FLICK

3 November 2021

Electricity Authority
P O Box 10-041
Wellington 6145

By email: distribution.pricing@ea.govt.nz

Dear team

Re: Consultation Paper-Distribution Pricing Practice Note

Flick appreciates the opportunity to submit on the Electricity Authority's (Authority) proposed refreshed distribution pricing practice note designed to support reform to efficient distribution pricing.

Flick agrees the distribution sector plays an important role as the sector supports New Zealand's transition to a low emissions economy. The allocation of distributors' costs to consumers can influence their choices about how they consume, and generate, electricity.

We support publication of more details about the Authority's expectations with respect to distribution pricing and what good looks like.

However, our preference would be to have a single document (and not append the August 2019 Distribution Pricing Practice Note to the latest version). The process of combining the two documents will ensure there are no internal contradictions. For example, the Authority indicated at the workshop that Figure 1 on Price-setting methodologies in the current draft is much better than Figure 1 in the August 2019 Note. The combined document could include the August 2019 section on 'Guidance on the application of the Principles' but the August 2019 section on 'Implications of price efficiency for pricing types' is probably superseded by the current draft Practice Note.

Key concepts

Our understanding is that there are three key concepts in the Practice Note: 'network congestion', 'efficient distribution pricing' and 'cost-reflective pricing'.

Network congestion is currently defined in Footnote 3 of the draft Practice Note. The Authority appears focussed on distributors implementing a pricing tariff that targets / signals network congestion. Given this, and the Authority's perspective that congestion is not the same as peak demand, we recommend network congestion be clearly defined in the text of the Practice Note. This definition could be supplemented by the information in the text box on page 4 of the Practice Note that describes how to use congestion pricing.

The most detailed explanation of "efficient distribution pricing" is in the text box on page 5 of the consultation paper (and not the Practice Note).

This definition of "efficient distribution pricing" in the consultation paper does not include any reference to 'cost-reflective'.

The concept of 'efficient and cost-reflective prices' is introduced in the text box on page 7 of the Practice Note. This could imply being 'cost-reflective' is in addition to the pricing being 'efficient'. This is especially so when the Practice Note often refers to only 'efficient pricing', sometimes there are only references to 'cost-reflective pricing' – without the word 'efficient' - and on a few occasions refers to 'efficient and cost-reflective pricing'.

While the Authority might view these two terms to be one and the same, Flick suggests a comprehensive definition of 'efficient cost-reflective pricing' is included in the Practice Note to provide clarity (or the words 'cost-reflective' be dropped).

Flick also suggests the Authority should be clear that the focus for this Practice Note is on implementing efficient cost-reflective distribution pricing for <u>mass market</u> customers only. This is covered off in paragraph 84 of the Practice Note but we suggest this should be more explicit at the start of the document.

Case for change to distributors' tariff structures to target congestion

Using Information Disclosure data collected by the Commerce Commission, 11 of the 39 reporting networks had a load factor of over 60% in 2020. The range was from 41.96% (EA Networks) to 78.9% (OtagoNet). We acknowledge these numbers are load divided by capacity of each entire network, but this is the only data we are aware of that provides any indication of any 'congestion' (other than researching each distributors' asset management plan).

Flick understands distribution companies are also able to manage in real or near-real time flows on feeders within their networks to avoid impacting the quality of supply that occurs when there is physical congestion.

Despite this, there may be a case, or increasing occurrences, when a price signal could be a useful tool for distributors to manage network congestion and encourage mass market consumers to change their behaviour and demand electricity from the distribution network at a different time. We fully support efforts to avoid or defer infrastructure investment and minimise the costs paid by consumers.

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Flick has already implemented nationally a Time-of-Use (TOU) pricing plan. This amplifies any distributor's TOU charges. It has been relatively easy to explain to consumers that there are benefits for the entire system from shifting consumption to periods of lower demand (off peak).

We have asked individual distributors if they are able to share any insights they are gaining about load shifting as they implement TOU charges but are yet to hear any feedback.

From our perspective, there is insufficient publicly available information to know if network congestion is occurring, or more likely to occur, at times other than during what has been traditional periods of highest demand on the network. Thus, TOU pricing is providing a useful signal to manage peak demand and potential congestion.

In our view, passing through to mass market consumers a congestion charge to signal congestion on a particular feeder for a period of a couple of hours a year is overly complex (particularly if this is occurring during a period of time when consumers usually understand overall demand is lower). This added complexity in distribution charges would make congestion charges inefficient for retailers to implement and pass through to end consumers. If congestion charges are absorbed by retailers, consumers do not receive a signal to change behaviour.

Our preference is for more work to be undertaken to implement a standard nationwide framework for enabling and encouraging flexibility products and services. This approach will use payments to consumers to incentivise them to change their behaviour and the way they use the distribution network infrastructure. This contrasts with a 'stick' approach of imposing a higher charge on mass market customers that experience or (unknowingly) contribute to network congestion.

Cost-reflective pricing

The Authority's proposed price structure when no signal is required is 100% fixed daily charge. We suggest 100% of a distributor's costs are not fixed and that the ratio of fixed / variable will differ by network. It would be useful if more information was published / available about this ratio of fixed / variable costs.

Flick's views on achieving expectations on timing for reform

While it is obviously more incumbent on distributors to comment on this, Flick's perspective is that we are currently in the consultation process with individual distributors on their pricing plans for the year from 1 April 2022. These plans have most likely been developed before the Authority published this draft Practice Note. Thus, there is only one, not two, years to 2023 and query whether the Authority's expectations are realistic.

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We welcome the opportunity to discuss our information in this submission with you in more detail.

Yours

James Leslie
Chief Operating Officer

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