Overview of distributor roadmaps for efficient pricing

28 June 2017

Market Design

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1 Overview

1.1 On 17 October 2016, the Chief Executive of the Electricity Authority sent a letter to the Electricity Networks Association regarding a review of distribution price structures. The review is aimed primarily at making pricing structures more efficient, service-based and cost-reflective. The letter requested that all distributors publish a plan for introducing efficient pricing before 1 April 2017, and set out the Authority's expectations as to the content of the plans. Those expectations were that each plan should include:

(a) a clear outline of the processes each distributor will adopt, including the nature of the consultation that will be undertaken with retailers and other stakeholders;

(b) a timeline with key milestones; and

(c) a discussion of distributor resourcing implications, including how resources will be allocated.

1.2 Distributors have responded to the request by publishing a range of information. Many have complied with the request, and addressed each of the points raised in the Authority's letter. Some have not done so, instead indicating their disagreement with the approach suggested by the Authority, and setting out the reasons for that view, along with other information. In several cases the points raised by the Authority have been partially addressed, with the distributor providing information on one or other of the points raised by the Authority, while remaining silent on another. Across all of the responses, there is inconsistency as to the level of detail in the information that distributors have provided, with some responses being very high level and others quite comprehensive. No distributor has failed to respond.

1.3 This document gives a high level summary of the information that distributors have provided. It identifies the key themes in the responses, and makes general observations about the progress that distributors are making (or expect to make) towards reforming their pricing structures. It is set out according to the information provided by distributors about each of the three expectations outlined in the Authority's letter, as referred to above. It is not intended to be comprehensive – rather, it offers a general overview.

1.4 As such, this document is intended to be read with the full summary attached as Appendix B. The summary at Appendix B is more comprehensive, and is provided in table form. It takes the same approach of grouping the information provided by distributors according to each of the expectations set out in the Authority's letter to the Electricity Networks Association. An additional "other comments" category is also included to cover information that does not fall under any of the other categories. Information provided by distributors about time frames (expectation (b) above) has been summarised in table 2 in Appendix B, and is also available in Appendix C in the form of a graph.

1.5 Where responses are substantively similar, they have been merged into one entry in the tables in Appendix B. The entries in tables A, B, and C off Appendix B, are organised alphabetically, while table D is organised by topic.

2 Processes to be adopted by distributor

Expectation (a) – plans should include "a clear outline of the processes each distributor will adopt, including the nature of the consultation that will be undertaken with retailers and other stakeholders".

2.1 Most distributors (26 of the 29) provided information that at least partially addresses this topic – typically addressing either the process aspect of the request, or the consultation aspect of the request, but not both. Overall, the majority of distributors provided a similar amount of detail, with many having much the same intended process. There is some variance within that spectrum. For example, Electra and OtagoNet provided only high level information, identifying their future intentions only broadly. By contrast, MainPower and Eastland Networks set out detailed objectives for the processes they will undertake and the nature of their consultation processes.

2.2 Those distributors that have not provided information on this topic stated that they already consider their prices to be cost-reflective and therefore that pricing reform is not necessary (see, for example, responses provided by EA Networks and Marlborough Lines). Buller Electricity stated that it is premature to develop and commit to detailed implementation plans until guidelines and standards developed by the Authority are closer to completion. In addition, Buller Electricity believes that the immediate need to implement pricing reform is unlikely to be as strong for their business, compared with others, as it is a small rural network.

2.3 Most distributors indicated that they will begin the process with a period of planning and development of options, such as developing strategies to deliver reform, gathering basic data, and undertaking consultation with retailers. Following this, most distributors intend to create more detailed plans by (for example) establishing research programmes and focus groups, conducting pricing trials, and creating implementation and transition arrangements. This will typically be concluded with an implementation and management phase, including (for example) rolling out new pricing options, identifying and managing risks, and monitoring and managing customer responses.

2.4 Some distributors have already started the reform process. For example, Counties Power has selected a future pricing structure and The Lines Company has commissioned an independent review of pricing options. Distributors that have decided on an approach for reform plan to transition to time-of-use price options (see, for example, responses from Electra, Waipa Networks, and WEL Networks).

2.5 In relation to consultation, most distributors intend to work with the Authority, the ENA Working Group, and retailers to inform future pricing structures (see, for example, responses from Counties Power, North Power, and Orion). Reviews may result in significant changes to pricing approaches, and therefore most distributors intend to also undertake consultation with consumers, despite primarily dealing with retailers (see, for example, responses from Electricity Invercargill, MainPower, and OtagoNet).

2.6 A consistent issue raised by distributors is that many of the Authority's proposals rely on a high penetration rate of smart meters. While some distributors are strongly committed to rolling out smart meters in the next two years (such as Network Tasman and PowerNet), others see this as a barrier to cost-reflective pricing (such as Marlborough Lines and Vector).

2.7 Many distributors mentioned that their pricing reviews depend upon action by the Authority (such as changes to the Distribution Pricing Principles, Transmission Pricing Methodology and the Low User Fixed Charge regulations), and any changes to Part 4 of the Commerce Act 1986 (see, for example, the responses from Buller Electricity, Counties Power, Horizon Energy, Marlborough Lines, Orion New Zealand, OtagoNet, PowerNet, and Electricity Invercargill).

3 Timelines

Expectation (b) – plans should include "a timeline with key milestones".

3.1 Some distributors (Alpine Energy, Electricity Invercargill, Marlborough Lines, Orion New Zealand, OtagoNet, and PowerNet) declined to provide a timeline - either because the size of the task is not yet known, or because they believe their prices are already cost-reflective. Electricity Invercargill, OtagoNet, Orion New Zealand, and PowerNet stated that any material changes are unlikely to be implemented before 2020.

3.2 As noted above, most distributors intend to follow a similar process, and have divided their timelines into approximately 4 to 5 stages:

(a) preparatory work and data collection;

(b) consultation and communication;

(c) developing detailed plans;

(d) implementing and transitioning to new prices; and

(e) reviewing progress.

3.3 Approximately half of those distributors who provided information plan to start implementation before 2020. While some distributors intend to implement some changes in 2017 (such as Electra and Waipa Networks), the earliest adopters of changes as a result of this pricing review are MainPower and Network Tasman, which intend to implement changes in the first half of 2018.

3.4 Other distributors either did not provide sufficient detail to be certain about implementation dates (such as Horizon Energy), or only stated that changes are unlikely to be implemented until a certain date (see responses from, for example, Centralines, Unison Networks, and The Lines Company).

3.5 This section is another example of an area where there is inconsistency in the level of detail provided. For example, Electra only provided a date for one change that it intends to make in April 2017, while prospective future changes have no timeframes. Similarly, EA Networks has only indicated that it will undertake a review in the 2017/2018 financial year. In contrast, the responses from Powerco and Scanpower (as examples) are much more detailed. Scanpower has set out which tasks it intends to undertake each year between 2017 and 2021, while Powerco has gone even further by breaking its timeline into quarter and half years to allow for increased specificity in its task completion dates.

3.6 In general, most distributors intend to complete preparatory work and develop plans (including consultation) over 2017-2019, with the implementation and monitoring of the reform occurring from 2019 onwards. All distributors who provided information intend to implement new prices before 2023.

4 Distributor resource implications

Expectation (c) – plans should include "a discussion of distributor resourcing implications, including how resources will be allocated."

4.1 A number of distributors (12 out of 29) did not discuss resourcing implications. Of those distributors who did provide information on this topic, most expect to use internal resources for the majority of tasks (for example, see responses from Horizon Energy Distribution and Network Tasman). Waipa Networks believes that no additional resources will be required for any aspect of the pricing changes.

4.2 Where external assistance was mentioned, this is typically for the purposes of data collection and analysis, consultation, and surveying (see, for example, the responses from Network Waitaki, Scanpower, and WEL Networks). Those external resources include a variety of experts, the ENA, and shareholders and retailers.

4.3 Wellington Electricity, Westpower, Electricity Invercargill, OtagoNet, and PowerNet have unique resourcing requirements. Electricity Invercargill, OtagoNet, and PowerNet have an agency agreement with PowerNet Limited, whereby additional resourcing requirements will be met by PowerNet Limited. Wellington Electricity plans to request additional funding for costs through Commerce Commission allowances, while Westpower intends to issue a request for proposal for a service provider to give an independent view of potential pricing options.

5 Other comments

5.1 Most distributors (23 out of 29) made additional comments outside of the prescribed categories, which fall into five main themes:

(a) the effects of emerging technology (13 distributors);

(b) barriers to reform (9 distributors);

(c) the issues with current pricing (8 distributors);

(d) regulatory restrictions and the low user fixed charge regulations (7 distributors); and

(e) strategies for successful reform.

5.2 Of those who commented on emerging technology, the prevailing view was that emerging technology, in particular solar technology, is likely to impact distributors and customers (see, for example, responses from MainPower and Marlborough Lines). Many distributors were concerned with potential adverse impacts that emerging technology will have on customers (see, for example, responses from Orion, OtagoNet, and Centralines).

5.3 In comparison, Marlborough Lines indicated that although there are concerns about the way that solar generation will impact distribution services, solar connections on the Marlborough Lines network have less impact than providing supply to uneconomic areas or the low user fixed charge regulations. Seven distributors indicated that current distribution price structures that are consumption-based, or based on fixed daily charges, are not cost-reflective or service-based. Scanpower stated that current distribution price structures have the potential to adversely affect the interests of customers and the New Zealand economy. Counties Power and Wellington Electricity support the implementation of cost-reflective prices to avoid the need for expensive network reinforcement expenditure. Buller Electricity supports a move to more standardised distribution pricing as it will limit implementation costs.

5.4 Some distributors commented that successful approaches to pricing reform will likely require collaboration across the sectors, and will need to consider the position of stakeholders and retailers (see responses from Centralines, Unison, and Network Waitaki). EA Networks, Network Tasman, and Network Waitaki see the effects on consumers as important to the success of a reform.

5.5 There were a number of issues raised regarding regulatory restrictions. Some distributors indicated that the low user fixed charge (and other regulatory restrictions) were a barrier to implementing cost-reflective pricing. Other distributors commented that stability is important. For example, EA Networks and Orion New Zealand do not want to make changes if regulations (such as the transmission pricing methodology and the low user fixed charge) are subject to review, as they are likely to affect distribution pricing.