

**Stakeholder feedback received on our
August 2017 Delivery pricing
consultation and discussion paper**

Published December 2017



Introduction

This document brings together all of the feedback we received on our August 2017 consultation and discussion paper.

It is ordered by the name of the party, as follows:

Concept Consulting

Contact Energy

Flick

Genesis Energy

Harrisons Energy Solutions

Kea Energy

Mercury Energy

Meridian Energy

MEUG

Powershop

Each party's feedback has a separate cover page. In some cases logos, corporate branding and other formatting have **not** been carried through to this document. In addition a few phone numbers and email addresses have been redacted.

Concept Consulting

Orion delivery pricing. Consultation and discussion paper.

Comments from Simon Coates, Concept Consulting, 22 Sep 2017

Q1. Have we captured the problems with peak pricing?

How should we weight these against the alignment of peak pricing with other pricing principles?

I believe you have captured the problems with peak pricing.

It is important to evaluate likely outcomes from different pricing options to weigh-up costs and benefits of different approaches. In particular,

- the effect of options on key consumer consumption decisions:
 - 'accuracy' of price signal in terms of key consumer investment decisions, and
 - the understandability of the signal for consumers to effectively respond
 - transaction costs
- the extent of undesirable social / political outcomes from options.

Q2. What are your views on our preferred approaches for further investigation? Should we explore these approaches further? What other approaches should we explore, and why? Are there any other criteria that should be applied?

My comments are set out below

Comment on TOU pricing on P15

I don't think TOU pricing and load control rebates are mutually exclusive. I think it will be necessary to have *both* approaches to deliver good outcomes.

I don't think it is necessarily the case that TOU pricing will over-incentivise PV. It depends on the form of TOU price. For example, the modelling I have done indicates that:

- having a shoulder period does over-incentivise PV
- so does a Day/Night structure; but
- a simple pk/off structure significantly overcomes such outcomes (particularly in conjunction with a summer / winter structure).

Comment on dynamic TOU pricing on P15

I don't necessarily agree with the presumption in the paper that it should work "in conjunction with a day/night pricing differential". As noted above, I believe a Pk/Off structure would deliver better outcomes than day/night.

I don't believe it is necessary to have dynamic pricing to deliver efficient price signals. The modelling I have done indicates you can get price signals for the key consumer decisions (particularly appliance investment decisions, and permanent load shifting decision) which are equivalent between 'simple' TOU structures and dynamic pricing approaches.

I also believe that there are significant transaction costs with dynamic pricing approaches, plus increased potential for customers to find them less understandable and actionable.

Further, I believe very high peak prices (such as the \$1.5/kWh you suggest), have the potential to be 'scary' to consumers (and politicians) – engendering opposition to such approaches.

Comment on rebates / credits for controllable load on P16

As noted above, I don't believe having rebates / credits for controllable load are mutually exclusive with having other pricing approaches. Indeed, I believe they will be necessary complements to each other.

I'm not sure I agree with the comment that "*funding the rebates is a cost in itself, and recovering this cost via other prices risks aggravating the non-cost reflective behaviour responses that are at issue.*" I think a rebate – provided it is calculated correctly – is an accurate reflection of the CMD impact (or lack thereof) of such a load. In other words, it is possible to have 'accurate' LRMC-based pricing for uncontrolled load and controlled load.

Comment on P17

I strongly agree with your paragraph which states that "*the peak component [of our current pricing], is cost-reflective, but also brings a level of complexity that is beyond the scope of implementation for residential connections.*"

I also agree with your assessment that just (my emphasis) implementing a static pk/shl/off TOU structure would

- not be adequate for incentivising load control
- could simply shift the peak.
- Would over-reward solar PV

However, I don't agree that more 'dynamic' TOU pricing would offer the best alternative solution. I think it would create unnecessary transaction costs to implement, and also probably wouldn't incentivise load control to an optimal extent.

The analysis I have done leads me to believe that the best option for mass-market consumers would be:

- A simple peak/off TOU structure for uncontrolled loads (potentially also with a summer/winter structure); plus
- Separate tariffs for controlled loads. (Potentially implemented as an inclusive tariff for single meter registers, but ideally implemented with a separate tariff register).

This should send efficient consumer price signals for the key consumer decisions:

- appliance investment
- incentivising permanent load-shifting (where appropriate);
- incentivising consumers to hand-over control of key loads to networks (i.e. hot water, EV charging)

Comment on page 18

I strongly agree that a higher proportion of revenue needs to come from fixed charges in order to be service-based and cost-reflective.

I also think it would meet many residential consumer's desire for predictability and stability in electricity bills.

However, this probably requires networks to give greater thought to load group design and cost allocation [more later]

Q3. Please provide your views on our proposal to implement a 15 cents per connection per day fixed charge for all general connections. Do you agree with the impact analysis above?

Comments set out below

Comment on section 6.1

I strongly agree with introducing a fixed charge.

However, I think better outcomes could be achieved by introducing a separate "Residential" load group, rather than "General".

A separate residential load group would give networks greater flexibility to use cost allocation approaches for the recovery of those 'residual' network costs not affected by future demand to better achieve desirable social / political outcomes.

In relation to this issue, analysis we have pulled together shows how the *reverse* outcomes over the past decades (i.e. significant network cost re-allocation from business to residential consumers) has almost certainly contributed to political concern with the sector, and increased energy hardship for low-income consumers.

We have done analysis which indicates it should be possible to adopt alternative cost allocation approaches between load groups (particularly between residential and business) which would still

be economically efficient¹, but deliver improved social and political outcomes. However, while I believe good outcomes would emerge from such initiatives, as you can imagine, there are some real challenges with implementing.

I would introduce a higher fixed charge for those consumers where you aren't constrained by the LFC regs (i.e. business and residential > 9,000 kWh). Not only would this be more economically efficient, but I think this would be better for those consumers in energy hardship who are most in need: i.e. those on low-incomes but have a high requirement for energy. As per my previous analysis on the LFC, this groups is currently harmed by recovery of network costs through a higher proportion of variable charges than would be efficient.

Comment on section 6.2

I agree with your proposal to increase fixed recovery from the major customers. As per my previous comments, I think there would be merit in networks undertaking a first-principles review of load group design and cost-allocation for recovery of those 'residual' network costs not driven by future demand outcomes.

Q5. Please provide your views on the trade-offs between the more cost reflective and service based pricing, and our perception that the industry and customers are seeking simpler and more standardised approaches.

The modelling we have done indicates that, for mass-market and most business customers, there is no significant trade-off. i.e. The best outcomes will be achieved from approaches which are 'simple'

- a simple TOU structure for uncontrolled loads; plus
- additional tariffs for loads which are controlled.

I believe the only group of customers which may warrant a 'sophisticated' approach such as a CMD-type charge are large industrials. These are the only group who are likely to have the technical capability to undertake active consumer-initiated load shifting for the top <0.5% of the time of system demand. (Noting that active consumer-initiative load-shifting is the only action which isn't delivered by TOU pricing, but is delivered by dynamic pricing such as CMD pricing).

¹ Potentially more efficient depending on whether income-constrained residential consumers are currently significantly foregoing energy services (e.g. under-heating their homes) because of high electricity bills.

Q6. Do you agree that further changes should be applied progressively?

Yes.

However, I think it important to also introduce requirements for consumers who install certain cost-shifting technology to be required to move to 'full-strength' cost-reflective tariffs. This would certainly include solar PV, but potentially also EVs (although the latter could perhaps be better achieved with the 'carrot' of a controlled discount).

Our analysis also indicates that making uptake of cost-reflective tariffs voluntary would be unlikely to deliver good outcomes.

Q7. Please provide your views on a whether the future is likely to encompass a dynamically set or 'spot' price for the distribution service? If you agree, which of the approaches discussed above, and in particular which of our two currently preferred approaches, would be a useful intermediate step?

I personally believe that such futures are a long-way off. Trying to move to a dynamic spot price for distribution would be 'too much, too soon', and could impede moving to more cost-reflective approaches which, while simple, would deliver significant improvements.

That said, I must state the caveat that I haven't considered this issue in any detail.

General other comments

More generally, I wonder whether a continuation with a GXP-based pricing approach will not deliver the best outcomes versus moving to ICP-based pricing.

Contact Energy

Q1. Have we captured the problems with peak pricing? How should we weight these against the alignment of peak pricing with other pricing principles?

The discussion paper provides a good summary of the issues associated with peak pricing particularly if applied to residential customer bills. It should be noted that retailers choosing not to reflect peak charges in bills should not be perceived as an issue given it is the retailer responsibility to manage risks in regard to their customers.

A competitive retail market and the utilisation data from smart meters will be drivers for innovation for retailers to develop products and services which will ultimately manage input costs such as complex network charging methodologies.

Q2. What are your views on our preferred approaches for further investigation? Should we explore these approaches further? What other approaches should we explore, and why? Are there any other criteria that should be applied?

We would welcome a broader industry discussion on the impact of emerging technologies and network load management. Current metering configurations should not be seen as a barrier to pricing reform. The issue raised in the paper of certain pricing structures not being compatible with current load management practices highlights a key issue where it could be said that the current approach with mandatory control by a network is not fit for purpose. Customers must be in control of their load and free to offer it to whichever party they wish.

Although there are drawbacks with “static” TOU pricing there are also issues with dynamic TOU and a rebate or reward/credit system.

It is unclear how dynamic TOU would work in conjunction with load management as described in the discussion document. For example issues would arise if all customers respond to a single price signal. In order to facilitate a more orderly response one option could be to establish a large number of ‘blocks’ (including major customer categories) so that different users can be sent and have the ability to respond to different critical peak TOU price signals at different times depending on the load reduction required.

Although winter-peaking load would typically offer a lesser reward for PV customers there may be instances when load peaks in summer (eg air-conditioning load) that may also need to be taken into account.

It is unclear as to how dynamic TOU would impact customers with export capability (eg in-home batteries) given that any export would have the same benefit to a network as offsetting load. There would also be the question of what the export dynamic TOU network price would be with such a scenario.

It is likely that different technologies will come into play in the next few years that could impact network peak demand and consideration should be given as to how such developments would be treated if dynamic TOU pricing was adopted. Instead of having a continually expanding schedule of assets / credit payments would it make more sense to opt for a technology-agnostic approach and for a network to contract for reduced kW/MW at times of peak demand ?

The document mentions “high price period” however it is unclear if there would be different pricing levels or a single price level imposed. A single high price level may impede the ability

to shape the response to this signal - for example a 20MW reduction may be required in the first time period followed by a 50MW reduction in the second period and a further 20MW reduction in the third period. One option would be to utilise contracted demand response to efficiently shape the demand rather than a single price which will likely result in fairly uniform response. Alternatively would 'blocks' of load management be used to shape the level of response that is required ?

Implementing rebates / credits would need a full assessment of the service parameters involved in load management on a network. Customers should be able to also use flexible energy assets to provide services to other entities such as Transpower and the wholesale market as examples.

Should credits/rebates be built in to the network tariff and passed on via electricity bills, or would these operate as a stand-alone demand response programme ? The former could be regarded as relatively restrictive as this may need to be applied on a network-wide basis and most likely only reviewed annually. A rebate/credit via tariff option would also make it more difficult for non-retailer aggregators to develop services for customers to participate in Orion's credit/demand response program (as customer has to pay the energy service company based on lower bills rather than energy service company paying the customer).

Before the credit/rebate system is implemented more detail as to the structure of network charges that would be implemented (eg 100% fixed / capacity based or a standard TOU component).

Dynamic TOU also needs to take into account the availability of technology and infrastructure to support this methodology. The administration of reward credits also needs to be taken into account and should not be overly complex to implement.

Q3. Please provide your views on our proposal to implement a 15 cents per connection per day fixed charge for all general connections. Do you agree with the impact analysis above?

We don't see any issues with introducing a 15cents a day fixed charge. Given that this change impacts delivery rather than retail costs we would advise caution from a customer messaging perspective to avoid any confusion. We would appreciate the opportunity to work with Orion in regard to this change.

Q4. Please provide your views on these proposed changes to major customer pricing.

We would prefer a phased approach particularly where changes are over 6% and would welcome the opportunity to work with Orion to identify possible benefits for customers and communicate accordingly.

Q5. Please provide your views on the trade-offs between the more cost reflective and service based pricing, and our perception that the industry and customers are seeking simpler and more standardised approaches.

There will be trade-offs between the two paradigms of cost-reflectivity and service-based pricing however our preference is for distribution charges that are simple, predictable and billable.

Retailers manage input costs and we have a strong preference that the charging methodology adopted should not make it overly complex for retailers to manage these costs.

Q6. Do you agree that further changes should be applied progressively?

We agree with a progressive approach however we believe that a structural change should be implemented in full and the pricing differentials phased in over time would be the least disruptive way to transition.

Q7. Please provide your views on a whether the future is likely to encompass a dynamically set or 'spot' price for the distribution service? If you agree, which of the approaches discussed above, and in particular which of our two currently preferred approaches, would be a useful intermediate step?

It is hard to see a dynamically set spot-price for distribution services being feasible to implement in the short-medium term. Low and medium voltage monitoring would need to be available to understand the capacity of the network. It is also arguable as to whether customers would really want to price all of their load. Network upgrades of previously constrained assets may result in customers losing any benefit they had envisaged when investing in energy storage.

Would markets at the distribution level be illiquid and therefore prices easily gamed by limited participants?

It is likely that such a scenario would be complex to administer and incur significant costs for traders and distributors.

Danny McManamon

Network Services Manager

Contact Energy

Flick Electric

Q1. Have we captured the problems with peak pricing? How should we weight these against the alignment of peak pricing with other pricing principles?

In addition to the problems identified it should also be noted that the result of margin risk presented by the uncertainty and residual liability of the peak charge is that Orion customers will pay more. Retailers will pass the perceived cost of the margin risk on to the customer with the likely result being that the customer will actually pay more than the cost.

Flick believes that the key considerations for any pricing structure are:

- Explainable - Pricing is easily explainable to the customer,
- Actionable – The changes in price are predictable or customers can be provided with notifications of price fluctuations on a timely basis so that the price is actionable by the customer, and
- Billable - the price can be transparently passed through to the customers' bill.

We do not consider that a peak demand charge, the magnitude of which is not known for many months, is cost reflective. For a price to be cost reflective it should be known and actionable at the time of use so that the customer can make usage decisions based on the price signal provided to avoid usage in the higher cost periods.

Q2. What are your views on our preferred approaches for further investigation? Should we explore these approaches further? What other approaches should we explore, and why? Are there any other criteria that should be applied?

Flick considers that a combination of the current variable pricing or static TOU pricing and dynamically signalled TOU pricing would allow Orion to provide a more cost reflective pricing structure that is understandable, actionable and able to be transparently passed on to customers.

Flick has converted the Orion peak demand charge to a combination of fixed daily charge and winter peak variable charge. It is our experience that customers will change their usage behaviour as a result of a price signal.

Orion currently does not provide a ICP level price signal for controlled load so the proposed rebates or credits would be one way to recognise the benefit provided by these customers. However, before implementing a rebate or credit scheme Orion should take into consideration the additional administrative costs to retailers of implementing such a scheme.

Q3. Please provide your views on our proposal to implement a 15 cents per connection per day fixed charge for all general connections. Do you agree with the impact analysis above?

Flick is not opposed to the proposal to implement a 15 cents per day charge for all connections. The impact for Flick customers would be different from the Orion impact analysis as Flick has already converted part of the peak demand charge into a fixed daily charge.

Q4. Please provide your views on these proposed changes to major customer pricing.

No response

Q5. Please provide your views on the trade-offs between the more cost reflective and service based pricing, and our perception that the industry and customers are seeking simpler and more standardised approaches.

As mentioned above Flick do not agree that Orion's peak charging aligns with cost reflective pricing. Although, peak charging might provide effective cost recovery for Orion, it does not provide a cost reflective price to the end customer.

In our view, the move to TOU pricing is easier to communicate to customers and will align more closely to the direction in which the Electricity Authority is encouraging distributors to move.

Q6. Do you agree that further changes should be applied progressively?

Flick would prefer to see the changes made in one go, but understands that significant cost changes or rate shock for some customers is not a desirable outcome.

Q7. Please provide your views on a whether the future is likely to encompass a dynamically set or 'spot' price for the distribution service? If you agree, which of the approaches discussed above, and in particular which of our two preferred approaches would be a useful intermediate step?

Flick does not consider that the future is likely to encompass a 'spot' price for the distribution service. However, the dynamically signalled TOU pricing would be a useful intermediate step towards a 'spot' price for distribution.

For any questions relating to this submission, please contact:

Jurjen Geerts

Chief Financial Officer

Flick Energy Ltd

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Genesis Energy



4th October 2017

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Dear Bruce

Re: Orion Delivery Pricing Consultation Paper

Thank you for the opportunity to provide input into Orion's pricing consultation and discussion paper.

3.2 Peak Charge Complexity

Q1. Have we captured the problems with peak pricing? How should we weight these against the alignment of peak pricing with other pricing principles?

Yes. Peak demand pricing does cause the noted complexity, liability, reflectivity, and complexity issues to Retailers, and these can have a flow on effect to the end consumer. To make it palatable the current Peak pricing methodology has weakened the true economic cost of service provision to Retailers.

Genesis Energy would like to see a greater emphasis on the principles around transparency, stability, and certainty for all stakeholders. This will provide benefits to Retailers that can then be passed onto the end consumer.

Q2. What are your views on our preferred approaches for further investigation? Should we explore these approaches further? What other approaches should we explore, and why? Are there any other criteria that should be applied?

With the current level of consumer understanding, and metering capability deployed, the use of a static TOU pricing is an achievable step towards more cost reflective pricing. It is easy for consumers to understand. As more distributors move in this direction it is likely more Retailers will adopt this style of pricing in their retail products. Should

LFC regulations change then a more cost reflective fixed charge would be easy to implement.

More complex signals such as coincident demand, dynamic TOU, and peak pricing are likely to be masked to the end consumer as part of the Retailer's service of managing risk and complexity for the end-consumer.

6.1 Introduce a fixed charge for general connections

Q3. Please provide your views on our proposal to implement a 15 cents per connection per day fixed charge for all general connections. Do you agree with the impact analysis above?

Genesis Energy has no objection to the introduction of the 15c fixed daily charge. We are unable to agree or disagree with the impact analysis provided as we don't have the underlying assumptions and retail rates used by Orion. Customers with higher consumption will be a bigger beneficiary. If correct, it is good to see that many connections will have a minimal cost change.

We already offer Low User and Standard user plans with fixed charges on the Orion network footprint. The change is unlikely to significantly impact our retail customer rates. We will most likely need to variabilise the 15c/day for low users (0.6c/kWh), and then rebalance the fixed and variable Standard user tariffs to ensure crossover for an average customer at 9,000kWh.

6.2 Some changes to major customer pricing

Q4. Please provide your views on these proposed changes to major customer pricing.

The reduced entry level to the Maj category option will provide more customers with a choice between GEN and MAJ. Genesis Energy don't have the ability to assess a customer's potential costs on a MAJ category, would Orion run annual checks to ensure customers are on the best available option? And when customers request an ad hoc review?

The MMD and Fixed cost changes are to the networks calculation methodology so there is no structural change to the Retailer or the customer. The new methodology is supported on the basis of reduced price change volatility. Genesis Energy welcomes Orion's efforts to work with the customers who will be adversely affected by >6%, and to transition their costs.

6.3 Complexity of current arrangements

Q5. Please provide your views on the trade-offs between the more cost reflective and service based pricing, and our perception that the industry and customers are seeking simpler and more standardised approaches.

Just as with any wholesale input cost, we believe that distribution charges should as close as practically possible reflect the actual cost of the service. If this results in what might be perceived as a 'complex'

pricing structure is not really an issue. Part of the value a retailer presents to an end user is taking the complex and presenting it in such a way to give the comfort, control and convenience they require. That said there does need to be a balance in the level of complexity to ensure that the cost of operating and maintaining a price structure does not outweigh the marginal benefit over a more pragmatic solution.

6.5 Rate of change

Q6. Do you agree that further changes should be applied progressively?

To avoid customer confusion and ongoing system development for Retailers it is probably better to introduce structural changes in one go.

If any change (structural, methodology, or rate) is going to cause a cost impact then it is our preference that the cost impact be progressively introduced. For example, Powerco's power factor tariff which was introduced from a set date, with the rate progressively increased over 3 years.

7. Special topic – a spot market for distribution?

Q7. Please provide your views on whether the future is likely to encompass a dynamically set or 'spot' price for the distribution service? If you agree, which of the approaches discussed above, and in particular which of our two currently preferred approaches, would be a useful intermediate step?

Genesis Energy hasn't done a detailed review of this concept. Our aim is to provide our customers with comfort, control, and convenience. This includes managing risk and complexity. A dynamically priced distribution service doesn't have an obvious alignment with what we believe our customers want.

Yours faithfully



Byron Weaver
Energy Services Leader
GENESIS ENERGY LIMITED

Harrisons Energy Solutions

From: Conan Carter <conan.carter@hah.co.nz>
Sent: Tuesday, 29 August 2017 9:53 PM
To: Bruce Rogers
Subject: Re: Orion delivery pricing consultation and discussion paper

Bruce

My feedback is

Embrace solar PV customers rather than ostracising them as a problem for your network

You will need buy in from Solar customers in the future to assist you with load management and treating them fairly and including them in the solution would be what I would recommend

Especially as they will be the battery owners of the future which could provide you with instantly dispatch-able load once mutually beneficial agreement was signed

The myth that Solar customers do not pay there fair share is unfounded

Take myself as an example

I have a Solar PV system that gives me a HWC full of hot water at the end of every day (via a power diverter)

Therefore I never heat my HWC in peak times - It will only boost in the very early hours of the morning if required during winter

Say I was rewarded for this then I am sure many other people could do the same with their Solar PV systems as system sizes increase over time

If I were in your shoes I would imagine a day in the not too distant future where the vast majority of your customer have distributed generation, and then plan for that. This will take your organisation in the right direction

Hope this is usefull

Regards

Carter

Conan Carter, Franchise Owner
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Harrisons Energy Solutions | www.harrisonsathome.co.nz
Check out our Solar testimonial page including our local customer, Steve Hansen
<https://www.harrisonsenergy.co.nz/solar/real-people>

Kea Energy

Hello Bruce,

I had a little talk to Alex today about the discussion paper, I am impressed that you have looked at the positives and negatives of the pricing options you are investigating, and I tend to agree with them.

The question I keep coming back to is what is Orion trying to achieve with its price?

Some of my answers.

- Ability to return ROI.
- Customer loss minutes, to a minimum.
- Power to all.
- Fair prices for all
 - Which brings another question what is a fair price?
 - Do Orion want a fair price or an equal price for consumers?
- I get the impression that the discussion paper makes aware that however you do the pricing those who can afford it “the haves”, will use technology to reduce their power bills, and those who can’t; end up paying for the network that “the have’s” have avoided. Is this the case that part of the discussion paper is angled at? If so there was a good discussion about this on National Radio a few months ago, about solar panels in South Auckland being mainly leased to “the have nots”.

If you have any questions or comments, I am more than happy to discuss them.

If you could please keep me updated about the pricing. I am more than happy to be part of a working group, if you are to set one up, discussing prices on networks.

Kindest

Campbell

Mercury Energy

19 September 2017

Orion New Zealand Ltd
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By email
bruce.rogers@oriongroup.co.nz

Dear Bruce,

Orion delivery pricing Consultation and discussion paper

Mercury welcomes the opportunity to respond to Orion's consultation paper.

Q1. Have we captured the problems with peak pricing? How should we weight these against the alignment of peak pricing with other pricing principles?

Yes the paper by and large captures the problems with Orion's current structure. In our view this structure gives insufficient weight to retailer transaction costs, and the shifting onto retailers of the risks inherent in customer switching.

Q2. What are your views on our preferred approaches for further investigation? Should we explore these approaches further? What other approaches should we explore, and why? Are there any other criteria that should be applied?

We do not accept that the preferred approaches set out in section 5.2, namely Dynamic TOU and Reward/Credit, are appropriate network mass market pricing structures. Either would seem to fail the tests set out in section 2, as follows:

- Fair – The proposed arrangements are likely to unduly penalise low income consumers who are generally both lower use and more peaky than the average consumer.
- Simple and understandable – The mechanisms proposed might be appropriate for a large commercial or industrial consumer, but not for the mass market.
- Provide incentives – This will depend on how the mechanisms are passed through by retailers. Just as the current arrangements are passed through in various diluted or distorted fashions by different retailers, we believe that the proposals, if implemented, would suffer the same fate.
- Enable choice – Arguably, because of the likely different repackagings adopted by different retailers, there could be wide choice of market offers created. However, this choice would essentially be an artificial creation as different retailers employed different levels of approximation.

Customer choice is paramount, and retailers must be free to make a variety of offers to different customer groups. We would propose that Orion follow most other major networks and switch to ICP based, simple (fixed period) TOU pricing. The Vector twin rate structure, with an appropriately priced peak (WD 7-11, 5-9) – off peak differential, is a model. Coupled with Orion's rigorous load control regime, this would engender a better customer response, as it is a structure that both retailers can pass through to appropriate customer segments, and that such customers can understand.

Q3. Please provide your views on our proposal to implement a 15 cents per connection per day fixed charge for all general connections. Do you agree with the impact analysis above?

We support this proposal, if implemented in 2018, so long as it is offset by a reduction in the current peak charge. This is the pricing element that is most difficult to pass through. We would not support any reduction in the current volume based charges.

Q4. Please provide your views on these proposed changes to major customer pricing.

No comments at this time.

Q5. Please provide your views on the trade-offs between the more cost reflective and service based pricing, and our perception that the industry and customers are seeking simpler and more standardised approaches.

Cost reflective pricing is only beneficial to the network, in terms of minimising future investment, if the customer both sees and can respond to the pricing signal. In our view networks need to develop simple pricing that takes in to account likely retailer transaction costs and repackaging, and the duty of the retailer to make available different offers to different groupings of customers.

Q6. Do you agree that further changes should be applied progressively?

Given the difficulties with the current mechanism, and the complications of any progressive transition, we would tend to favour that the cut over was made on one day, say 1 April 2020. To enable a more considered evaluation of this question we would like to see a draft but realistic pricing schedule, with prices based on current revenue requirements. This should set out not only realistic prices but also the exact mechanism and pricing rules.

Q7. Please provide your views on a whether the future is likely to encompass a dynamically set or 'spot' price for the distribution service? If you agree, which of the approaches discussed above, and in particular which of our two preferred approaches would be a useful intermediate step?

We feel that such a future would be unworkable unless all networks including embedded operators agreed on a common mechanism. On current indications such agreement is probably unlikely.

If you have any questions please feel free to contact me on 09 580 3566 or by email chris.posa@mercury.co.nz.

Yours sincerely



Chris Posa

Compliance and Process Improvement Coordinator

Meridian Energy

Q1. Have we captured the problems with peak pricing? How should we weight these against the alignment of peak pricing with other pricing principles?

Meridian agrees you have captured a number of issues with peak pricing. In terms of weighting we believe there are a range of viable approaches. Generally speaking we suggest Orion should endeavour to establish pricing that is as service based and cost reflective as possible in terms of the actual network costs driven by individual consumers. At the same time Orion needs to balance this effort with a degree of pragmatism as pricing should not be over-complicated from a consumer perspective. Ultimately however the task of passing on or rebundling network pricing, as appropriate, is for the retailers trading on your network to undertake.

Q2. What are your views on our preferred approaches for further investigation? Should we explore these approaches further? What other approaches should we explore, and why? Are there any other criteria that should be applied?

Orion's preferred approaches for further investigation seem to us to have merit and we agree Orion should explore them further. However we are less sure that Orion's focus on "supporting the valuable load management status quo" is necessarily an appropriate starting point for assessment of future pricing options or that it will necessarily drive appropriate outcomes. We also query why Orion are not looking at the ENA's nominated or booked capacity option discussed in the August 2017 guidance paper. As described by the ENA (p 77 and following of their paper) this would involve a nominated or booked agreed maximum demand level coupled with a requirement for the customer to go onto a higher capacity (and more expensive) plan for a minimum period of time if the agreed level was breached. In terms of the options that Orion has looked at and taking further Meridian's suggestion that Orion should as a general rule (and applying also a level of pragmatism) look to make its prices as service based and cost reflective as possible:

- The Network coincident peak pricing option seems strongly cost reflective based on Orion's comment that 40% of network assets by value are sized to meet coincident peak load. What are the figures for the other pricing options discussed – this would seem to be a good measure of 'cost reflectivity' and a means of comparing how cost reflective different options are.
- Customer peak pricing is described as not reflective of the cost of the higher network. Assuming this is the low voltage distribution network for which the annual revenue recovered is \$42M (figures from page 8 of your paper) - compared to \$54M for the sub-transmission network and \$65M for the high voltage 11kV distribution network and \$161M across all three components - and that this amount of revenue roughly corresponds to the costs associated with that part of Orion's network, then this represents approximately 25% of the network only i.e. it is relatively un-cost reflective.
- Meridian is broadly supportive of ToU as a pricing option that is potentially more service based and cost reflective than current predominantly volumetric pricing options. We don't understand the Orion comment at p 15 that ToU pricing promotes PV and even if it does promote PV, provided that the form of ToU is appropriately service based and cost reflective we don't see this as a bad thing – the choice of future pricing option should be technology agnostic.
- Taking further the comment we made previously about whether the "load management status quo" is an appropriate starting point we suggest that Orion needs to consider whether the pricing for its various pricing options that allow Orion, to a greater or lesser degree, to control a customer's load are appropriately service-based and cost reflective i.e. do they reflect the relative cost to Orion of providing a lines service that is not subject to

load control and a lines service that is subject to load control. We cannot see any analysis of this issue in Orion's paper. Unless this is done then developing supposedly service-based and cost-reflective pricing options which take the current load management status quo as a given may not produce outcomes consistent with the desired goal of delivering service based and cost reflective pricing.

Q3. Please provide your views on our proposal to implement a 15 cents per connection per day fixed charge for all general connections. Do you agree with the impact analysis above?

Meridian agrees with the impact analysis but questions the timing of this increase with all political parties now signalling an intended review of the LUFC. Furthermore, the introduction of the fixed charge does not seem to address the existing complexity of Orion's current pricing structures so our preference would be to not introduce a fixed daily charge from 1 April 2018.

Q4. Please provide your views on these proposed changes to major customer pricing.

Meridian is still considering the proposed changes. At this point we would however acknowledge the steps proposed by Orion to mitigate customer impacts where possible.

Q5. Please provide your views on the trade-offs between the more cost reflective and service based pricing, and our perception that the industry and customers are seeking simpler and more standardised approaches.

There is a trade-off here and we have already said above that a degree of pragmatism is appropriate. Ultimately we would encourage Orion to be as cost reflective and service based as possible. To a large extent there is greater value to retailers in standardisation of approaches as between distributors, even if the standardised approach is slightly more complex, than there is in distributors producing a wide variety of simple but different approaches. We would encourage Orion to work with other distributors in adopting as standardised an approach as is reasonable given the differences between networks.

Q6. Do you agree that further changes should be applied progressively?

Meridian agrees that changes can be applied progressively but more importantly all intentions to change pricing structures, even progressively, need to be signalled as far in advance as possible. A lot of customers are on fixed price contracts, so ensuring retailers have sufficient advance warning so that they can adequately and fairly recover and reflect network costs within these plans requires clear direction regarding the future direction of any price changes. A never-ending series of progressive changes would be very difficult for retailers to deal with and explain to our customers. To the extent Orion intends to adopt a progressive approach the relevant changes should be signalled years in advance as part of a comprehensive package of sequential changes necessary to achieve Orion's intended end-goal pricing structure rather than announced each year in what might seem to customers to be a never-ending-cycle of price changes.

Q7. Please provide your views on a whether the future is likely to encompass a dynamically set or 'spot' price for the distribution service? If you agree, which of the approaches discussed above, and in particular which of our two preferred approaches would be a useful intermediate step?

Meridian doesn't have any strong views to offer at this stage. It seems Orion as a natural monopoly network owner is likely to be better placed than other parties to decide whether it will introduce dynamically set prices for its distribution services.

MEUG

Hi Bruce

cc Mike (NZIER)

I have discussed with Mike and we have sought feedback from MEUG members.

We have no comments on the proposed changes effective 01-Apr-18 because the changes for general connections are in the right direction and modest. For changes to major customer charging we have insufficient information to provide feedback and we hope individual major customers will provide relevant feedback.

For the longer-term direction and consideration of options we found the discussion paper very good. I mentioned this in earlier emails. It's a topic that requires an opportunity for discussion than toing and froing in email correspondence. If you are in Wellington anytime in the future I wonder if Mike and I could have an hour or so of your time to discuss the longer-term options? We're in no rush; if its this side of Xmas that would be good but is early next year that's OK for us also.

Thanks again for giving us an extension to the deadline to provide feedback. The above comments might not seem like much for the proposed changes from 01-Apr-18; I can assure you we did consider those in detail but the real prize is to get alignment by all parties on the best longer-term path.

Kind regards

Ralph

Powershop

28 September 2017

Bruce Rogers

Orion NZ Ltd

565 Wairakei Road

Christchurch

By email: pricing@oriongroup.co.nz

Dear Bruce,

Orion Pricing Consultation

Thank you for allowing Powershop to provide feedback on your pricing proposals. Below are our specific responses – nothing is confidential unless specifically noted so.

Q1. Have we captured the problems with peak pricing? How should we weight these against the alignment of peak pricing with other pricing principles?

- New entrants to your network can time their start to October, meaning their peak charge is zero for their first six months and gain a very material price advantage.
- Retailers have a perverse incentive to encourage seasonal switching (e.g. switch away May to September, then switch back).
- Retailers have a significant risk of their actual demand (notified in October) changing from their initial estimated value. This means that retailers build risk into the network portion of their charges, which leads to inflation of Orion's network costs.
- Because the charge is essentially impossible to pass-through at 'cost' to mass-market consumers (we couldn't do mass market wash-ups for example), retailers generally smudge this charge over all usage. This means that Orion's signal of peak winter pricing is not passed through to customers, and therefore customer's behaviours are not changing to reduce Orion's need for investment.

Q2. What are your views on our preferred approaches for further investigation? Should we explore these approaches further? What other approaches should we explore, and why? Are there any other criteria that should be applied?

- Powershop believes that service-based, cost-reflective pricing structures need to be tempered with simplicity. Ultimately, retailers will not pass-through something that is too complex for customers, therefore the distributor's signal is lost. Also, different options have varying transactional costs for retailers to implement – especially when considering that there are 29 different distributors who may want to implement different structures.
With these two lenses applied, Powershop are strongly in favour of 'static' TOU pricing. It is likely to be passed-through as customers already understand volume (kWh) charges and can understand peak / off-peak principles. Also, other distributors are already utilising this methodology so retailers' systems have been developed to cope with this.

While this isn't fully "service-based and cost-reflective" as indicated in your consultation document, it could be a good stepping stone for the medium term.

- We note the issue for TOU pricing where metering is predominantly 'All Inclusive', as load control times do not align with pre-determined TOU peak times. Other networks are grappling with this currently and don't have a unified solution. One option, which requires ICP-based pricing, could be to have separate price categories and TOU pricing for All Inclusive and Uncontrolled metering.
- We agree with Orion's view on capacity charges in section 5.1.

Q3. Please provide your views on our proposal to implement a 15 cents per connection per day fixed charge for all general connections. Do you agree with the impact analysis above?

- Powershop are okay with the implementation of a 15 c/day network daily charge. Assuming an exact pass-through, the maximum impact for a single ICP is \$55 p.a. (exc GST).
- Note that there is an impact on retailers for residential low user customers, as previously the 30 c/day maximum would be recovered by the retailer, whereas now their portion is limited to 15 c/day. Retailers may repackage their pricing with this in mind.
- It should only be applied against ICP's with a status of 002.
- We would strongly prefer that this was offset by a reduction in the peak period demand charge. Some quick analysis of our customer base indicates that this charge could reduce by around 10%. This would have the flow-on effect of reducing variable pricing to end customers, while somewhat reducing the issues identified in section 3.2 of your consultation and the points under question 1.

Q4. Please provide your views on these proposed changes to major customer pricing.

- Are there any restrictions to customers moving in and out of this group? With the rebalancing of fixed and variable charges, customers with seasonal usage may arbitrage.

Q5. Please provide your views on the trade-offs between the more cost reflective and service based pricing, and our perception that the industry and customers are seeking simpler and more standardised approaches.

- Powershop's views on this have been covered under Q1 and Q2.

Q6. Do you agree that further changes should be applied progressively?

- Our opinion is that the worst thing that could happen for customers, and for the reputation of the industry, is that something is changed dramatically and then either fails, has to be reversed, or is inpalatable to consumers. This points to a progressive approach. However, some things, like static TOU pricing can be implemented as a step change.
- At the end of the day retailers will continue to respond to their customers, so, regardless of what distributors implement, retailers will only change as much as they believe their customers can stomach.

Q7. Please provide your views on a whether the future is likely to encompass a dynamically set or 'spot' price for the distribution service? If you agree, which of the approaches discussed above, and in particular which of our two preferred approaches would be a useful intermediate step?

- I personally found this an interesting discussion. However I think that the reality of developing such a market is unrealistic, even in the long term. The technological and cultural shift required is too great.

Please be in contact with me directly with any questions related to these responses.

Regards,

Oliver Howitt

Head of Commercial