COUNTIESPOWER

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Submissions
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More efficient distribution prices: What do they look like?

Counties Power welcomes the opportunity to provide feedback on the Electricity Authority's consultation paper *More efficient distribution prices: What do they look like? consultation* dated 11 December 2018.

1.0 Introduction

Counties Power agrees with the sentiment in the consultation paper and notes that it implemented residential time-of-use (TOU) pricing four years ago. The key driver for this implementation was to defer network capacity investments through reducing peak demand and to better ensure that customers pay their fair share of the distribution network costs. Counties Power agrees with the Electricity Authority (Authority) that without the correct price signals, consumers may make inefficient investment decisions in emerging technologies or they may utilise new technologies in an inefficient manner.

2.0 Do distributors need to reform their prices?

Counties Power agrees that distributors need to reform prices and respond to the issues identified in the paper. In addition to these issues, the impact of low fixed charges (LFC) is having a greater negative impact than covered in the paper and so are pricing restrictions on commercial distributed generators.

2.1 Low fixed charge

Sixty percent of households within Counties Power's territory are on a 15 cents per day fixed charge and a similar percentage would apply to households nationally. As the Authority's paper states, 80% of EDB costs are fixed and Counties Power has calculated that this would equate to around $2.20 per day.

Consequently, there is around an error greater than 1,000% in the way that most households in New Zealand are charged and this is a larger issue than peak and off-peak pricing mentioned in the paper. Fixing this would send a greater price signal to those seeking to install photovoltaics and electric vehicles. It would also help with issues such as bad debt and energy hardship through allowing for easier budgeting by spreading electricity charges evenly throughout the year. This is because the LFC forces EDBs to recover residential fixed costs on a variable basis and with most of the variable use in winter this means recovery of the fixed costs occurs mostly within the winter months.

2.2 Commercial distributed generators

Counties Power believes that the Electricity Industry Participation Code Part 6 rules around distributed generation is resulting in an under-recovery of line costs for commercial generators, with no recovery of their share of overhead costs. This is an increasing issue on the Counties Power network, where a steady number of commercial generators are being installed.

This compares to home owners who pay for the use of the network through their prices and any under-recovery as outlined in the consultation paper could be recovered through higher fixed charges. This is not true for commercial generators; whose sole investment decision is to gain a commercial return on generating is through the market. Consequently, this is a greater problem than household solar panels and has some of the long-term effects of uneconomic generation investments.

3.0 How important and urgent are the issues identified by the Authority?

Counties Power agrees that the issues identified need to be urgently addressed but this is also in large part because of the long delay before customers switch to the new tariffs, which is the result of the significant inertia that exists throughout the industry billing infrastructure. This inertia starts with EDBs determining new pricing structures, MEP meter upgrades, meter data manager platform upgrades, retailer billing upgrades and the transition of customers to these new tariff options.

For Counties Power, this inertia has been significant. Counties Power commenced a large-scale deployment of smart meters approximately five years ago with one of the core aims being to improve pricing signals to customers to improve network utilisation and minimise capital expenditure driven by regional growth. To support this investment, Counties Power introduced time-of-use tariffs approximately four years ago. To date there are 80 customers on these tariffs.

The low customer uptake has not been the result of the meter technology or deployment, which proved more successful than expected with around 96% of Counties Power's customers having a smart meter and with a greater than a 99% real-time meter communication success rate. And it hasn't been with Counties Power prices with new tariffs being available early on in the deployment[1]. The failure in the uptake was in the industry inertia that exists in the billing infrastructure to handle the big data from the smart meters, which isn't addressed in the consultation paper. So, Counties Power agrees that it is urgent for EDBs to update prices in order for the benefits identified by the Authority to be manifested.

[1] Three years ago, the residential time-of-use (TOU) price structures were aligned to Vector's TOU structures to make retailer billing easier.

4.0 Proposed distribution pricing principles

Counties Power agrees with the pricing principles but notes that these are driven by economic theory of efficient pricing. Counties Power hopes that these clear economic principles are also applied to proposed transmission pricing methodology guidelines because Counties Power believes that this isn't the case. Particularly, the pricing principles do not align with the proposed recovery of historic transmission infrastructure investments through a beneficiary pays basis.

4.1 Changes recommended to the proposed distribution pricing principles

The following further refinement of the principles could be made:

a. Prices and pricing structures should be stable because customers are making long-term investment decisions around the cost of their electricity. An example is a photovoltaic array that has a twenty to thirty-year life span.

b. Pricing structures need to be simple because complexity creates consumer confusion. E.g. Location based pricing need to be offset against the simplicity of one price through an EDB's territory.

c. Under the pricing principle (d), retailers should not be able to use this principle to stifle new pricing structures. Possibly, this needs to be modified to state that "prices should not place unreasonable costs… on the <u>majority</u> of retailers" so that retailers with obsolete billing systems, or who do not support an initiative, are not able to use this principle for their sole gain.

5.0 Changes to proposed star-ratings

Counties Power supports a star rating system and would use it to guide its pricing road map. The main change that Counties Power would recommend to the rating system would be around daily fixed charges to recover fixed costs. When the fixed costs are around $2 per day charging 15 cents per day should not get the same rating as a $2 per day price. The Authority should be signalling that the 15 cents per day charge is not consistent with the pricing principles in clause 3.28 of the consultation paper.

6.0 How long to introduce different pricing structures

Counties Power can introduce new pricing structures very rapidly because it has up to five years of half hour smart meter data, has developed a cost allocation model with the flexibility to model different pricing options and can accurately determine the revenue impact of different pricing options. However, as required under the Electricity Industry Participation Code, Counties Power would consult with retailers on any proposed tariff structure changes and would takes onboard retailer feedback. To date, this feedback is that there is little interest from EDBs in introducing new tariff options. This is illustrated in the poor uptake of Counties Power's time-of-use tariffs and a proposed 'all-you-can-eat' tariff. There is little point in introducing new structures if retailers see no value in using the new pricing options.

7.0 How LFC hinders price reform

As stated earlier in this submission, the LFC is resulting in most households in New Zealand paying only 15 cents per day as a fixed price when the real fixed cost is around $2 per day. So, the fixed price of 15 cents per day is grossly out of alignment with the economically efficient price of around $2 per day. Therefore, this fact shows that the LFC is hindering price reform.

It appears that the Authority is recommending that EDBs introduce a capacity-based charge to correct for this under-recovery of fixed costs. Counties Power will look at introducing such a charge, if the government does not repeal the LFC regulations. However, introducing a capacity charge is complex because it requires a step-change[2] that may result in widespread bill shock. Counties Power's preference would be a gradual annual increase in the 15 cents per day fixed charge until the daily price was $2.20 for all residential customers.

8.0 Better indications of efficiency

An additional indication of efficiency is how many customers as a percentage are using the new more cost reflective tariffs. This can be easily measured and given the billing infrastructure inertia mentioned earlier, will measure the next barrier to EDBs obtaining the benefits from more efficient distribution prices.

9.0 Assistance from the Authority

The Authority could assist EDBs through standardised national pricing and through a Code change requiring retailers to right tariff their customers.

9.1 Standardised national pricing

EDBs should work to standardise prices nationally, with peak timing variations possibly based on the four Transpower co-incidental peak demand areas. This would enable nationwide marketing campaigns for retailers to inform customers on how they can change their behaviour to reduce their power bill. To instigate this, the Authority could set up industry working groups to recommend standardised national pricing structures and transition processes. The working group should consist of retailers, EDBs, interest groups and MEPs.

This work should also undertake a thorough customer consultation programme to ascertain the end consumers views on future electricity pricing. In the end, through retailer competition customers will decide the future direction of the industry. If it is pushed on them they may rebel against pricing being imposed upon them as seen by the experiences in Australia when mandatory TOU pricing was introduced, at Unison when they introduced the solar tax and The Lines Company when they introduced their version of cost reflective pricing.

[2] Counties Power will consult with retailers on introducing a variable capacity-based charge and at the same time introduce a zero fixed daily charge because this would hopefully allow retailers to use their existing billing system programmes.

9.2 Requirement for retailers to right tariff

EDBs need the Authority's support to ensure that retailers migrate customers to the new TOU tariff structures. This would be best achieved through a requirement under the Code for retailers to right tariff their entire residential customer base on 1 April based on the customers consumption patterns in the previous 12 months. Given that customer circumstances can change, the retailer's customer should be given the option to opt out of the right tariffing.

This would greatly support EDBs introducing new smart tariffs because a substantial percentage of the EDBs customer base would always be better off on the new cost reflective tariff but it is difficult for the EDB to force a retailer to use a tariff that would benefit their customers. The customers remaining on legacy tariffs would on average have a higher cost usage profile that would result in a higher legacy tariff prices, so each year further customers would be right tariffed over to the new cost reflective tariff structures.

In order to simplify tariffs and transfer customers to Counties Power's new residential and business TOU tariffs, Counties Power will transfer all mass market customers to the new TOU tariffs on 1 April 2020 and remove the legacy tariffs. However, because most retailers are not using the peak and off-peak pricing options the customers on legacy tariffs will be transferred to a default tariff option equivalent to the existing legacy tariff option. If the Authority were to now require right-tariffing by retailers, then approximately half Counties Powers customers would be switched to the peak and off-peak distribution pricing options and save money on the power bill. Counties Power would also benefit from having the certainty of the retailer actions and revenue impact and so would be able to mitigate any revenue loss. Consequently, this would provide benefits to all parties in the industry.

10.0 Conclusion

Counties Power supports the Authority's proposals in the consultation paper and hopes that this submission will help provide a new perspective on the issues and provide some new options to support the Authority's work in this area.

Yours sincerely

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