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19 February 2019

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

Email: submissions@ea.govt.nz

Dear Sir / Madam,

Top Energy Submission on Consultation Paper – More Efficient Distribution Prices

Thank you for the opportunity to comment on your consultation paper 'More Efficient Distribution Prices'.

Top Energy acknowledges that distribution pricing reform is required and are committed to introducing pricing which delivers the best outcome for our customers who we provide distribution services for. This commitment has been demonstrated by our significant progress since 2015 and the roadmap that we published in September 2018, which outlines our actions and timelines over the transition of pricing reform.

Although further clarity on the principle principles and pricing reform roadmap is welcome, the pure economic modelling of efficiency approach fails to capture the views or preferences of customers and we believe will lead to suboptimal outcomes. Recent consultation with our key customer stakeholders, which included retailers and consumers, highlighted that a balance between cost reflectiveness, fairness, understandability and predictability is required. This is not adequately considered in the paper.

In addition, further development and consultation is required on the star rating system, for a fit for purpose solution capturing variances across distributors, regulatory constraints and customer requirements.

Furthermore, Top Energy does not agree with the urgency of reform outlined in the paper. Given the issues identified for the urgency of reform are not immediate pressing on the Top Energy network, and the potential economic impact and social consequences on consumers, it is our view that pricing reforms needs to be addressed properly with the quality of the outcomes and transition taking precedence over urgency.

Therefore, Top Energy's believe its current pricing roadmap timelines are appropriate and provide the right balance of the key factors including meter deployment, access to data, ability of retailers to adopt and management of the transition for consumers (price shock and education).

Lastly, Top Energy request, if a formal pricing roadmap template is introduced, that the submission date is extended from 31 March 2019 to 90 days after notification and receipt of the new roadmap template. This will provide enough time to fully develop the new roadmap and complete the appropriate governance process.

A table has been included with specific responses to the 10 questions in the consultation paper.

Yours sincerely

Russell Shaw
Chief Executive

Response to Submission questions

	Question	Response
Q1	Do you agree that distributors need to reform their prices? What is the reason for your answer?	• **Top Energy agrees that distribution pricing reform is required and are commitment to introducing new pricing structures which deliver the best outcome for our shareholders, the consumers who we provide distribution services for.** This includes ensuring consumers can make informed investments decisions and Top Energy can minimise the cost of delivered electricity on our network (as per our Statement of Corporate Intent objectives). • Our business is in a transition from distributing grid supply (DNO) to operating a system of distributed energy resources (DER) where only net powers flows are transported. Generators, load and generation aggregators, are valid users of our network and may or may not be using any grid services. Consumers now have choice over traditional areas of monopoly service provision like security, reliability, capacity upgrade and pricing reform is required to let market services develop and avoid driving undesirable disconnection. • Our commitment to pricing reform has been shown by the steps that we have completed to date. These include: o Greater segmentation of customers for cost allocation ▪ Introduction of separate residential and small commercial tariff groups o Increased recovery of fixed costs through higher fixed charges. From 2016 to 2020 our standard residential and small commercial pricing has increased from \$55 per year to \$438 per year. This has resulted fixed revenue going from approximately 5% to 20% o Time based demand pricing ▪ Time of Use (TOU) rates for large commercial customers ▪ Trial TOU residential prices from 1 April 2020 o Addition of distributed generation tariffs at 0 c/kWh to signal future pricing and communication on application forms for distributed generation • Top Energy's position and reforms to date have been done in conjunction with our stakeholders. Consultation has highlighted that stakeholders understand the need for reform but consider more than cost efficient factors in evaluating what delivers the best 'value' for them and wider community. Other factors highlighted in surveys and face to face focus groups include fairness, practicability, ability to change behaviour in response to signals e.g. demand pricing and socioeconomic considerations. • Our consumers are our owners and therefore it is a necessity for us to consult. If the reform is not a change they support, then it

		won't happen without mandating. This is a hurdle best not rushed.
Q2	How important and urgent are the issues identified by the Authority?	• **Top Energy agree with the Authority that pricing reform is very important and that the issues with the current distribution pricing model need to be addressed**. • **However, given the issues identified by the Authority in section 2 are not immediate pressing on the Top Energy network (see below) and that the impact of reform will have economic and social consequences on consumers, pricing reforms needs to be addressed properly with the quality of the outcomes and transition taking precedence over urgency.** The experience of some distributors 'cost reflective pricing" has been mixed to date emphasising this need. • **Top Energy's believe its current pricing roadmap timelines are appropriate and provide the right balance of the factors considered below** • The consultation presents several illustrations to build a "strawman" on the need for reform. These do not hold true for Top Energy's network meaning that there is no immediate urgency for Top Energy to implement reform: o Figure 3 shows future demand ramping up with EV uptake. We note that total electricity demand has been flat for over 10 years despite the growth in new connections. This has resulted in reducing capacity constraints in many networks. This is Top Energy's experience which will enable us to manage the uptake of EVs without cost distortions in the short to medium term. Note there is only 391 EV registered in Northland (NZTA: This includes Northpower and Top Energy). o Further technology development and convergence is also changing the game rapidly meaning that new technologies may be able to provide solutions identified like that in Figure 2 e.g. load management through EV batteries, batteries, PV solution and other network management services • Therefore, in the short term, we don't expect the following issues stated by the Authority in section 2 to materially impact customers - Increase cost of electricity for all customers - Lead to poorer power quality and power cuts and - Unnecessary investment (that is unable to be directly paid by causers) • Furthermore, given the limited uptake of EV and solar, the current distortions from people shifting their share of costs to others is minimal.

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<tr><td></td><td></td><td>However, Top Energy does recognise that correct signalling to those investing in new technologies is required in the short term to ensure that customers have as much information as possible when making investment decision. To address this Top Energy have signalled in the pricing schedule the potential of a DG tariff and have communicated on the DG application form that charges for solar connections could apply in the future.
The transition to more efficient prices also needs to be managed with customers to ensure the best long-term outcome and results are realised. Our position is stated in our Pricing methodology - Pricing principle 6 - “Price stability and certainty is maintained by signalling changes in advance and by transitioning these changes over an appropriate timeframe to avoid price shock”
In addition, the changes, and reasons why, need to be communicated so all customers can fully understand their options and have time to adjust. This is especially important for low socioeconomic consumer groups who may have least ability to respond.</td></tr>
<tr><td>Q3</td><td>Do you agree with the proposed Distribution Pricing Principles?</td><td>Top Energy acknowledge the purpose for non-mandatory pricing principles however do recommend that:
Consideration of customer stakeholders including consumers is incorporated rather than the principles be just based on efficient pricing e.g. cost reflective and benefits-based methodology. If there is to be no meaningful consultation with our consumer/owners where they can opt out, then we would prefer pricing prescription.
Reference to “where practical” remains as this recognises different requirements and drivers for each distributors network.
Proposed changes and comments in Q4</td></tr>
<tr><td>Q4</td><td>What if any changes would you recommend are made to the proposed Distribution Pricing Principles, and why?</td><td>Agree with proposal not being mandatory. Proposed changes outlined below.
<table>
<tr><th>Pricing Principles</th><th>Changes / Comments</th></tr>
<tr><td>(a) (i)</td><td>“and/or other regulations” should be retained, as the Low Fixed Charge regulations results in a subsidy which arise with compliance.</td></tr>
<tr><td>(a) (ii)</td><td>No change.</td></tr>
<tr><td>(a) (iii)</td><td>Agree with addition of time based
Location is deleted as location specific pricing is</td></tr>
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	already achieved with 29 EDBs. Top Energy has less than 2% of all connections in NZ and doesn't differentiate based on location or density within our network (also supported by consumer consultation).
(a) (iv)	• Agree but needs to be balanced against transaction costs.
(b) (i)	Agree with change in position but "where practical" needs to remain. For clarify would add the following to the end of point b (i) (b) If prices satisfy (a) above, they should be responsive to the r of users and potential users, including by reflecting services (i) where prices based on efficient incremental costs woul where value includes both use and access of the network. Examples of value from access include Baches and premises with Solar.
(c)	The following should be retained • "Changes to prices should have regard to the impact on stakeholders" As a consumer owned business, the impact on our consumers and other stakeholder is a key consideration in transitioning to cost effective pricing and ensuring the best long-term outcomes are achieved. This is reflected in our current pricing principles and is a key component of our pricing reform roadmap. In addition, the changes and reasons why, need to be communicated so customers can understand their options and have time to adjust which is especially important for low socioeconomic groups. This will ensure the benefits of behaviour changes are realised.
(d)	Agree
(e)	Recommend the following amendments: (i) Change connect to "New connections or changes to connection" and (ii) Delete "to use network". • Agree with purpose of the principle however, it needs to be changed to only include components which the distributor can reasonable delivery to the end customer. These components are: o New connections or the addition of

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new loads or equipment that significantly alters load profile within a connection or changes to physical connection standard requirements that distributors

As a distribution company operating under an interposed Use of Systems Agreement we do not set consumer pricing. This aligns with the Authority’s position in the consultation document in section 3

3.22 states that it is the Authority “does not support mandated retail pass through” and
S3.23-3.25 then implies that the competitive retail electricity sector will determine what retail services, including price, will be offered based on customers circumstances and preferences.

The retailer determines the price structures and prices that consumers are charged. Therefore, it is not appropriate that the distributors should meet the requirements of Distribution Pricing principle (e) except for those stated above.

For example, a retailer could offer demand response products and the principle suggests that the distributors should ensure the consumer can know and predict prices i.e. an APP provided, though they don’t know they are on the product or have the same pricing structures

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<td>Q5</td>
<td>What if any changes would you propose to the star-ratings to better reflect the relative efficiency of distribution prices?</td>
<td>
In principle, Top Energy agree with measurement of progress on pricing reform however it needs to be fit for purpose and specific to individual networks requirements and include consideration of customers preferences and requirements e.g. each network’s capacity constraints, future forecast of deployment of new technologies.

Further development and consultation are required on a wider range of options. These could include:

Measure progress against individual road maps and assessing based on delivered / not delivered mechanism
Highlighting specific distributors which have exceeded expectation or are leading the way
Periodic published commentary on distributors roadmaps after consultation

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		Detailed feedback on the proposed star system is below: • **Consider customers' requirements and preferences.** Overall, the star rating system seems based solely on pure economic modelling of efficiency of pricing structures with perfect information. Our research (including focus groups) shows that consumers have strong views on pricing reform and efficiency is only one of these. Other factors include: - Fairness e.g. demand-based price seen as unfair if you an unexpected issue which is beyond your control i.e. flooding - Certainty – demand pricing lead to volatile bills - Transaction costs – for example how do you restrict capacity and who pays - Degree of engagement – consumers have and want different degree of engagements level • **EA to provide detailed rating criteria to evaluate relative efficiency of distribution prices.** The Authority has not published the numeric evaluation methodology to determine the star rating of cost drivers including criteria and weighting. The background in the Appendix doesn't provide this. This is especially important in understanding the weighting of transaction and other costs e.g. providing information. • **Separate criteria for HHR metered customers and non HHR are required.** Distributors do not control the metering at a site and therefore the pricing structures available are limited. Distributors should not be evaluated against criteria that it is not possible to deliver on. This is material on the Top Energy network as only 62% consumers have HHR metering • **Authority to provide rationale to equally weight each of the cost driver ratings** e.g. Network use, network access and network connection • **Given the LFC regulations the required fixed cost recovery percentage of 80% should be adjusted to consider the distortion created**. This could be done by segmenting the weighting into residential and commercial
Q6	How long do you think distributors would reasonably need to introduce the different price structures discussed above?	• **Top Energy's believe its current pricing roadmap timelines are appropriate and provide the right balance of the factors between urgency to implement, implementation issues and managing consumer price shock** • The following has already been implemented o Connection – Direct charge to connecting new users, or those that require a change to supply o TOU prices for large commercial customers o Optional residential TOU prices o Cost based Industrial pricing

		- Increased standard mass market customers fixed costs from $55 to $438 per annum - It is not possible for Top Energy to provide what would be a reasonable amount of time to introduce all the different price structures discussed in section 4 due to: - For 38% of consumers it is not possible to implement TOU, static peak demand charges or dynamic critical demand charges as they don't have HHR metering. In addition to the physical constraints, this creates issues of fairness, consumer confusion and complexity as there is two class of customers - Top Energy does not yet have all the data required to complete the analysis. We have obtained snapshot data for 25% of consumers only - Technical issues of implementation as referred to in 4.5, especially the ability of retailers to provide information which we do not have transparency on need to be addressed. E.g. through consultation in 2018 most retailers would not commit to provide data for billing for TOU pricing - In addition, given the Authority has just published its own view on efficient prices, further consultation is required with stakeholders before any commitment can be made on price structures - Any implementation will need to be phased, which includes compulsion and price level to reduce price shock
Q7	Can you illustrate how and to what extent the LFC regulation hinders price reform?	The LFC regulation doesn't stop pricing reform, we can and are reforming our prices to the extent possible with the LFC regulations e.g. TOU commercial and TOU trial for residential consumers. However, the LFCT will limited our ability to effectively introduce efficient and value-based pricing as determined by the Authority. This distortion is magnified on the Top Energy network due to characteristics of our consumers. - LCFT consumers account for the majority of our consumers, not, as stated, in s4.18 "account for only part of electricity consumed on distribution networks. Currently 45% of consumers are on an LFC tariff and up to 65% eligible. Therefore, the distortion is material. - The distortion of the LFCT will only be magnified if we aligned our pricing structures with cost structures e.g. s6.14 which states the estimated criteria for evaluation is 80% fixed cost and 20% variable cost recovery.

		- Without the LFCT regulations each standard residential consumer would require an appropriate fixed charge of $1000 per year to achieve the 80% fixed costs recovery. This compares to $55 per year under the LFCT. - If the LFCT regulation remains, this difference would be amplified as the under recovery of fixed charges from the consumers that are on LFCT, would need to be achieved from the fixed charges of the remaining consumers. For the residential segment this could require the standard residential fixed charge to increase up to $2,150 per annum or $6/day. This creates less cost reflective pricing. • Therefore, it is not reasonable that we can achieve 6.14, to reflect underlying costs in our revenue structure (Fixed and variable)
Q8	How accurately has the Authority categorised distributor revenues and costs? How could this be done more accurately?	• **EA could provide a reference best practice model for calculation of LRMC and cost allocation**. This would provide consistency across EDBs. The model should include detailed allocations e.g. distribution lines, substation, segmentation of network (rural, urban) which is not currently included in the paper. • The Authority could provide a view on transmission cost recovery and the recovery of other industry levies and allowances which is absent from the paper. This includes how to treat interconnect charges as fixed or variable costs. • We disagree with the target of recovery costs based on 80% fixed cost and 20% variable cost. Earlier guides on distribution pricing methodology concluded 50:50 was a pragmatic compromise balancing cost and risk but acknowledged as arbitrary. The existing system was not built on a cost reflective basis.
Q9	What if any would be better indicators of the efficiency of distribution prices, or the ambition of and progress being made by distributors on their price reforms?	See question 5
Q10	What assistance could the Authority (or other stakeholders) offer distributors in order to speed up the reform process, or help to remove or reduce barriers to distribution price reform?	The following would assist Top Energy in implementing price reform: • Recognition of the requirements and preferences of all customer stakeholders, especially where the consumer is also the owner. • Removal of the LFC regulations to reduce distortions highlighted in this submission and from other parties e.g. ENA. • Require rollout of HHR meters by retailers through the introduction of mandatory targets and timeframes. Currently 38% of customers on our network don't have HHR metering.

		• Set standardised commercial terms and methodologies for the provision of consumption data from Retailers for the purpose of pricing reform. • Standardised cost to serve methodology and disaggregation definitions. • Require retailers to provide billing data in a format required to migrate to cost reflective pricing. • The Authority provide a view on transmission cost recovery and the recovery of other industry levies and allowances which is absent from the paper.