub-factors:

Consistency

Consistency of message – relating to efficient pricing for network costs & services: the overall message as to *why* this is being done, on a national scale and then on an individual network scale. This must relate back to the costs and services for networks.

Consistency of new pricing: we do not expect that each network will adopt the same future pricing models, but what we would like to see is less diversification of pricing across the country. Ie. the 5 options (or whichever are adopted) have a level of uniformity across the country. The less customisation that is required by a retailer the more able they are to deliver that service to more customers on EDB networks.

Communication

Alignment and coordination of communication by EDBs with retailers: an industry-wide approach is needed to ensure an effective and efficient process. Retailers are the first customer of the EDB. They have the contract with the end-consumer: coordination is essential.

Communication across EDBs: we would hope to see coordination of trials and implementation across EDBs and retailers, including sharing of relevant information from these across and between EDBs.

Clear Timeframes

Roadmaps that are consistent and well-communicated – this links in to the points raised above. Making the commitment to transition to more efficient pricing, whilst also allowing adequate time for consideration of the options, the changes that will be required (by distributors, retailers and customers), is all part of the need for a well-implemented pathway for change.

Pan-industry steering or working group: a collective buy-in from the industry that this needs to be managed well and carefully. This steering group should involve distributors, retailers, other stakeholders and possibly the Electricity Authority.

1. Consistency

Consistency of message - relating to efficient pricing for network costs & services: the overall message as to *why* this is being done, on a national scale and then on an individual network scale. This must relate back to the costs & services for networks.

1.1 Some of the questions in the issues paper asked stakeholders to respond to which pricing types they favoured, and then specifically comment on how different pricing models might work in practice for customers. We were encouraged to give feedback on the template definitions.

1.2 It has been difficult for ERANZ members to provide this feedback, as ultimately it is for each network to demonstrate what is efficient pricing for that network. The purpose of the exercise is to design cost-reflective, service-based pricing, yet the discussion paper is not framed up in a clear way to communicate why certain types of pricing are more or less cost-reflective or service-based depending on the needs of certain network characteristics.

1.3 To this point, Brent Layton, Chair of the Electricity Authority, made some useful comments at the EA distribution Pricing Conference on 17 August 2016, when he talked about the idea of a "cookbook":

> *A cookbook in this sense meaning if these are the sorts of circumstances you are facing in terms of – growth, diversity, line network components, capacity constraints, falling demand – these different characteristics you might be facing, then here is a selection of potential charges that you could use and the rationale for having those potential charges….*
>
> *…There is a need for some practical guidance, not just about what is the overall theory and so forth, but here is where particular types of charging might be most appropriate. That means that there will be certain circumstances where carrying on with current charges may be most optimal."*[1]

1.4 A message back from retailers is that whilst some pricing models are less favourable (due to the ability to repackage for different retail offerings, or for ease of understanding for their customers – and they will have individual views on that), ultimately they will need to live with whatever distribution pricing is determined appropriate for the networks. The retailers want to make sure the methodology is robust and the narrative as to *why* it is important in order to better reflect the costs and needs of the networks to be clearly articulated.

[1] Brent Layton, Chair of the Electricity Authority, speech to the EA Distribution Pricing Conference 17 August 2016, http://www.ea.govt.nz/development/work-programme/evolving-tech-business/distribution-pricing-review/events/distribution-pricing-conference/ (3min 22sec – 4min 57sec)

1.5 We would also reiterate the point made by ERANZ at the EA Distribution Conference, that first and foremost the focus for EDBs needs to be on service-based and cost-reflective pricing – across all elements of distribution services, transportation or capacity related. Ultimately this is what satisfying consumer needs is all about and is within the clear control and expertise of distributors. EDBs must focus on what they know, which is costing the investment needed in the network.

1.6 As stated at the EA conference[2], pricing to reflect the costs of a network is different to pricing to cause behaviour change. Pricing to change behaviour often has to be blunt and strong (think cigarette tax increases). It is possible that a cost-reflective tariff will not provide the signals required to drive an immediate and obvious change to end-consumer behaviour, for each and every customer. Some will respond to that signal, some may not. There is a risk that if EDBs are too focused on pricing to change behaviour, the distributor may seek to sharpen the pricing signal beyond what is cost-reflective. The pricing should not be such a deterrent to usage, particularly for those vulnerable customers who have little discretionary consumption they can shift to off-peak periods. It must be remembered that the network will always recover its costs from the retailers.

1.7 We suggest that how the customer responds, whilst an important consideration, should not be the driving force for the EDBs in their calculations of a more efficient pricing methodology. Too much focus on behaviour change could risk over-complicating and de-railing the pricing modelling process, particularly as this is the purview of the competitive market. This is why involving retailers in the process is so important. Retailers and other third parties will pick up those efficient pricing signals and design products and services that will provide a range of options for the customer.

1.8 Behaviour change can be effected in multiple ways, depending on how engaged (or not) the customer is with their electricity usage. While price is one lever for change, it is important to note it is not the only lever. For example, Electric Kiwi's offer of the "hour of power" and Mercury's "free power day" help to shift load in an innovative way that incentivises load-shifting behaviour in a manner beyond simple direct pass-through of costs. More opportunities and innovative retail platforms will develop as the cost-reflective pricing develops.

1.9 Notwithstanding that a lot of effort has gone into the discussion paper, it is light on evidence based on analysis or trials, including in other comparable jurisdictions, to support some of the proposals and assessments. It is also evident from the current pricing round and conversations between ERANZ members and distributors that more direction is needed to help distributors promote solutions that are consistent and workable, a key factor to enhance and improve retailer and customer uptake over time. We would recommend that the next step would be to draw on what the costs are that different networks are facing and how there could be comparability across networks looking to move to new pricing structures – moving to this "cookbook" idea.

[2] Presentation by Jenny Cameron, Chief Executive of ERANZ, 17 August 2016
http://www.ea.govt.nz/development/work-programme/evolving-tech-business/distribution-pricing-review/events/distribution-pricing-conference/

1.10 In terms of communication, we recommend that the emphasis be placed on equity or "fairness" considerations, rather than cost-savings, particularly where it is based on long-term benefit and the avoided cost of future investment. There is a strong understanding of the concept of "fairness" designed to protect vulnerable consumers and avoid cross-subsidisation from the poor to the wealthy[3]. Discussion about the equity of cost-reflective and service-based pricing is strong ground for EDBs. The potential cost-savings from the new pricing is territory for the retailers who will be able to identify the price/margin opportunities for their customers and compete in that space. Ultimately, customers want to know what their total cost will be, and it needs to be explained clearly by the retailer as different pricing structures transition through.

Consistency of new pricing: we do not expect that each network will adopt the same future pricing models, but what we would like to see is less diversification of pricing across the country. Ie. the 5 options (or whichever are adopted) have a level of uniformity across the country. The less customisation that is required by a retailer the more able they are to deliver that service to more customers on EDB networks.

1.11 There can be complexity in pricing models, retailers are used to dealing with that. But the most difficult thing is differences between EDBs that mean each area must be customised. Most retailers operate nationally or multi-regionally. The less customisation that is required by a retailer the more able they are to deliver that service to more customers on the networks across the country. ERANZ members are keen to narrow down the options and to encourage more consistency *across* distributors.

1.12 The point about alignment *across* distributors was picked up in the 'Lessons from New Zealand implementation of ToU consumption pricing' in the discussion paper[4] which notes the variance in tariff plan configuration across the 7 distributors that currently offer residential ToU pricing and shows the opportunities for alignment.

1.13 Cost-reflective pricing that is durable should not only be independent of market, technology and policy changes, but also of <u>type of use</u>. The design of new pricing types and options should enable consolidation of existing price categories that have been implemented to more fairly allocate network costs between consumers in the context of existing metering and regulatory constraints, for example distributed generation and holiday home price categories.

1.14 Shifting to a new distribution pricing structure is significant for both distributors and retailers and requires meaningful collaboration and time to achieve workable and durable pricing, and (at least for retailers) enhancements to data management and system capability to process and validate the HHR data, and (for both) changes to information exchange to support billing and reconciliation of network charges.

1.15 The changes required should not be underestimated, it is a massive step from the data management capability required for the traditional HHR metered sites. Given each change in

[3] See The Brattle Group report prepared for the Australian Energy Market Commission, *Structure of Electricity Distribution Network Tariffs: Recovery of Residual Costs*, August 2014

[4] ENA New Pricing Options for Electricity Distributors, Discussion Paper (Box 1, page 35 & Appendix A, page 92)

pricing structure incurs significant system costs and process changes to implement, ERANZ members welcome the opportunity to collaborate with ENA and its members to influence and narrow down the preferred future pricing types (and options within each pricing type) based on network characteristics (see the “cookbook” idea referenced above).

1.16 It is important that distributors not only allow sufficient time for a smooth transition, but also make decisions with a view to pricing for the longer term that reduces the risk and negative impacts for retailers and end-user customers that arise from continual finessing of network pricing structures and/or eligibility.

1.17 Another consideration when looking at new pricing is to have a consistent approach for default options for ICPs without advanced metering with full functionality. Default options for capacity and demand values in the absence of advanced metering with full functionality need to be explored further, particularly given The Lines Company experience and customer reaction to the use of profiles to determine the annual reset of kW demand values.

2 Communication

Alignment and coordination of communication by EDBs with retailers: an industry-wide approach is needed to ensure an effective and efficient process. Retailers are the first customer of the EDBs, and they have the customer contract with the end-consumer: coordination is essential.

2.1 The ERANZ letter to ENA of 8 December 2016 articulates most of the issues of concern regarding communications and the need for coordination. The key points from that letter were that:

- While we recognise that distributors need to engage with stakeholders as part of the process of developing new cost-reflective pricing, and we support that process, it is important that EDBs recognise that retailers are the key stakeholder of distributors in this process.

- While the retailers’ customers (the end-consumers) are also a stakeholder, there is a need for coordination of the content and approach to communications to avoid confusion and frustration.

- Aside from the fact that retailers provide delivered energy services for customers and bundle pricing in different ways in a highly competitive retail market, of which the distribution charges are only part, there are a raft of privacy and legal considerations to be considered when communicating with end-consumers.

2.2 We offered some views on how the process could be improved or best practice established:

  - If, and when, distributors are contemplating customer engagement, they should inform the retailers trading on their network. This is as much a matter of courtesy as a necessity so retailers can: (1) influence the content of questions so they are worded in such a way so as not to cause confusion; and (2) prepare their call centre people so that they can intelligently respond to the inevitable calls from end-user customers.

- Distributors need to be very careful as to how the new pricing types and possible cost savings (or increases in costs) are expressed to the end-user customers. There is a serious risk of misleading consumers about these costs, especially in relation to their overall electricity bill, when it is not in their power to control the retailer's pricing structure or pricing.

- We encourage distributors to not only inform the retailers trading on their network about their plans, but to actively engage them in the process. Retailers have the relationship with the end-user customer, and already have systems and processes in place to talk to customers. Rather than potentially confuse customers, or reinvent the wheel, distributors should partner with retailers to get the most useful results possible from customer surveys.

2.3 It is not our intention to discourage distributors from consulting with stakeholders, but care needs to be taken and end-user customer communications need to be coordinated with retailers such that arrangements in place are respected and end-user customers are not confused or frustrated by the process.

2.4 We reiterate (again) that the issue of pass-through must be made clear to Distributors that it is for the competitive market to determine. Retailers are operating in a highly competitive retail market, and are focused on developing and offering products sought by their customers while endeavouring to optimise input costs, including distribution costs. Retail competition, management of revenue risk, and regulatory and contractual obligations, all influence a retailer's product and pricing strategy, and the extent to which distribution prices and costs are passed through to their customers unbundled (explicitly), bundled (implicitly), or repackaged. Retailers determine the pricing to their customers, with distribution costs being around 30-40% of the total cost of the final electricity bill. Most importantly, the competitive retail market provides incentives on retailers to ensure efficient pass-through to end-user customers.

Communication across EDBs: we would hope to see coordination of trials and implementation across EDBs and retailers, including sharing of relevant information from these across and between EDBs.

2.5 Many ERANZ member retailers are offering to work with EDBs to improve coordination, collaboration and communication efforts. They are also keen to see coordination of trials and implementation across EDBs and retailers, including the sharing of information about these.

2.6 It is widely acknowledged that there will be winners and losers in any change of this nature, and it is essential to understand and consider the likely impacts on different categories of end-user customers, in particular vulnerable and medically dependent customers. We are concerned that some of the options will have more of an impact on those customers and recommend that impact on vulnerable and medically dependent customers be included as a criteria in the pricing assessment list.[5] For example, a model that allowed for automatic disconnection of the power supply (such as installed capacity) would not be palatable for medically dependent customers.

2.7 We would hope to see some "back-office" efficiency gains from this process of sharing information and experiences between networks. Whist there are individual network characteristics and challenges, there is also similarity, and there could be opportunity for collective bargaining to build new systems or undertake research and trials.

3 Clear Timeframes

Roadmaps that are consistent and well-communicated –Making the commitment to make the transition to more efficient pricing, whilst also allowing adequate time for consideration of the options, the changes that will be required (by distributors, retailers and customers), but also is all part of the need for a well-implemented pathway for change.

3.1 We understand that some Distributors have felt compelled to act following the request by the Electricity Authority to have a plan published for introducing efficient pricing by 1 April 2017. We do not accept that this means that a process has to be rushed through before 1 April 2017. We do support movement to start to consider this issue by that time, as we too have been seeking to get a better steer on the timeframes involved, given that retailer processes will also be impacted.

3.2 In our letter to ENA of 6 September, we provided an indication of why we thought clear, consistent (standardised) roadmaps *across* Distributors were important for the sector on this issue. The items that we thought should be in the roadmap were included in that letter, and sent to ENA again as feedback on a draft template, we won't list them again here for brevity's sake.

3.3 We proposed that these roadmaps would be useful for three purposes:

- To provide customers with a 'heads up' that distribution price structures are changing, why and the potential implications, so that hopefully, it doesn't come as a surprise when there is change and those who are making significant investments in the meantime (e.g. solar) are adequately forewarned.

- To provides retailers a 'heads up' about the type of structures Distributors are contemplating or gravitating towards and therefore an idea of the system changes that some retailers may need to make in order to accommodate those structures (and the dates the retailers need to make them by).

- To enable the comparing and contrasting of roadmaps by retailers and other Distributors. It would therefore assist Distributors to standardise as far as they consider possible or feasible the different offerings they are putting up so there are hopefully fewer than 29 approaches to service-based and cost-reflective distribution pricing. This in turn will make

[5] This point was raised by Jerome Chapman, Deputy Commission of the Electricity & Gas Complaints Commission at the EA Distribution Pricing Conference, 17 August 2016.

it easier for retailers to pick up those new pricing models and roll-out nationwide or multi-regionally.

3.4 We are aware that distributors are keen to implement new pricing as soon as possible, however we caution jumping too quickly when more time spent finessing the pricing types and options based on evidence, analysis and stakeholder feedback, will be less disruptive and more likely to lead to a better implementation outcome for all stakeholders.

3.5 There are still many unresolved issues that will benefit from further discussion and analysis. Some of the issues have been outlined in this letter, others will become apparent from individual retailer submissions and ongoing stakeholder engagement. The development and publication of the Distributor future distribution pricing roadmaps will allow better understanding of which pricing types and options are being favoured, and what processes and timelines are being proposed.

Pan-industry steering or working group: a collective buy-in from the industry that this needs to be managed well and carefully. This steering group should involve distributors, retailers, other stakeholders and possibly the Electricity Authority.

3.3 We are keen to ensure that this process of reform to more efficient distribution pricing is co-ordinated and does not result in "bill shock" for customers. A pan-industry steering group would help facilitate openness, learning and development of best practice.

3.4 We understand that the ENA is planning to set up some working groups on consultation and other matters. We foresee a clear media/communications risk around impacts of new distribution pricing on vulnerable customer groups, therefore coordination as to how to prevent, ease and manage those impacts needs to be carefully considered and coordinated. We would welcome the opportunity to have some retailer involvement in any future working groups.

4 Other comments

4.1 **Opt-in rather than opt-out** : ERANZ members consider opt-in is more appropriate for the short to medium term. Mandatory and/or opt-out pricing can be considered down the track once access to quality HHR data is guaranteed for the large majority of ICPs, workable and durable pricing structures and defaults are proven, and sufficient time has been allowed for system enhancements to process and use the HHR data in a form that supports the new pricing structures.

4.2 The **pricing must be technology neutral and keep the separation of regulated and competitive activities**: This will allow for a level playing field such that other appropriate industry reform measures can be considered. For example, localised consumer demand response markets, home energy management technology development, peer to peer platforms etc. In that sense, we reiterate the need for the distribution pricing to clearly and firmly focus on reflecting the costs and delivering the service of that monopoly lines service. The opportunities that will flow from more efficient pricing must be left to the competitive markets.

4.3 **Data-sharing**: We are aware and expect that wider system issues will emerge for consideration, particularly access to data. Data will undoubtedly be important to develop pricing models, and this is why we stress the need to work with retailers and communicate early and often. The issues around data-sharing are relevant to the points raised above around the separation of the regulated and competitive activities and needing to ensure data is protected and used for the purposes it was collected.

4.4 **Information exchange (EIEPs)**: Given the issues around access to and use of HHR data, it would seem sensible to focus attention on retailers providing EIEP1 aggregated data to distributors to support billing of distribution charges. In this context, it is considered that Incremental Normalised will not work for demand pricing so distributors and retailers will need to consider moving to 100% Replacement Normalised if booked capacity or demand pricing is contemplated.

4.5 **LFC compliance** - While the Authority's LFC guidelines provide some insights into their thinking on whether capacity and demand charges should be considered fixed or variable, they lack clarity in Sections 3 and 4 as to what average capacity and demand values would be used for assessing compliance for each of the pricing types, and combinations of pricing types. Without additional clarity to inform pricing development, it would be problematic to progress some pricing types or combinations.

4.6 **Controllable load not separately metered**: Particularly problematic for some pricing types is where controlled load is not separately metered, and deployment of advanced meters has seen like-for-like replacements (all inclusive). For distributors to expect replacement of single element meters with two element meters would be unreasonable, while at the same time consumers should not be disadvantaged through the distributor's operation (or non-operation) of load control which would affect the consumer's demand. This area needs more discussion and consideration.

5 Conclusion and Next Steps

5.1 ERANZ and its members are willing to offer our support to ENA and Distributors as they go through this process. The end goal of more cost-reflective and service-based pricing that is durable and workable and best aligns with the interests of distributors, retailers and customers, being common to all stakeholders.

5.2 ERANZ is concerned that there is a lack of consistency and coordination, leading to confusion, in some of the early consultation being undertaken by Distributors on this topic. We know that ENA is putting in a great deal of work on this issue and we wish to help facilitate an effective process by providing this feedback. We urge the ENA to take a proactive position to engage your members to follow the processes you are developing and adopt best practice for the benefit of the whole electricity sector.

5.3 Specifically we recommend:

- More practical guidance to reflect what pricing models would be most appropriately cost-reflective and service-based for the networks, based on network issues or characteristics – growth, diversity, line network components, capacity constraints, falling demand etc – the “cookbook” approach.

- More coordination, collaboration and information-sharing *across* Distributors and involving retailers. Research, trialling, development of models and communication with customers, should all involve the retailers on the EDB’s networks to get the most optimal outcome for all involved. This could include a pan-industry steering group to keep the information channels open.

We have included the comments in this letter and more detailed comments in the attached table in response to the consultation questions.

We thank you again for the work that ENA and EDBs have done in this space and it is an important step in the evolution of distribution pricing. We look forward to engaging with you further on this and please feel free to get in contact if you have any questions.

Your sincerely

Jenny Cameron
Chief Executive

Question No.	Question	ERANZ Response
1	The following features of efficient and effective distribution pricing have been identified: (1) actionable; (2) compliant; (3) cost-reflective; (4) effective in the long term (durable); (5) service-based; (6) simple; (7) stable and predictable. a) Are there any features which you consider should be added, removed or changed in the above list? Please explain your reasons.	• A missing feature is that the distribution pricing is <u>consistent</u> *across* EDBs. The differences between EDBs within distribution pricing creates barriers to entry and extra administration that mean each area must be customised. Most retailers operate nationally or multi-regionally. The less customisation that is required by a retailer the more able they are to deliver that service to more customers on the networks across the country. ERANZ members are keen to narrow down the options and to encourage more consistency *across* distributors. • We encourage the ENA to take the "<u>cookbook"</u> approach that would provide a view on which distribution tariff(s) is appropriate for networks facing specific challenges or characteristics. For example, a network facing peak demand issues, a TOU tariff may be preferable, or if not facing constraints, a capacity-type tariff may be preferable. • <u>"Equity" or "fairness"</u> should also be a feature to be assessed when measuring the tariff structure, thus taking into account the impacts on <u>vulnerable and medically dependent customers</u>. • Cost-reflective pricing that is durable should not only be independent of market, technology and policy changes, but also independent of <u>type of use</u>. The EA's guidelines intended to reduce uncertainty regarding which types of demand and capacity charges can be considered variable under the LFC regulations provides more flexibility for distributors to rationalise price categories historically put in place to target technology and/or usage

Question No.	Question	ERANZ Response
	b) Which of the above features are the most important in determining future distribution pricing	type (e.g. distributed generation, holiday homes) as a way of ensuring customers with similar capacity and demand requirements pay a fairer share of network costs. Ensuring distribution pricing is independent of type of use will also reduce significant administrative costs for both retailers (and some distributors) from managing eligibility (e.g. holiday homes). • "Actionable" should refer to something that the retailer (as first customer) can action and process easily, and be "simple (transparent, easy to understand)" for retailer and end-consumer. It needs to acknowledge that the competitive retail market will influence the extent to which customers are exposed to price signals The pricing elements should also be billable without requiring repackaging and/or wash-ups which are known to cause confusion for end-consumers. "Actionable (provide price signals that consumers can choose to respond to)". Consistent with this we suggest adding the following words "if billable and passed through". • "Service-based (reflect the services being provided)" does not add much to "cost-reflective", and does not appear to anticipate that customers may provide services to the network. Nevertheless, if retained we suggest add "or received".
2	The ENA has identified five pricing types that it considers in detail in this paper: time of use consumption; customer demand; network demand; booked capacity and installed capacity. Do you agree that these are the five best types of pricing to consider now?	• As per our response above and in the cover letter, it depends on what the costs and characteristics are that the pricing is designed to reflect. • Amongst ERANZ members there appears to be an initial preference for ToU charging, while at the same time keeping things open for distributors to suggest whatever options best achieve efficient charging.

Question No.	Question	ERANZ Response
	Do you agree that other cutting edge pricing options (such as critical peak and real-time pricing) should be left for consideration later? Please provide your reasons.	• Some of the pricing do not yet have the technology to support them, eg. advanced meters with full functionality ("full functionality" in this context meaning "data services contract available to and in place for retailers to obtain compliant HHR data, and reliable and timely communications of HHR data for the ICP"). • "Default" is assumed to mean a pricing solution for ICPs with advanced meters without full functionality, ICPs with standard meters, or an interim solution for advanced meters without full functionality which allows time for retailer system changes or for retailers to arrange with their data services provider to receive data in a format that they can process. • To assist discussion and making the most appropriate choices, it would be useful to include in the templates: • an unambiguous description outlining what design features are needed for the pricing to be considered variable charges under the EA's LFC guidelines; • Additional consideration and information on a viable "Default" option for each pricing type. • We also note there is no template for Installed Capacity. • Furthermore, for the ~10% of ICPs without advanced meters with full functionality, default options need to be explored further as we don't

Question No.	Question	ERANZ Response
		consider (based on The Lines Company experience) that applying average profiles as a proxy for TOU or demand pricing is acceptable or durable.
3	Do you consider that retail competition can be relied upon to ensure consumers face appropriate distribution price signals? Please explain why or why not.	• Yes, ERANZ considers that retail competition can be relied upon to identify and compete for price/margin opportunities to the benefit of the end-consumer. • Retail competition and management of revenue risk from repackaging [distribution] costs all influence a retailer's product and pricing strategy, and extent to which distribution prices are passed through to customers unbundled (explicitly), bundled (implicitly), or repackaged. • The distributor will always recover its costs and just needs to focus on developing pricing that reflects the costs of the network. • Retail competition will be enhanced if there is more consistency *across* networks as the pricing models develop. • Over time if enough customers prefer unbundled distribution prices/charges on bills (100% pass through of the price signal) or bundled but with the price signal retained albeit diluted, then retailers who offer that product will gain a competitive advantage until other retailers respond with a similar competitive product.

Question No.	Question	ERANZ Response
		• Like other services, some customers will value attributes that others do not and vice versa. Not all customers are able or willing to shift load in response to direct pass-through of distribution price signals. Others are highly engaged and respond extremely well. Others may follow a retail model that achieves the network's objectives of shifting load but in a pathway different to a direct response to a price signal.
4	Do consumers see value in load control and ripple control, and is this likely to change in future?	• ERANZ contends that end-consumers do not currently see the true value of load and ripple control because these services have not been made contestable and are generally controlled by the distributor. • We believe the customer would see and derive more value if that option is opened up to the competitive market and end-consumers are able to manage their own demand. • Particularly problematic for some pricing types is where controlled and uncontrolled loads are not separately metered, as the distributor's operation of load control will affect the consumer's usage during peak periods and therefore their peak demand and network component of their retail bill.
5	Do you agree that distributors should engage with end consumers about distribution pricing? Why/ Why not? Please provide your reasons.	• Distributors should engage with end-consumers in conjunction and collaboration with the retailers on their network. This is to avoid customer confusion and frustration. It also helps to ensure that the retailers are fully informed of communications with their customers in

Question No.	Question	ERANZ Response
		case of questions to their call centres and it might mean engagement by the end-consumer in the conversation. • If, and when, distributors are contemplating end-consumer engagement, they should inform the retailers trading on their network. This is as much a matter of courtesy as a necessity so retailers can: (1) influence the content of questions so they are worded in such a way so as not to cause confusion; and (2) prepare their call centre people so that they can intelligently respond to the inevitable calls from end-user customers. • Distributors need to be very careful as to how the new pricing types and possible cost savings (or increases in costs) are expressed to the end-user customers. There is a serious risk of misleading consumers about these costs, especially in relation to their overall electricity bill, when it is not in their power to control the retailer's pricing structure or pricing. • We encourage distributors to not only inform the retailers trading on their network about their plans, but to actively engage them in the process. Retailers have the relationship with the end-user customer, and already have systems and processes in place to talk to customers. Rather than potentially confuse customers, or reinvent the wheel, distributors should partner with retailers to get the most useful results possible from customer surveys. Many ERANZ members are willing and ready to engage in these trials. • ERANZ members note that the EIEP4 customer information files are provided to distributors for network management purposes, and not for the

Question No.	Question	ERANZ Response
		purposes of engaging with each retailer's customers for non-network management purposes (and the latter would include distribution pricing changes except where the distributor has a direct distribution services contract with customers).
6	Is there additional information that should be included in this paper about stakeholder engagement? If so, please explain what should be addressed.	• In terms of communication, we recommend that the emphasis be placed on equity or "fairness" considerations, rather than cost-savings, particularly where it is based on long-term benefit and the avoided cost of future investment. Discussion about the equity of cost-reflective and service-based pricing is strong ground for EDBs. The potential cost-savings from the new pricing is territory for the retailers who will be able to identify the price/margin opportunities for their customers and compete in that space. Ultimately, customers want to know what their total cost will be, and it needs to be explained clearly by the retailer as different pricing structures transition through. • It is widely acknowledged that there will be winners and losers in any change of this nature, and it is essential to understand and consider the likely impacts on different categories of end-user customers, in particular vulnerable and medically dependent customers. We are concerned that some of the options will have more of an impact on those customers and recommend that impact on vulnerable and medically dependent customers be included as a criteria in the pricing assessment list. For example, a model that allowed for automatic disconnection of the power supply (such as installed capacity) would not be palatable for medically dependent customers

Question No.	Question	ERANZ Response
7	How should distributors balance feedback from different stakeholders?	• Distributors and retailers need to work collaboratively in this process, across individual networks, and between ERANZ and the ENA. • We recommend that a steering group be established. This group could help to ensure the process of reform to more efficient distribution pricing is co-ordinated and does not result in "bill shock" for customers. A pan-industry steering group would help facilitate openness, learning and development of best practice. • If not a steering group, then we would encourage the ENA to include retailers in future working groups, especially around communication with stakeholders. • Feedback from all retailers must be taken into account – mass market and niche, large and small. As retailers are the distributors first customer, we would hope that their feedback is given strong weighting. Implementation issues should be taken into account as this will impact timing and effectiveness of any new pricing structures. • Feedback as to how different pricing structures affect vulnerable and medically dependent customers, and how engagement should be managed, should also be given strong weighting. We have seen the impact that miscommunication or mismanagement can have on company and sector reputation, and we should learn from these examples (specifically The Lines Company and Unison).

Question No.	Question	ERANZ Response
8	Do you prefer two rate or three rate ToU pricing plans (or any other alternative)? Please provide your reasons.	• ERANZ does not have a view on this as individual retailers will provide feedback on it. However we note: • It would depend on the costs or characteristics that the tariff is designed to reflect. • We reiterate the need for consistency *across* networks with any distribution pricing model development.
9	a) Do you prefer ToU pricing plans that apply peak prices across the entire week (Mon-Sun) or ToU pricing plans that have peaks that apply over weekday (Mon-Fri) only? Please provide your reasons. b) If you prefer peak prices to apply over weekdays (Mon-Fri) only, do you prefer the definition of weekdays for peak prices to include or exclude public holidays? Please provide your reasons	• See answer to question 8
10	Should peak prices apply throughout the entire year or should they apply only during clearly defined peak months (such as the winter months of May-Sept)? Please provide your reasons.	• See answer to question 8
11	Do you agree with the ToU consumption pricing template? Please explain why/why not.	• See answer to question 8

Question No.	Question	ERANZ Response
12	Do you agree with the Customer [Peak] Demand template? Please explain why/why not.	• See answer to question 8
13	If Network Demand pricing is used, should it be based on fixed or dynamic network peak pricing? Please provide your reasons.	• See answer to question 8 • We would note further however that dynamic peak period demand does not fit well with the residential or small commercial market, nor does it work well with medium-large commercial customers. By way of example: • Orion's peak demand pricing forces repackaging as the chargeable peak periods for each pricing year are not known until after the May-August period. If retailers wish to pass through the actual cost, typically the case for medium-large commercial customers with ToU metering whose energy supply contracts provide for pass through, they must wash-up the difference between the estimated demand and actual average demand during the chargeable peak periods relevant to each customer ICP (which is only calculable after August each pricing year). There are many examples of very frustrated customers who struggle to understand the repackaging/wash-up methodology of their retailer, exacerbated when customers switch retailer and experience a different repackaging/wash-up methodology even though the outcome over the full pricing year should be the same. Pass through is also very complex to implement for customers who switch retailer during the pricing year, and who move-in or move-out of sites. • The Lines Company's network peak demand pricing requires a special device attached to the advanced meter to record the customer's average load during the 6 highest 2-hour peaks, and

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		is overly complex for most customers to understand or respond to which has resulted in a significant number of complaints and adverse media.
14	Are annual or monthly resets for demand pricing more appropriate? Please provide your reasons.	• See answer to question 8
15	What tools might consumers need access to be aware of Network Demand pricing signals?	• Retailers will provide the tools for end-consumers to be aware (or not) of the network demand pricing signals.
16	Do you agree with the Network Demand template? Please explain why/why not?	• See answer to question 8
17	When consumers are moved to a booked capacity plan for the first time, who should choose their plan? a) The consumer, in all circumstances b) The distributor, in all circumstances c) The distributor, but only if the consumer is unsure of, or does not nominate, their preferred plan Please provide your reasons.	• See answer to question 8
18	Distributors could offer several Booked Capacity price plans (or bands) to choose from. What is a reasonable number of plans to choose from? Please provide your reasons.	• See answer to question 8
19	Assuming it comes at no cost to the consumers, how often should a consumer be allowed to change Booked Capacity plans? a) Never b) Once per year	• See answer to question 8

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	c) Twice per year d) Three times per year e) As often as they want Please provide your reasons	
20	Sometimes consumers will choose a Booked Capacity plan that is not most suitable or they have a period of high usage meaning that they go over the capacity of the plan they have chosen. What should happen if the consumer breaches their plan? a) Pay a higher rate for the usage above the plan b) Receive a rebate if they stay within plan c) Automatically moved up to a higher plan Please provide your reasons.	• See answer to question 8
21	Do you agree with the Booked Capacity template? Please explain why/why not.	• See answer to question 8
22	Do you agree with the list of pricing assessment criteria presented in Section 9.2? a) If not, what criteria should be considered? What are the most important assessment criteria and why	• ERANZ would like to see more assessment against the network issue or characteristic that the cost-reflective pricing is trying to achieve. We encourage the ENA to take the "cookbook" approach that would provide a view on which distribution tariff(s) is appropriate for networks facing specific challenges or characteristics. For example, a network facing peak demand issues, a TOU tariff may be preferable, or if not facing constraints, a capacity-type tariff may be preferable. • Key assessment criteria for retailers are: • Consistency across distributors

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		• Fairness/equity across end-consumers (assessment of impact on vulnerable and medically dependent customers) • Revenue risk – network prices billable and charges able to be recovered without requiring repackaging and/or wash-ups, avoid passing network pricing risk to retailers, understand impact of misalignment of retailer and distributor billing cycles with peak demand pricing • Contained implementation costs • Clear timeframe (well-signalled transition) • Sensible Default options • Durable, independent of technology (eg. PV, EV charging, batteries) and type of use (eg. holiday homes)
23	Do you agree with the ENA's high level assessment of each pricing option against the assessment criteria (presented in Section 9.2)? What in your view are the relative benefits, costs, or challenges associated with each pricing option?	• The high level assessment of each pricing option appears to be based on the end-consumer facing the entirety of, and only, the distributor pricing signal. • We recommend that the assessment should be based on whether the pricing option meets the needs of the network and reflects the network's costs and services. What the end-consumer will face may be different, and it must be remembered that the distribution costs are only part of the total electricity bill for the customer. A few other points to note are: • Each pricing option must have a suitable default option for ~10% of ICPs that will not have advanced metering with full functionality. The default should use actual consumption or capacity, as to estimate peak demand based on average profiles opens the door for challenges from customers (e.g. The Lines Company).

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		• Annually reset demand charges would appear simpler for distributors and retailers to implement, provided the measurement period allows time for the resets to be determined before annual pricing notifications are provided to retailers (e.g. calendar year measurement period for 1 April pricing year, or winter months May-Sep for 1 April pricing year). If replacement normalised (or reconciliation) data is used it would be more accurate to ensure the month 3 revision is included in the measurement period data. • Monthly reset demand charges are likely to be more complex to implement in the mass market context – with issues such as how to deal with misalignment of retailer and distributors billing periods, not suited to incremental normalised EIEP1 billing files, standard and move switches, huge step up in HHR data to process in short time. • Network peak demand charges not based on predefined measurement periods should be avoided as they are complex to implement for retailers and disliked by customers due to forced repackaging and/or wash-ups if passed through (e.g. Orion peak demand charge).
24	What do you consider is the optimal combination of pricing components?	• See answer to question 8
25	Do you foresee any challenges to obtain and supply required data for implementation of preferred price structures? Please provide your reasons.	• It will depend entirely on which options within the preferred pricing types are chosen, and whether distributors are looking to receive and process HHR data or aggregated data.

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		• Not all ICPs have or will have advanced meters. Not all pricing options will be possible without some rules around exception management. • It is important to understand that ownership of advanced meters does not give rights to distributors or third parties to use the consumption data for non-network management purposes. Rights where interposed arrangements are in place are governed by advanced energy services contracts and use of system agreements. • It is noted that distributors who have implemented ToU pricing to date have specified a requirement for aggregated data (e.g. EIEP1) to support network billing in preference to HHR data. There is a view that the feeders the distributors have on their networks are sufficient for a distributor to determine what to charge, and some retailers so not agree that half-hourly meter data is necessary to determine the cost of operating a network. • There are no impediments to EDBs obtaining half hourly data commercially if they wish to, but we note that: - consumption data at the HHR level is more sensitive and personal than aggregated consumption data. There are customer privacy issues to consider, and appropriate security to maintain. - There are concerns that data may be used for non-network management purposes such as competing with retailers in the unregulated market. Appropriate controls within EDBs would need to be put in place to manage those risks.

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		• There is a difference between providing data for an annual reset (say based on a winter or calendar year measurement period for application in a pricing year), and providing monthly data (where there is less time to validate the HHR data and there is the added complication of billing cycle mismatch. • These are issues that will need to considered and worked through as the distribution pricing develops. • It is also noted that ERANZ members consider that the industry will need to shift to replacement normalised EIEP1 data for aggregated peak demand information as the accrual process used for incremental normalised will not work.
26	What is your view on the use of data estimates / profiles for implementation of preferred price structures? How should gaps in information in half hour data be addressed?	• Estimates and estimation methods will always be needed as smart meter penetration will be below 100% and sometime half hour data will not be perfect. Pricing will therefore need to be planned with this in mind. • We do not support the use of profiles for Default options when there are suitable options available to use actual data. • Gaps in HHR data can be addressed through standard replacement value procedures which retailers are familiar with in terms of the traditional HHR market and which are subject to annual retailer participant audits. To date there has been no need to validate the HHR data from advanced meters unless the retailer has been using the data for settlement (submission of HHR data to the reconciliation manager for

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		settlement) or billing retail products that rely on complete and accurate HHR data.
27	What are the potential changes that could be required by Registry because of moving to service-based price structures?	• Not necessarily, but this is a secondary implementation question once pricing options have been narrowed down and trials have been undertaken. The registry currently has 3 fields for distribution pricing information that enables a retailer to unambiguously apply the distribution pricing for each ICP: • Price category • Chargeable capacity (would be used for Installed or Booked Capacity value) • Installation Details (could be used for annual demand reset value, although there may be value in a separate field for the "Annual Demand" reset value.
28	What are the potential challenges to Electricity Information Exchange Protocols (EIEPs) because of moving to service-based price structures?	• The existing protocols can be used with cost-reflective pricing, but there are some limitations that will need to be considered. • Due to the misalignment between the retailer and distributor billing cycles the unbilled accrual adjustments for Incremental Normalised NHH EIEP1 will not work for monthly kW demand charges. It may be time for the industry to consider standardising on Replacement Normalised which also allows for demand values to be revised through the reconciliation revision cycle. • HHR EIEP3 data is typically for a complete calendar month, and only provided when actual or permanent estimate HHR data is available. This does not fit well for the mass market with daily switching activity, and the massive increase in data to be validated before it can be reported. It is noted that the energy reconciliation process provides for initial estimates

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		to be replaced with actual or permanent estimate data through the reconciliation revision cycle. • As the pricing work develops, this issue would benefit from a working group involving retailers and distributors.
29	What are the potential challenges for your data management and billing systems in implementing service-based price structures?	• Individual retailers will respond to this question, but impacts are likely to be unknown until trials are undertaken and the pricing structures refined. • Consistency *across* distributors will be important in this regard so that retailers are adjusting their systems for 29 different EDBs, thereby placing unnecessary costs and burdens on the sector and to the disadvantage to customers.
30	What other technical implementation challenges do you foresee that can impact on implementation of service-based price structures?	• Penetration (e.g. say > 90% with full functionality) • Acceptable default options that avoid the use of HHR estimations/profiles for demand charges • Accuracy and reliability of fuse data, possibly significant programme of work initially and ongoing if installed capacity option chosen • Number of elements/registers, separate element/register for controllable load • Data quality – complete and accurate data (should data services provider perform estimations to fill gaps and ensure validated data, or retailer? Any form of aggregation/combination involving half hour data is system intensive) • Data timeliness – reliability and availability of data shortly after the end of each day, comms issues resolved promptly • Data formats

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		• Contractual arrangements between retailers and advanced metering services providers to access the HHR data for all customer ICPs • Building interfaces to receive HHR data for all customer ICPs • System developments – business cases and capital investment decision processes, timing of development, enhancements to network reporting, network charges reconciliation processes, customer billing and billing formats if intention is to pass through • Development of comms and marketing plans in order to communicate relevant information to the customer in a way they will understand and choose to engage with. • Education and training of call centre staff to understand the different tariff structures (especially if there is large variation from network to network).
31	How can distributors encourage greater uptake of cost reflective types of pricing? Do you prefer mandatory or voluntary adoption approaches, or a combination of both (eg see figures 43 and 44)? What other matters do distributors need to consider under each?	• Given that the distributors' first customer is the retailer, and they will be wanting the retailer to understand and use their new pricing structure, the first point of call should be to engage with and communicate regularly with the retailers on their networks. • Consistency *across* networks of new pricing structures will be important. Retailers don't want to see 29 different versions of TOU or Booked Capacity. • Adoption should be opt-in, initially. This will allow for adaption of tariffs by retailers and distributors to best meet the demands of end-consumers. Once uptake has reached a critical mass and/or once there is a sufficient proportion of ICPs on the network, mandatory

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		adoption could be considered (with profiling that does not materially disadvantage those customers on legacy meters). • Note, that this means mandatory in the sense that the distributor effectively makes all their pricing cost-reflective, but it should never be mandatory for a retailer to pass-through the distributor's pricing to the end-consumer. • Consideration should be given to how end-consumers can be rewarded for positive behaviour rather than penalised for negative behaviour. Any testing of these features would need to be done in conjunction with retailers.
32	What is a reasonable timeframe over which to shift to cost reflective pricing?	• Timeframes will be driven by each network's needs and characteristics. What ERANZ is keen to see is the commitment to get to cost-reflective pricing with a clear target date set by each EDB. Naturally, this target date can be reviewed and revised, but it provides more certainty for the retailer, the customer and other distributors of the path that the sector is on towards cost-reflective pricing. • We encourage ENA to show strong leadership for EDBs to provide a standardised form of template for their roadmap towards cost-reflective pricing. • It must be noted too that just because the EDB has moved to cost-reflective pricing does not mean that every retailer will be able to

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		move to adopt that pricing straight away. Some require more system change than others. Furthermore, even once the retailer provides new pricing structures that include the new cost-reflective pricing structure, there may yet be transition time for the end-consumer.
33	What are your preferred approaches to managing adverse price changes (e.g. see types of pricing presented in pages 72 to 74) and why? What other approaches should be considered?	• Managing adverse price changes upon implementation of new distribution pricing is ultimately up to the end-consumer's retailer to consider. This is why allowing the competitive market to provide solutions is the best approach. Some customers may benefit from having the pricing smoothed over the year, to avoid bill shock in winter. • The impact on vulnerable and medically dependent customers' needs to be particularly considered, by retailers and distributors in the development of these new pricing structures. • Management of adverse price changes is one of the reasons that distributors need to talk to the retailers on their network to prepare and discuss the potential for this. • The lessons from Unison and The Lines Company should be pertinent in this regard and should be shared across the sector. Identification of those that might be adversely impacted, engagement, early communication and consistent messaging all needs to be considered and developed, in coordination with the retailers. The more ENA can do to assist EDBs to know what best practice consultation and engagement looks like, the better.

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34	What transition issues or challenges do consumers face in the move to cost reflective pricing?	• See answer to question 33
35	What can distributors do to effectively communicate and engage with consumers during the transition period? What information is most important to provide to consumers during this transition period?	• Managing the implementation of new distribution pricing is ultimately up to the end-consumer's retailer to undertake. • ERANZ appreciates the strong sense of community-ownership that many EDBS have and it is not unreasonable that networks communicate with their stakeholders that they are changing their pricing. What retailers are sensitive to is the representations made about final pricing which the distributor cannot control. Distributors need to be very careful to represent the fact that they are changing the pricing to the retailers, rather than to the end-consumer. • We recommend that the best thing that distributors can do is to engage and coordinate with the retailers on their networks early and often. Look for partnership opportunities to trial new pricing structures. • Emphasis needs to be on creating fairer or more equitable pricing (reflecting cost of capacity required to supply load) rather than incentivising behaviour changes (load shifting).
36	What issues or challenges arise for other stakeholders (ie non-consumers) during the transition period? How would you prefer for distributors to communicate and engage with you	• Communication should be ongoing and unaffected by transition periods.

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	during the transition period? What information would you like distributors to provide you during this transition period?	• Communication about these new pricing structures should be separate to the usual annual review of pricing (ie. once a year will not be sufficient).
37	Are there any matters not covered in this paper that the industry needs to consider in relation to distribution pricing?	• We are keen to ensure that this process of reform to more efficient distribution pricing is co-ordinated and does not result in “bill shock” for customers, especially vulnerable and medically dependent customers. A pan-industry steering group would help facilitate openness, learning and development of best practice. • We would hope to see some “back-office” efficiency gains from a process of sharing information and experiences between networks, via the ENA. Whist there are individual network characteristics and challenges, there is also similarity, and there could be opportunity for collective bargaining to build new systems or undertake research and trials.

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