

19<sup>th</sup> February 2019

Submissions  
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## Re: Consultation Paper-More efficient distribution prices

Horizon Networks ('Horizon') welcomes the opportunity to provide a submission on the Electricity Authority's ('EA') Consultation Paper-More efficient distribution prices published for consultation on 11<sup>th</sup> December 2018.

Horizon generally support the views expressed in the submission by Pricewaterhouse Coopers Consulting (NZ) LP ('PWC') on the same matter. The latter is made on behalf of 13 EDB's of which we are a party.

This submission provides Horizon's response to the consultation document which is also presented in the format requested as per Appendix E on page 4 of this submission.

1. Horizon agrees in principle with the EA thinking on clarifying the current Distribution Pricing Principles which has a primary purpose of encouraging the implementation of efficient distribution pricing. This has been previously communicated to the EA via Horizons letter dated 3<sup>rd</sup> December 2018 in response to the EA letter 'Response to Pre-consultation paper for distribution companies – It's time to Reform Distribution Pricing'. Included within Horizons letter was reference to Horizons Future Pricing Roadmap link (<http://www.horizonnetworks.nz/information-disclosure-regulation>). Horizon is exploring both pricing rationale and pricing options to ensure there is alignment to the pricing objective of pricing congestion and signaling the long run marginal cost of using Horizons network.
2. Whilst Horizon acknowledges there is a need to reform distribution prices, the reform must be well structured and well planned and therefore will require solid industry alignment. There have been discussions that an industry roadmap is required so that all technical and data issues are also considered with the impact on delivering solutions to these issues are considered in proposed timelines. Whilst Horizons roadmap has milestones to be completed during the 2019 and 2020 years, these milestones are dependent on working in partnership with retailers and other stakeholders to undertake pricing consultation and pricing trials. This will be a reiterative program of work which is interdependent and requires transition planning to ensure that consumers do not experience rate shocks from the pricing reform. In addition, Horizon Networks would encourage the EA to recognize the work and progress being made by various EDB representative groups within the industry including ENA, DPWG and the joint Retailer EDB TIWG where both groups contain representatives from Horizon Networks.
3. Horizon supports the EA revisiting the Distribution Pricing Principles to ensure that there remains a robust process in benchmarking the relevance of the pricing principles. Horizon has addressed each principle individually and any changes are noted in italics as follows;



a.

- (i) Agree
- (ii) Agree
- (iii) Addition *having regard to the extent practical* being time and location-specific
- (iv) Agree

b.

- i. Agree
- ii. Agree
- iii. Agree

c. Addition of the word '*pricing* principles should be transparent and predictable

d. Add the word distributors as follows 'prices should not place unreasonable costs and requirements, including transaction costs, on, retailers, *distributors* or other consumer agents and should be economically equivalent across retailers and other consumer agents.'

Horizon considers that any additional costs that are considered as unreasonable that could be incurred by distributors should also be included within this principle. The objective is to close the loop on completeness for any cost and requirement changes incurred by distributors. This would ensure the same test principles of being economically equivalent apply to all components of the average electricity bill of a consumer.

e. Disagree and recommend the removal as Horizon views this principle as unachievable due to the unmandated retail pass-through. Paragraph 3.22 states that 'the Authority does not see there is particular efficiency reason why prices should be passed through. Instead pass through could stifle the economic efficiency of the electricity sector because it reduces consumer choice on how to manage price risk and eliminates a dimension on which the electricity retailers can innovate and compete for customers.' If the EA continues to hold this view, the introduction of any rating measurements against the principle would be ineffectual and unproductive given the unlikely compliance by distributors to demonstrate to consumers the predictability of prices as consumers trend towards their retailer invoice for pricing information as opposed to pricing posted on distributor websites.

4. Horizon recommends the removal of the Low Fixed Charge regulations.

5. Horizon does not support the star rating system and encourages the EA to continue with the engagement with distributors both via the ENA and individually to maintain the momentum of the price reform and to remain steadfast with the journey that the industry has embarked on. Should a star rating system be introduced Horizon recommends the removal of seasonal time of time-of-use as a price structure. Horizons has received feedback from retailer consultations undertaken to date that this is not a welcome pricing structure. Seven retailers indicated that this is due to the end consumer reaction with two perceived price increases during the year. Horizon has been informed that seasonal pricing will not be passed through. The qualitative assessments proposed in the star-rating approach does not include feedback from consumers on distributors pricing structures. Consumers ultimately can provide a level of measurement on the efficiency of a distributors pricing structure.

6. The Horizon Future Pricing Roadmap has 1 April 2021 as the target date for the implementation of new pricing structures on an opt-in basis. Given the challenges to develop and refine the new price structures a - period of adjustment will be required to mitigate and work through potential price shocks as prices are refined. The TIWG program of work should be considered in respect to the challenges to deliver price reform. This should be

linked to the challenges identified which may require individual project teams to be formed to investigate and resolve these challenges. The timing and impacts of these will be interdependent to each distributor achieving their individual price reform timelines.

7. Horizon provided a table of average individual ICP pricing to the EA in the letter dated 3rd December that demonstrated electricity usage at 6000 and 8000 kWh respectively. This showed Horizons annual price charges for an individual consumer was at 80% plus fixed for a standard user, compared to only 6-7.7% fixed for the regulated low user. This comparison demonstrates the challenge Horizon has in meeting the proposed Distribution Pricing Principles as the variable costs overstate the incremental cost of using the network.
8. As outlined in Q5 Horizon is not supportive of a rating scheme as distributors are likely to be at varying stages of their roadmaps and it would seem somewhat unfair to star rate distributors in this manner. The proposal in section 6.7 to apply an equal weight to each distribution tariff component where multiple tariff components exist appears at odds with the drivers of the distribution pricing principles. Horizon would seek to understand the assessment approach the EA would apply for Horizon in the following example. As outlined in Q7 the standard users example Horizon is recovering more than 80% on the fixed charges price which would suggest this should receive more weighting than the remaining 20% revenue recovered through other distribution tariff options that Horizon has available to standard users.
9. Horizon recommend the EA continue with the assessment of distributor pricing roadmaps to monitor each distributors progress on their individual journeys with pricing reforms.
10. The assistance the Authority could provide to speed up the reform process and help to remove or reduce barriers to distribution price reform that are recommended by Horizon are as follows;
  - i. Removal of the LFC regulations
  - ii. Assist with the provision of accessibility to AMI data
  - iii. To encourage retailers to pass distributor pricing onto consumers

Should you have any questions regarding the contents of this submission please do not hesitate to contact Nigel Hoare Regulatory Manager on (07) 3062972

Yours faithfully



Nigel Hoare  
Regulatory Manager  
**Horizon Energy Group**



## Format for submissions Appendix E

Question	Question	Response
Q1	Do you agree that distributors need to reform their prices? What is the reason for your answer?	Yes. Horizon Networks agrees with the need to reform prices. But as discussed in Horizon letter dated 3rd December 2018 to the Electricity Authority CEO, Horizon Networks has already commenced the journey on price reform and has a future roadmap posted on the web. Horizon Networks is exploring both pricing rationale and pricing options to ensure there is alignment to the pricing objective of pricing congestion and signaling the long run marginal cost of using Horizons network.
Q2	How important and urgent are the issues identified by the Authority?	<p>Delivering price reform that aligns to the EA Distribution Pricing Principles is important for all EDB's. But there needs to be a clear understanding and agreement that an industry roadmap is required so that all technical and data access issues are also considered with the impact on delivering solutions to these issues considered in proposed timelines.</p> <p>In addition, the EA needs to recognize the work and progress being made by various EDB representative groups within the industry including: -</p> <p>ENA the DPWG. And the joint Retailer EDB TIWG where both groups contain representatives from Horizon Networks.</p>
Q3	Do you agree with the proposed Distribution Pricing Principles?	Yes. Horizon Networks generally agrees with the pricing principles of (a), (b), (c), but recommend a (iii) addition of the words " <i>having regard to the extent practical</i> being time and location-specific

		<p>c. Addition of the word '<i>pricing</i>' principles should be transparent and predictable</p> <p>Horizon Networks partially agrees with (d) but requests that the word '<i>distributor</i>' be added in after 'on retailers', as costs incurred for distributors can arise from both retailers and other consumer agents...'</p> <p>No to (e). Horizon Networks recommend the removal of this principle as Horizon Networks views this principle as unachievable due to the unmandated retail pass-through refer 3(e) of the submission.</p>
Q4	What if any changes would you recommend are made to the proposed Distribution Pricing Principles, and why?	Horizon Networks would recommend the removal of the Low Fixed charge regulations.
Q5	What if any changes would you propose to the star-ratings to better reflect the relative efficiency of distribution prices?	<p>Horizon Networks does not support the star rating system and encourages the EA to continue with the engagement with distributors both via the ENA, and individually to maintain the momentum of the price reform and to remain on the journey that the industry has embarked on.</p> <p>Should a star rating system be introduced, Horizon Networks recommends the removal of the seasonal time -of-use price structure as the feedback from seven retailers during consultations has indicated that this is not a welcome pricing structure due to the end consumer reaction with two perceived price increases during the year. Horizon Networks has been informed that seasonal pricing will not be passed through.</p> <p>The benchmarking of success for a distributor should include feedback from consumers which does not appear to be reflected in the proposed star-ratings.</p>



Q6	How long do you think distributors would reasonably need to introduce the different price structures discussed above?	<p>Horizon Networks Future Pricing Roadmap has 1 April 2021 as the target date for the introduction of new price structures on an opt in basis. Given the challenges to develop and refine the new price structures a period of adjustment will be required to mitigate and work through potential price shocks as prices are refined.</p> <p>The TIWG program of work to date should be considered in respect to the challenges to deliver price reform and linked to the challenges highlighted which will all require individual project teams to investigate and resolve.</p>
Q7	Can you illustrate how and to what extent the LFC regulation hinders price reform?	LFC regulation introduces unnecessary complexity into the price signal process.
8	How accurately has the Authority categorised distributor revenues and costs? How could this be done more accurately?	<p>As outlined in Q5 Horizon Networks is not supportive of a rating scheme as distributors are likely to be at varying stages of their roadmaps and it would seem somewhat unfair to star rate distributors in this manner.</p> <p>The proposal in section 6.7 to apply an equal weight to each distribution tariff component where multiple tariff components exist. Horizon Networks would seek to understand the assessment approach the EA would apply for Horizon Networks in the following example. As outlined in question 7 the standard users example Horizon Networks is recovering more than 80% on the fixed charges price which would suggest this should receive more weighting than the remaining 20% revenue recovered through other distribution tariff options available to standard users.</p>
Q9	What if any would be better indicators of the efficiency of distribution prices, or the ambition of and progress being	Horizon recommend the EA continue with the assessment of distributor pricing roadmaps.

	made by distributors on their price reforms?	
Q10	What assistance could the Authority (or other stakeholders) offer distributors to speed up the reform process, or help to remove or reduce barriers to distribution price reform?	Remove the LFC regulations. Assist with the provision of accessibility to AMI data. To encourage retailers to pass distributor pricing onto consumers.