

**Stakeholder feedback received on our
September 2018 Delivery pricing
consultation and discussion paper**

Published 23 October 2018

Introduction

This document brings together all of the feedback we received on our September 2018 consultation and discussion paper.

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

Electric Kiwi

Flick

Genesis Energy

Meridian Energy

Powershop

Further responses were received from Contact Energy and Powershop and marked as confidential, and are not presented here.



9 October 2018

Orion New Zealand Limited
By email: pricing@oriongroup.co.nz

Dear Bruce

Thank you for the opportunity to comment on the Orion pricing consultation paper for 2019/20.

As we are a residential-based business, our comments are in relation to residential pricing only.

Rather than commenting on each specific question, we provide our general views below.

As you may be aware, Electric Kiwi provides a free hour of off-peak power to customers each day. This provides a sharp price signal for customers to shift consumption to off-peak periods of the day. This, in part, smooths out some of the network peaks as customers have the incentive to use non-essential electricity at off-peak times (e.g. the dishwasher, washing machine etc). As such, this has positive benefits for the distribution network as a whole. We have seen in practice that, because the customer knows they can save money at a predictable time, customers are keen to actively shift their load. Therefore, if there is a predictable price signal, customers will actively respond.

We do not agree that the network-peak based pricing structure is achieving its intended purpose. Although the intention of the current network-peak based pricing regime is to incentivise customers to shift load to off-peak periods by charging an increased rate on actual observed peaks, in reality, the price signal is very difficult to pass directly back to residential customers. Residential customers are usually charged a per kWh rate. So the charge they pay is not directly attributable to their specific contribution to the network peak, especially since the peak charge is charged based on the retailer's contribution to the network peak assessed on a retrospective basis (effectively due to washups). As the charge is not specific to each customer, nor is the feedback timely, the customer has little personal incentive to change the pattern of their consumption. As the charge is not directly charged on a per kWh basis, retailers are then required to forecast the network peak charge, which may be higher or lower, resulting in customers either being overcharged, or the retailer absorbing the cost.

Because of this, we are supportive of TOU based pricing. This strikes the balance between encouraging customers to shift their load to off-peak times, while also being priced in a predictable manner. This allows retailers to package retail price plans in a way where the price signal can be passed onto the end consumer as it is kWh based in nature, while also achieving price differentiation between peak and off peak periods. In addition, this allows customers to be charged directly for their contribution to the network peak, and the feedback is timely because the customer can see what portion of their recent consumption was charged at the more expensive peak rate. As we have seen with the hour of power, if the customer receives a direct price signal, many customers will change their behaviour. As noted in your pricing consultation paper, TOU is not perfect, but it is a vast improvement on the current network-peak pricing structure.



Overall, we are supportive of pricing initiatives that incentivise off-peak usage, to smooth out network peaks, leading to reduced costs of infrastructure, and in the long term, lower electricity bills for the end customer. However, the pricing structure needs to be formed in a way where the end-customer can experience a tangible and timely benefit of shifting their consumption.

If you would like to discuss further, please contact me.

Kind regards

A handwritten signature in black ink, appearing to read 'Cameron Fraser'.

Cameron Fraser

Financial Controller

Orion Pricing and Consultation

Feedback required 5pm on Friday 12 October.

<p>Please provide views on how existing controlled storage heating loads can be accommodated under a static TOU pricing plan</p>	<p>Unfortunately Flick has no view as to how this can be accommodated, given GXP based pricing. Under ICP based pricing separate load groups could be utilised with different pricing.</p>
<p>For any discretionary load that customers might elect to shift in response to a static TOU pricing plan, please provide comments on the options we have provided to spread the load response, or any alternatives you might identify.</p>	<p>Most static TOU plans across other network areas spread the costs throughout the year into peak, off peak and shoulder enabling customers to respond at the various differing price levels inline with tolerances. This form of TOU pricing is understandable, actionable and should spread load.</p> <p>Passing on Orion's costs is ultimately up to the retailers and they will likely rebundle anything that is too complex or unpalatable into another form meaning that any Orion signal is lost.</p>
<p>For customers with PV, please provide your views or suggestions on how we might mitigate the inappropriate reward these customers receive under a static TOU pricing plan.</p>	<p>See first note controlled storage heating.</p>
<p>For customers with battery storage, please provide your views or suggestions on how we might mitigate the inappropriate reward these customers receive under a static TOU pricing plan.</p>	<p>See first note controlled storage heating.</p>
<p>For static TOU pricing plans, please provide your views or suggestions on how we might align the fixed peak price times with our weather dependent peak loadings, avoiding off-peak and shoulder prices applying at times of high load, and avoiding peak prices applying at times of low load.</p>	<p>Applying all the cost of the peak loadings across a short period of time will likely mean that peak pricing is very high. As ultimately passing on Orion's costs is up to the retailers they will likely rebundle anything that is too complex or unpalatable into another form meaning that Orion's signal is lost.</p> <p>Most static TOU plans across other network areas do spread the costs throughout the</p>

	<p>year, these are understandable and actionable despite there being an element of subsidisation.</p>
<p>The Electricity Authority has confirmed that a daily capacity charge ranging from 70 cents per day up to \$3 per day for different size connections would comply with the LFC regulations. In your view, would this be accepted by your customers while the LFC regulations remain in place?</p>	<p>Flick believes that the key drivers that make pricing acceptable to customers is that it is easily explainable and that can be transparently passed through to the customers bill. The pricing should be acceptable by the customer if the proposed prices are a fair representation of the cost to supply the customer.</p>
<p>Please provide your views on our proposed implementation of a universal 15c/day fixed charge for ICPs in our general connection category.</p>	<p>Flick is not opposed to the proposal to introduce a 15c/ day fixed charge for the GEN connection.</p> <p>As we offer Low and Standard User plans with fixed charges (including a portion that has been converted from the peak demand) we will need to rebalance the tariffs to ensure they balance at 9000kWh.</p> <p>As noted customers with a higher consumption will be an initial beneficiary of this move.</p>
<p>Please provide your views on our proposal to further broaden the range where customers can elect to switch between our general and major customer category</p>	<p>No comment</p>
<p>Please provide feedback on our proposal to integrate half hour metering within the management and application of our irrigation interruptibility rebate. We also seek your feedback on your ability to provide this information in EIEP3 format in situations where it originates from advanced meters.</p>	<p>No comment</p>
<p>Please let us know if you have any concerns with ending our generation credits arrangement.</p>	<p>No comment</p>
<p>Please let us know if you have any concerns with the proposed addition of charges for notices when charges are not paid.</p>	<p>This is common in most areas of business. This proposal should encourage retailers to pay on time and ensure that the behaviour is not repeated.</p>

We are aware that some retailer's systems do not support major customer pricing, and a widening of the eligibility may pose a problem for them, particularly if it applies to existing customers of those retailers. We would welcome any feedback on how we might deal with this.

No comment



12th October 2018

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New Zealand

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Genesis Energy Limited

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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.

Our aim is to provide our customers with comfort, control, and convenience. This includes managing risk and complexity. Orion has identified some reasons why Static TOU pricing may not be perfect from a Distributor's perspective, but this needs to be balanced by the complexities and customer appetite for dynamic pricing.

We believe that a static TOU pricing methodology provides a balanced solution to the complex problem of cost reflective network pricing which is understood by customers and can be effectively implemented.

- 1. Please provide views on how existing controlled storage heating loads can be accommodated under a static TOU pricing plan*

Orion has shown that load management is beneficial in its current format despite, in most cases, the GEN network price signal not being directly passed through to the end user. This is because the load management is a physical configuration which is controlled by the network, rather than a price driven behavioural response by consumers. A static TOU price category would not reduce the current load management price signal, or performance.

- 2. For any discretionary load that customers might elect to shift in response to a static TOU pricing plan, please provide comments on the options we have provided to spread the load response, or any alternatives you might identify.*

Discretionary load shifting is the customer's choice. They will make the best cost/benefit decision that suits them. Some will choose lower costs by using timers or shifting load, others will choose convenience.

The 3 options Orion has considered would add complexity that we don't believe consumers are after. Retail products would therefore be unlikely to reflect the multitude of variations in times and rates proposed. Network rates would need to be set in advance for the year. Customer billing is retrospective for immediate prior period (usually month), and will not be washed-up.

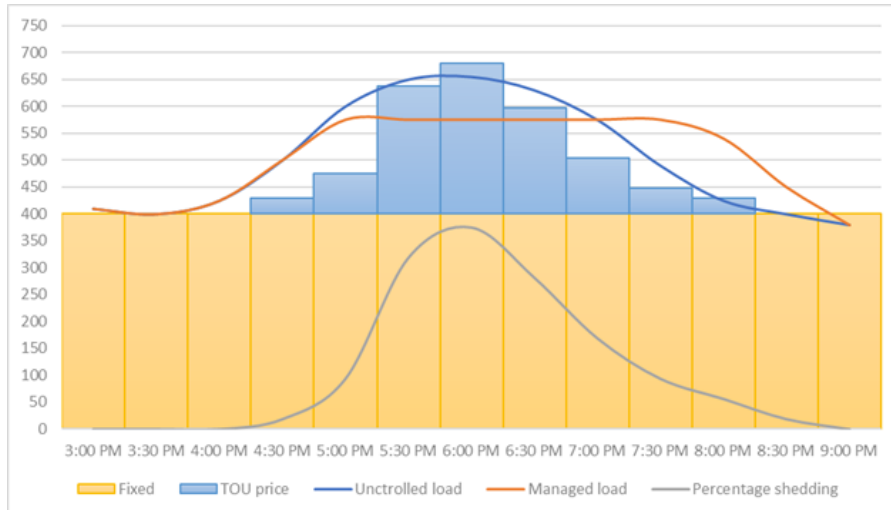
A new entrant Trader that offered spot pricing energy rates, which could be approximated to TOU, is now offering customers fixed flat rates which provide simplicity and reduce uncertainty of dynamic pricing. The vast majority of Residential customers nationally choose to have flat rates and the convenience and simplicity they offer.

3. *For customers with PV, please provide your views or suggestions on how we might mitigate the inappropriate reward these customers receive under a static TOU pricing plan.*

Orion could use static Peak-TOU rates in conjunction with a higher Fixed recovery set at a waterline level that covers both fixed costs and off-peak consumption costs. The Fixed component could be recovered via a capacity charge. This addresses PV/Battery customers who often require the same capacity as normal customers, but then don't cover their full cost to serve as they avoid paying as much for consumption (typically during off-peak times). More costs would be recovered from PV/Battery customers, requiring less/no cross subsidisation by non-PV/Battery customers.

There could be multiple peak rates within a peak period (eg. hourly or half-hour rather, than flat rate for a 4-hour period). Multiple rates would match Orion's load shedding model, and therefore offset reactionary jumps as load comes back on.

Traders would still decide whether to on-charge this capacity tariff, or to keep the status quo with lower fixed daily charges.



- For customers with battery storage, please provide your views or suggestions on how we might mitigate the inappropriate reward these customers receive under a static TOU pricing plan.

Refer question 3

- For static TOU pricing plans, please provide your views or suggestions on how we might align the fixed peak price times with our weather dependent peak loadings, avoiding off-peak and shoulder prices applying at times of high load, and avoiding peak prices applying at times of low load.

The proposal in question 3 would help address this.

We understand Orion's desire to have dynamic pricing but most Retailer pricing to customers is set in advance. We would not be washing up customer bills months later to accommodate retrospective changes in network rates, timings, or price categories.

- The Electricity Authority has confirmed that a daily capacity charge ranging from 70 cents per day up to \$3 per day for different size connections would comply with the LFC regulations. In your view, would this be accepted by your customers while the LFC regulations remain in place?

This may appeal to some customers who prefer higher fixed costs (more certainty) and lower variable costs (less uncertainty). Aggregated packages would be better, eg, 0-2, 3-8, 9-15kW. It would provide Retailers with another option, and would remain a commercial decision on whether a Trader adopted such a charging mechanism into their retail product.

Given the complexity, the likely outcome in the short term is that the network capacity charge would be homogenised into a consumption charge (like GXP demand charges are presently).

While LFC remains in place Genesis would ensure at least 1 product existed that allowed the customer to pay a fixed daily tariff of 30c per day.

7. Please provide your views on our proposed implementation of a universal 15c/day fixed charge for ICPs in our general connection category.

The fixed charge is a standard cost component which Traders manage when building their retail products. The associated change to reduce consumption rates causes a wealth shift from low consumption (RES) customers to high consumption customers (SME/Commercial).

Traders balance their own fixed and variable charges based on their individual costs. The impact on the customer's retail bill will therefore vary by Trader and product.

8. Please provide your views on our proposal to further broaden the range where customers can elect to switch between our general and major customer category

Genesis supports the proposal as it provides options to the customer, and may reduce the cost to serve the customer. However, this drives customers onto higher rated metering which has cost and contractual impacts. It also affects market obligations of Traders.

This would cause issues for Traders, for whatever reason, that don't operate in the C&I space.

Where a customer would benefit from lower network charges by moving to the Major Category, they would also need to consider other cost components such as C&I metering upgrade, higher ongoing metering costs of C&I, and any contracted energy rates.

Are Orion considering a 'Stage 3' threshold reduction in the future?

9. Please provide feedback on our proposal to integrate half hour metering within the management and application of our irrigation interruptibility rebate. We also seek your feedback on your ability to provide this information in EIEP3 format in situations where it originates from advanced meters.

For sites with C&I meters, Orion will already be receiving EIEP3 files each month from our C&I DA (AMS).

The remainder of our IIR sites have AMI. These meters don't record all the fields required for EIEP3 format.

Genesis will supply data via monthly EIEP files that is directly required to facilitate monthly billing. As Irrigation Interruptibility Rebates are calculated and set annually, we would look to provide available data annually when Orion needs it to assess IIR for the upcoming pricing year. This would be processed via a standardised data request template.

10. Please let us know if you have any concerns with ending our generation credits arrangement.

Orion's explanation the ending of generation credits seems reasonable. As the generation credits are between the customer and Orion we are unlikely to understand the exact financial impact this change may have on the end consumer, or their response. The proposed messaging and explanation to affected consumers will be helpful.

11. Please let us know if you have any concerns with the proposed addition of charges for notices when charges are not paid.

No concern.

12. We are aware that some retailer's systems do not support major customer pricing, and a widening of the eligibility may pose a problem for them, particularly if it applies to existing customers of those retailers. We would welcome any feedback on how we might deal with this.

Agree. Retailers will end up with customers that they not set up to support. Clear and timely signalling of proposed changes is important. Orion has attempted to do this by signalling last year the intent to lower the threshold to 150kVA. Orion would need to identify which ICPs are likely to be affected (to their respective Retailers).

Yours faithfully

A handwritten signature in black ink, appearing to read 'BW', with a long, sweeping horizontal line extending to the right.

Byron Weaver
Energy Services Leader
GENESIS ENERGY LIMITED

12 October 2018

Bruce Rogers
Orion NZ Ltd
565 Wairakei Road
Christchurch

Re: Orion Pricing and Consultation Paper 2018

Hi Bruce,

Thanks for the chance to respond. Please find our comments below.

Pricing consultation issues proposed to take effect 1 April 2019

1. Introduce a flat 15c per day fixed charge for all general connections

We acknowledge that this was Orion's intention last year, however the proposal was dropped. It would be great to see the modelled impacts at a customer level of this change combined with an indication on how the overall charges will be impacted to account for this (and the wider overall decrease).

2. Broadening the major customer category (including apply a second incremental increase to the fixed charge)

We support the movement of customers to the major price category. Has there been any thoughts to moving all TOU metered customer to this price category which would ensure their network costs are truly cost reflective from a network perspective?

3. Adjust the qualifying criteria for our interruptibility rebate to require metering information to validate the load and load response

We understand the rationale for this proposal and are comfortable with it on the basis that relevant undertakings are given in relation to the information provided being used for this purpose only, securely stored and deleted when no longer required to fulfil this purpose. Under normal circumstances, we have the ability to provide this information in EIEP3 format. Although the proposal states that the payment of the interruptibility rebate is conditional upon the supply of HH data, we would expect that Orion will make an exception and still pay the rebate in instances where HH data is unavailable or intermittent for reasons beyond our reasonable control, and that the customer would in those circumstances not be disadvantaged by the rebate being withheld. Please confirm this is correct.

4. End the generation credits arrangement

We are comfortable with this on the basis Orion has consulted with impacted customers.

5. Introduce a small charge for issuing failure to pay and default notices

We are comfortable with this.

Pricing consultation issues for wider consultation

In response to section 2 we recognise there are challenges in moving to service based and cost reflective pricing but the agreed efficiencies and savings for New Zealand customers have been estimated at \$2 billion to \$5 billion and Meridian's view is that lines companies need to act to secure these savings. Meridian has consistently supported relatively simple (non-seasonal) TOU structures. While we acknowledge there may be some limitations with this approach, we are confident that given the prize at stake, Orion will be able find an option that is transparent and simple for customers to understand. As such we feel TOU is the most pragmatic option that would meet most requirements for a cost reflective tariff structure.

In relation to section 3 we doubt the EA's proposed approach (separate 'delivered energy packages') is compliant with the LFC as it seems to make a mockery of them entirely (and in particular the prohibition against stepped or tiered charging). Meridian would be very reluctant to commit to a pricing approach that appears to breach the LFC given the criminal sanctions that apply. In any event the apparent LFC issues raised by demand and capacity charging is another reason why Meridian, at this stage and subject to Orion's contrary views, prefers simple TOU structures.

Kind regards
Richard

Pricing and Portfolio Manager

12 October 2018

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 (except for the material provided over email). We note the general tone of Orion's consultation in providing many issues with static TOU pricing. Static TOU is not a perfect cost-reflective solution, but is a good stepping stone to start to educate consumers. TOU applies to discretionary load only, so the network still has the tool of load shedding (which can apply any time) to deal with real-time network constraints.

Q1: Please provide views on how existing controlled storage heating loads can be accommodated under a static TOU pricing plan

- An option is to maintain GXP pricing with static TOU periods *and* the GXP demand charge. This is essentially Orion's current pricing methodology, except that weekday-day volumetric pricing could be a shorter Peak period. This puts the onus onto retailers to repackage pricing for consumers, which could include a lower pass-through cost for inclusive metering if retailers perceive a benefit themselves.
- Another option, which requires ICP-based pricing, could be to have separate price categories and TOU pricing for inclusive and uncontrolled metering. The inclusive price category code would have lower rates which "bakes in" the additional network benefit of being able to control portions of the customer's load. This gives the customer lower peak and off peak pricing, meaning that even though load control times do not exactly match pre-determined static TOU periods, the customer is receiving lower rates than an uncontrolled equivalent.
- Further options could be explored with MEPs and the use of ripple signals. We aren't going to pretend to be experts in this area and will leave it up to Orion to explore.

Q2: For any discretionary load that customers might elect to shift in response to a static TOU pricing plan, please provide comments on the options we have provided to spread the load response, or any alternatives you might identify.

- Orion's consultation seems very cautious about implementing TOU pricing on the basis that customers will significantly change their consumption behaviour on the pricing signals. Our experience of TOU pricing is that *on average* customer's response to time-varying prices of electricity is extremely minor. That is, for most electricity demand in short term is inelastic on price.

Q3: For customers with PV, please provide your views or suggestions on how we might mitigate the inappropriate reward these customers receive under a static TOU pricing plan.

- Other distributors, Unison and Waipa, have mandated that SSDG connections must be on time of use pricing for their grid consumption as they have reached the conclusion that PV installations do not mitigate morning and evening peaks, and generally export during off peak times. This is to say that they have reached the opposite conclusion to Orion.

Q4: For customers with battery storage, please provide your views or suggestions on how we might mitigate the inappropriate reward these customers receive under a static TOU pricing plan.

- Batteries have a very limited penetration so shouldn't be a barrier to moving to more cost reflective pricing. If batteries do receive some additional rewards initially, then so be it. They do help with actual peak periods that do coincide with network peaks and make networks more resilient for natural disasters.

Q5: For static TOU pricing plans, please provide your views or suggestions on how we might align the fixed peak price times with our weather dependent peak loadings, avoiding off-peak and shoulder prices applying at times of high load, and avoiding peak prices applying at times of low load.

- The consultation indicated a rather brief evening "Peak" period (5pm – 7:30pm). If this was extended to 5pm – 9pm, as is now the norm across NZ, then this would capture more peak loadings.
- Static TOU is not a perfect cost-reflective solution, but is a good stepping stone to start to educate consumers. TOU applies to discretionary load only, so the network still has the tool of load shedding (which can apply any time) to deal with real-time network constraints.

Q6: The Electricity Authority has confirmed that a daily capacity charge ranging from 70 cents per day up to \$3 per day for different size connections would comply with the LFC regulations. In your view, would this be accepted by your customers while the LFC regulations remain in place?

- Our view is that customers would view this as a fixed charge, and retailers would find it extremely difficult to 'sell' this to customers as a variable type charge. The obvious implication of this is a call to action for customers to reduce their mains fuses. This will pose significant administration issues for Orion, electricians, and retailers as all customers request to downgrade their fuses.
- The other major problem is that chargeable capacity is not populated on the registry, so retailers have no idea what the connection size is at each ICP. Does Orion hold this data for all ICPs?
- Further issues compound this; such as even with capacity value stored on the registry, we don't know the number of phases supplying each ICP. Our advice for a customer being able to downgrade from single phase 60 Amps would be very different from three phase 20 Amps. Also, would it be the rating at the pole, or the meter? There would obviously need to be a water-tight approval process from Orion, which we imagine would incur an additional fee to the customer.

Q7: Please provide your views on our proposed implementation of a universal 15c/day fixed charge for ICPs in our general connection category.

- Powershop's comments below from last year's consultation are still valid:
- 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 fully 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 strongly suggest 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 from peak pricing (discussed in depth last year).

Q8: Please provide your views on our proposal to further broaden the range where customers can elect to switch between our general and major customer category

- We support the broadening of the eligibility of the major category in general, but have some major issues with its proposed implementation. Orion's pricing policy states that the determination is based on "contracted capacity and/or the 100th highest half-hour loading...". Because these current GEN connections haven't been submitting EIEP3, then this must be based on "contracted capacity"; but Orion do not populate "Chargeable Capacity" on the registry. Therefore retailers don't know anything about the capacity of each ICP. If Orion was to implement this option, then they would need to populate the chargeable capacity on the registry for all ICPs for which it's known asap. This would allow retailers to analyse their customers.
- The consultation states "we intend to assess and contact the customers within the elective range that will clearly benefit by a change in category". We strongly oppose this statement. With a GXP pricing structure, Orion is blind as to what each ICPs network charges are from the retailer, therefore they cannot comment on which option - GEN or MCC(G1) - the customer would be better off on.
- The only way that this can be implemented is for: a) Orion to populate the "contracted capacity" of each ICP on the registry, and b) leave the decision to change price categories up to the retailer and customer.

Q9: Please provide feedback on our proposal to integrate half hour metering within the management and application of our irrigation interruptibility rebate. We also seek your feedback on your ability to provide this information in EIEP3 format in situations where it originates from advanced meters.

- Would this need to be delivered monthly? The consultation makes it sound like an annual review, so could just be provided annually at the time when the review is implemented.

Q10: Please let us know if you have any concerns with ending our generation credits arrangement.

- No. Powershop did not intend to enter into any of these arrangements due to the complex data requirements.

Q11: Please let us know if you have any concerns with the proposed addition of charges for notices when charges are not paid.

- No.

Q12: We are aware that some retailer's systems do not support major customer pricing, and a widening of the eligibility may pose a problem for them, particularly if it applies to existing customers of those retailers. We would welcome any feedback on how we might deal with this.

- See response to Q8; the decision to change is between the customer and the retailer. Not all retailers can support MCC(G1) pricing, so Orion can not be involved in recommending an option to the customer.

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

Regards,

Oliver Howitt

Head of Commercial