

Summary of updates provided by distributors regarding plans for efficient pricing

23 February 2018



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1 Summary of Information Provided

No.	Distributor(s)	Information provided
1.	Alpine Energy	<p>In response to Carl Hansen's letter dated 8 August 2017, Alpine Energy representatives met with the EA and explained their view as to why they consider their current pricing to be cost-reflective – specifically, because it is based on asset utilisation by customers in each load group. However, Alpine Energy acknowledges that current pricing signals are dulled, and that evolving prices could make those pricing signals stronger.</p> <p>Alpine Energy is not comfortable releasing a roadmap around current thinking as it is still in its early stages. It has, however, provided an update through the ENA's letter "<i>Distribution pricing reform – A roadmap of overall progress</i>". Alpine Energy is currently working with two other EDBs to investigate standard regional cost-reflective prices. If this leads to a viable strategy then Alpine Energy will:</p> <ul style="list-style-type: none"> • release proposed pricing plans to stakeholders for consultation • solidify future pricing and • release a roadmap.
2.	Aurora Energy	<p>As outlined in the information it provided initially, Aurora Energy has proposed four stages to reform. Those stages are:</p> <ul style="list-style-type: none"> • initiating pricing reform • regulatory enablers • planning changes in more detail and • managing rollout of new pricing options. <p>In the information provided most recently, the same four stages were outlined and explained. Since the last information provided, Aurora Energy has completed the communication element (engagement with retailers) of the first stage (initiating pricing reform).</p> <p>Aurora Energy will continue to contribute and participate in ENA pricing working groups and forums – in particular, the Distribution Pricing Working Group (DPWG).</p>
3.	Buller Electricity	<p>Buller Electricity has not released a roadmap. This is consistent with the information it previously provided, in which it stated that</p>

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		<p>doing so would be premature.</p> <p>Buller Electricity has, however, provided its Disclosure of Pricing Methodology (which it publishes on 1 April every year). Chapter 4 relates to costing principles, and states (among other things) that Buller Electricity is committed to recovering costs from consumers using cost reflective prices, and that having adopted a "Building Blocks" method, its load group prices are increasingly cost reflective.</p>
4.	Centralines, Unison Networks	<p>In their initial roadmaps, both Centralines and Unison Networks identified five pricing options for consideration. Those options, at a high level, were:</p> <ul style="list-style-type: none"> • TOU pricing • capacity pricing • demand pricing • distributed generation/solar price category and • improved optional TOU. <p>Both companies have now introduced two of those options – distributed generation/solar price category, and improved optional TOU pricing.</p> <p>Both companies have advised that they are now focused on:</p> <ul style="list-style-type: none"> • continuing to invite customer feedback on the direction of the pricing roadmap and changes already made • actively contributing to industry working groups • advocating for strategic, sustainable and consistent pricing change that delivers on Centralines', Unison's, and the wider industry's goals and • applying best-practice thinking to the local network, and leveraging industry insights to determine how they can best be applied to Centralines' and Unison's unique networks and customers. <p>Both Centralines and Unison Networks restated their expectation that substantive pricing reform will not take place until the Commerce Commission changes the regulatory requirements in 2020.</p>
5.	Eastland Network	<p>As indicated in its original roadmap, Eastland Network has divided the project into five key parts. Those parts, at a high</p>

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		<p>level, are:</p> <ul style="list-style-type: none"> • planning and preparation • building capacity • communication and collaboration • test and review and • implementation <p>The roadmap itself is unchanged. However, since the last information provided, Eastland has made progress on the early stages of the project as follows:</p> <ul style="list-style-type: none"> • a high level plan has been completed • a detailed project plan outlining expected outcomes, key tasks, milestones, resources and budgets is 50% complete • a new CoSM to enable the calculation and analysis of advanced pricing tools is 15% complete and • a review of processes and systems to determine suitability and capability for delivering pricing reform is 5% complete.
6.	EA Networks (Electricity Ashburton)	<p>In the initial information provided, EA Networks stated its view that fundamental pricing reform is unnecessary. Nevertheless, EA Networks advises that, since the last information provided, it has:</p> <ul style="list-style-type: none"> • commenced its biannual Customer Survey, which, while not specifically for the purposes of pricing reform, will assist in shaping its pricing strategy • engaged at the regional level with other EDBs to work on pricing reform matters, in addition to the work done at the national level with the ENA and • joined the ENA Distribution Pricing Working Group sub-group (Strategic Pricing Working Group) to work more closely on pricing matters.
7.	Horizon Energy Distribution	<p>Horizon has been progressing its pricing reform plans according to its roadmap. Since the last information provided, Horizon has:</p> <ul style="list-style-type: none"> • had ongoing discussions with other distributors, the ENA, and ERANZ • established meetings to commence consultation with

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		<p>retailers and metering equipment providers and</p> <ul style="list-style-type: none"> • circulated a brief consultation paper to facilitate discussions. <p>Horizon has also provided a list of future key milestones and their expected completion dates, ranging from refining reform plans and developing details plans (April and June 2018) to setting prices (December 2019) and implementing the new pricing structure (April 2020).</p>
8.	MainPower	<p>In its initial provision of information, MainPower advised that one of its first steps would be to consult customers and the community to ensure that their feedback would inform how pricing structures are set, and that any changes would be implemented from 2018 onwards. Since the publication of that initial roadmap, MainPower has:</p> <ul style="list-style-type: none"> • engaged external advisors to undertake an impact assessment of the main pricing options identified in the Electricity Networks Associations paper "<i>A Guidance Paper for Electricity Distributors on New Pricing Options</i>"; (http://ena.org.nz/dmsdocument/39) • requested consumption data from retailers to inform this analysis (MainPower requested this information in May, but, to date, has only reached final agreement in relation to this with one retailer) and • progressed refinements of its current pricing structure. <p>MainPower advises that difficulty accessing consumption data is impeding its progress.</p> <p>MainPower anticipates that the first cost-reflective pricing options will be introduced in 2019.</p>
9.	Marlborough Lines	<p>In its initial provision of information, Marlborough Lines indicated that it was not convinced of the applicability of totally cost-reflective pricing to its business. It identified several key impediments to widespread implementation of cost-reflective pricing. In this latest correspondence it has restated three, being:</p> <ul style="list-style-type: none"> • the LUFC regulations • the significant costs associated with uneconomic lines and the requirements for continuation of supply and • the low penetration of smart meters on the Marlborough

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		<p>network.</p> <p>Marlborough Lines considers that the low penetration of smart meters prevents it from implementing three of the four pricing types that are considered to be options for pricing reform thus far.</p> <p>Marlborough Lines advises, however, that it is addressing some issues in relation to cost-reflective pricing. For example, Marlborough Lines intends to adopt the industry standard approach for power factor charges, and is undertaking a review in relation to pricing irrigation connections. It is also undertaking detailed analysis of the costs of servicing customers in remote areas. In addition, Marlborough Lines advises that it is:</p> <ul style="list-style-type: none"> • monitoring the uptake of alternative technologies (eg, solar installations) • monitoring the uptake of smart meters. Marlborough Lines has been informed that one retailer plans to commence a trial rollout of smart meters on the Marlborough network • giving careful consideration to cost-reflective pricing, given the low service intensity on its network. Low service intensity usually indicates a higher cost of providing network services and makes the risk and impact of alternative technologies more significant.
10.	Network Tasman	<p>In its initial provision of information, Network Tasman identified two key work streams for progressing its pricing review. Specifically, a review of existing price structures, and the identification of new, longer term pricing options. Since then, it has been progressing those work streams. Progress in the last six months has included:</p> <ul style="list-style-type: none"> • the development of a TOU pricing option • the standardisation and rationalisation of its existing price schedule • initial consultation with retailers • an assessment of options to reduce reliance on kWh charging • research and analysis of new technology adoption and • participation in the Distribution Pricing Working Group and ENA initiatives to explore future pricing options.

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11.	Network Waitaki Limited	<p>Network Waitaki advises that, in accordance with its initial roadmap, it has begun a review of current price structures and impacts, and has started to identify the cost-reflective and service-based price structures that it considers are possible within the current constraints (such as the LFC Regulations and data access issues).</p> <p>Network Waitaki expresses concern that a move to price structures with less emphasis on volume will have a higher impact on low volume consumers.</p> <p>Network Waitaki responds to the comments from the Authority's letter to distributors as follows:</p> <p><i>It is imperative that EDBs work with the rest of the industry, including other EDBs and retailers and in this regard the EA is supportive of a joint EDB/ERANZ working group</i></p> <ul style="list-style-type: none"> • Network Waitaki will be monitoring and participating in the ENA and ERANZ working groups to ensure that that its actions are consistent with other industry stakeholders. <p><i>EDBs cannot undertake reforms in isolation. Distributors need to work with the rest of the electricity industry to ensure that the changes they are making can be integrated with the rest of the industry.</i></p> <ul style="list-style-type: none"> • Network Waitaki has in this regard met with South Island EDBs to discuss potential collaboration on the development of price structures. <p><i>EDBs are expected to reform price structures as quickly as practicable and be mindful of the speed at which evolving technologies are changing.</i></p> <ul style="list-style-type: none"> • Network Waitaki's roadmap stipulates 2021 as the year of implementation of revised price structures. It views this as a realistic and responsible timeframe that will provide sufficient time to view the outcomes of ENA and ERANZ working groups, to consider revised EA pricing principles, to collaborate with other EDBs, to consult with customers and to analyse potential impacts. <p><i>The party that has the contract with individual consumers should be broadly responsible for communicating how changes in distribution pricing will effect them. EDBs should be careful</i></p>

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		<p><i>when communicating with consumers on distribution price structure changes as this may be confusing.</i></p> <ul style="list-style-type: none"> • Network Waitaki will consult with retailers trading on its network regarding future price structures. In this regard it agrees that distribution price structure changes can be confusing to consumers and communication should be well thought through. <p><i>EDBs are expected to reform price structures as quickly as practicable and be mindful of the speed at which evolving technologies are changing.</i></p> <ul style="list-style-type: none"> • Network Waitaki's roadmap stipulates 2021 as the year of implementation of revised price structures.
12.	Northpower	<p>Northpower's roadmap is unchanged since information was last provided to the Authority. It has provided its roadmap again, which is in table form, but has made no additional comments. Several of the activities in its first stage "initiate pricing reform" were due for completion by the end of 2017. However, it is unclear, from the information provided, whether or not this has occurred.</p>
13.	Orion New Zealand	<p>Orion advises that, although the Authority is expecting six-monthly updates, it intends to provide annual updates with its pricing methodology in February each year. In the meantime, it has provided a short letter, in which it states that, since the last information provided, Orion has commenced consultation with stakeholders about future changes (including releasing a detailed consultation paper, a copy of which it has attached to its letter) and engaged a research company to assist with direct customer consultation on pricing. Orion's letter notes that it intended to hold a number of focus groups in October/November 2017.</p> <p>As outlined in the consultation paper released to stakeholders, Orion considers that two options identified in the ENA guidance paper warrant further investigation and analysis:</p> <ul style="list-style-type: none"> • an arrangement of credits/rebates where the consumer provides access to distributors to manage certain technologies; and/or • an arrangement that changes coincident maximum demand pricing into a dynamic per kWh price.

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14.	OtagoNet Joint Venture, The Power Company Limited, Electricity Invercargill	<p>These companies provided separate updates, but all used the same template to do so. All three companies noted that:</p> <ul style="list-style-type: none"> • no decisions have been made on any changes • submissions on the ENA's consultation paper "New Pricing Options for Electricity Distributors" will be an important input in the review process • they are currently rolling out smart meters (to be completed in 2019), which is a key first step • having established initial consumer views, further rounds of consultation are expected and • material changes to pricing are unlikely before April 2020. <p>All three companies have all completed internal pricing options analysis, and have selected two service-based and cost-reflective options for further exploration and analysis.</p>
15.	Top Energy	<p>Top Energy has re-released the timeline included in its initial provision of information. That timeline showed that their intended process is broken down into four stages. Some parts of the first stage have been completed, as follows:</p> <ul style="list-style-type: none"> • Initiate pricing reform (2017-2020) <ul style="list-style-type: none"> ○ Problem identification and discovery (completed) ○ Develop strategy to deliver reform (completed) ○ Define overall objectives for reform (completed) • Plan changes in more detail (2018-2021) • Manage roll out of new pricing options (2020-2023 and beyond) • Regulatory enablers (2020-2021). <p>Top Energy also refers the Authority to ENA's update, for information regarding the overall progress of its members.</p>
16.	Vector	<p>Vector has been continuing consultation with its customer trust owner, Entrust, and customers, as anticipated in its initial provision of information. One of the results of this has been an indication that 80% of customers prefer new pricing plan concepts over current pricing.</p> <p>The timeline provided appears to indicate that, in 2017, Vector:</p>

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		<ul style="list-style-type: none"> completed a customer pricing engagement survey engaged external pricing consultants and distributed possible pricing plans for review.
17.	WEL Networks	<p>WEL Networks has undertaken the research mentioned in its original provision of information (including focus groups) and found that of the customers that had a preference for future pricing options over existing options. There was a particular preference for TOU.</p> <p>WEL Networks has also completed analysis of the potential barriers to an en-masse move to TOU pricing, which included:</p> <ul style="list-style-type: none"> non AMI metering non-communicating AMI metering the quality of HHR data and retailers' ability to use HHR data. <p>WEL Networks has also undertaken customer impact analysis. The results show minimal impact to consumers' distribution charges when transitioning to TOU pricing.</p> <p>Based on consultation with retailers in September 2017, WEL Networks has proposed a revised pricing structure, but is currently awaiting further feedback from retailers before this is finalised for Board approval.</p>
18.	Counties Power, Electra, Nelson Electricity, PowerCo, Scanpower, the Lines Company, Waipa Networks, Wellington Electricity, and Westpower	No updated information provided.

2 Timelines

No.	Distributor(s)	Information provided
19.	Alpine Energy	Alpine Energy will release a timeline if it finds that cost-reflective pricing is a viable strategy.
20.	Aurora Energy,	These companies advised that their timelines are unchanged

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	Centralines, Unison Networks, EA Networks (Electricity Ashburton), Eastland Network, Network Tasman, Network Waitaki, Northpower, WEL Networks	from the information previously provided. Refer to the summary table (table 1) for an indication of their progress.
21.	Buller Electricity	In line with its earlier statements that releasing a roadmap for a future cost-reflective pricing strategy would be premature, Buller Electricity has not released a timeline.
22.	EA Networks (Electricity Ashburton)	In its first submission EA Networks stated that it would only publish a plan once it has formulated a detailed plan for change. It is still engaged in the information and discovery process it referred to in its initial information provided and is yet to publish a timeline
23.	Electricity Invercargill, OtagoNet PowerNet (The Power Company Ltd)	These companies advised that they still do not have a detailed timeline or milestones as the size of the task is not yet known. Refer to the summary table (table 1) for an indication of their progress.
24.	Horizon Energy Distribution	<p>Horizon has been progressing plans according to its initial timeline. Horizon has provided more specific detail as to timing for tasks from 2018 onwards:</p> <p>2018</p> <ul style="list-style-type: none"> • March: complete consultation • April: refine pathway • June: develop detailed plan for change, system evaluation, and cost of supply model. <p>2019</p> <ul style="list-style-type: none"> • March: internal pricing model trials • June: system implementation/changes • December: communicate plans and consult with retailers. <p>2020</p> <ul style="list-style-type: none"> • April: go live. <p>Ongoing: review progress.</p>

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25.	MainPower	MainPower did not provide an updated timeline but advised that it now expects implementation to begin in 2019, rather than in 2018.
26.	Marlborough Lines	Marlborough Lines has not released a timeline as it remains unconvinced that cost-reflective pricing is necessary for the Marlborough region.
27.	Orion	<p>In its initial information provided Orion did not provide a timeline. It still has not done so.</p> <p>In its most recent information provided Orion referred to the fact that timeframes for elements of the Authority's work programme (TPM and distribution pricing principles) have slipped materially, and that it does not expect clarity on Transpower's operational review of the TPM until sometime in 2018.</p> <p>As a result, Orion remains of the view that material change is unlikely to occur before 1 April 2020 – in the interim, Orion advises that it will continue to work on options, seek further input from customers and remain actively engaged in the ENA's pricing reform process.</p>
28.	Top Energy	<p>Top Energy has re-released the timeline mentioned in its initial provision of information. As indicated previously, its process is broken down into four stages, which are to:</p> <ul style="list-style-type: none"> • initiate pricing reform • plan changes in more detail • manage roll out of new pricing options and • regulatory enablers. <p>Some tasks in the initiation stage have been completed – specifically, problem identification and discovery, the development of a strategy to deliver reform, and the definition of the overall objectives for reform.</p> <p>Top Energy has added three tasks to its timeline:</p> <ul style="list-style-type: none"> • 2017/18: consumer consultation through customer focus groups, which has been added to the "initiate pricing reform" stage • 2018/19: trial new pricing structures with customers, which has been added to the "plan changes in more detail" stage and

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		<ul style="list-style-type: none"> 2020/2021: change form of price control from Weighted Average Price Cap to revenue CAP, which has been added to the "regulatory enablers" stage.
29.	Vector	<p>Vector's timeline is largely unchanged from the initial information it provided, with the exception of a new stage that has been added:</p> <ul style="list-style-type: none"> 2020: implementation phase of any new price plans with introduction of a revenue cap.

3 Distributor Resource Implications

No.	Distributor(s)	Information provided
30.	Alpine Energy, Buller Electricity, Centralines, EA Networks, Horizon Energy Distribution, MainPower, Marlborough Lines, Network Tasman, Network Waitaki, Top Energy, Unison Networks, Vector, WEL Networks	These companies did not provide updated information about distributor resource implications.
31.	Aurora Energy	Aurora Energy indicated that it will primarily use internal resources but will complement this with external consultants if and when required.
32.	Eastland Network	As outlined in its initial provision of information, Eastland intends to use a combination of internal and external resources.
33.	Electricity Invercargill, OtagoNet, PowerNet (The Power Company Ltd), Orion New Zealand	<p>These companies advised that there are no changes in relation to resourcing implications since information was last provided to the Authority.</p> <p>As outlined in their initial provision of information Electricity Invercargill, OtagoNet, and PowerNet have an agency agreement with PowerNet Limited, as part of which, additional resourcing requirements are to be met by PowerNet Limited.</p> <p>Orion previously indicated that its pricing reform would be largely internally resourced, although some third parties may be involved for certain tasks such as consultation.</p>

4 Other Comments

Comments on the LUFC regulations and regulatory restrictions

No.	Distributor(s)	Information provided
34.	OtagoNet, The Power Company Ltd, Electricity Invercargill, Eastland Electricity	These companies restated their view that the potential changes to the LUFC regulations are an important consideration in the setting of a detailed timeline and milestones.
35.	Orion New Zealand	Orion stated that Authority's guidelines on variable changes under LUFC regulations do not solve the fundamental problem, and that LUFC regulations continue to be the principal barrier to more cost-reflective pricing.
36.	Marlborough Lines, Network Waitaki, Vector	Marlborough Lines and Network Waitaki restated their view that the LUFC regulations are a barrier to pricing reform. Vector has also stated that it sees the LUFC regulations as a barrier, but did not previously comment on this issue in its initial provision of information.

Comments on emerging technology

No.	Distributor(s)	Information provided
37.	Marlborough Lines	<p>Marlborough Lines noted that it has a higher rate of solar technology use than the national average, although the rate of uptake has slowed to be lower than that of the national average.</p> <p>Marlborough Lines also noted that it has low service intensity, which generally indicates a higher cost of providing network services and makes the risk and impact of alternative technologies more significant.</p>
38.	Electricity Invercargill, OtagoNet, The Power Company Ltd	<p>These companies repeated the comments made in their initial provision of information, which were that over-rewarding the use of solar runs the risk of pushing costs onto households without solar.</p> <p>These companies also restated their view that current distribution pricing (which is 50% based on consumption) runs the risk of slowing the uptake of electric vehicles and encouraging the uptake of solar.</p>

Barriers to reform

No.	Distributor(s)	Information provided
39.	Marlborough Lines	In addition to the LUFC regulations, Marlborough Lines outlined two other impediments to the widespread implementation of cost-reflective pricing: <ul style="list-style-type: none"> • the costs associated with uneconomic lines and the requirements for continuation of supply; and • the low penetration of smart meters.
40.	Network Waitaki, MainPower	Both of these companies stated that difficulties in accessing data were a barrier to reform.
41.	Orion New Zealand, Vector	Both of these companies consider that uncertainty and mixed messages about the TPM process present a barrier to reform.
42.	Vector	Vector outlined a number of barriers to reform, in particular: <ul style="list-style-type: none"> • it repeated concerns that: <ul style="list-style-type: none"> • changes to pricing structure will satisfy economic theory but not customers • the retail market is reluctant to change • the TPM is uncertain/there are mixed messages, and • the EA pricing principle review • bill transparency and • the lack of access to half-hourly data.
43.	MainPower	MainPower commented that consumption data is needed in order to evaluate pricing options and modelling, and assess the impact of each option on customers.

Other comments

No.	Distributor(s)	Information provided
44.	Marlborough Lines	Marlborough Lines has restated its proposal of a vegetation levy for consumers in areas where vegetation management costs are disproportionate to the costs in other areas.

Glossary of abbreviations and terms

AMI	advanced metering infrastructure
Consultation Guidelines	Guidelines for consulting on distributor tariff structure changes
CoSM	cost of supply model
DPPs	distribution pricing principles
EDBs	Electricity Distribution Businesses
ENA	Electricity Networks Association
ERANZ	Electricity Retailers' Association of New Zealand
H1	first half
H2	second half
HHR	half hour metering
ICP	installation control point
LUFC	low user fixed charge
Q1	first quarter
Q2	second quarter
Q3	third quarter
Q4	fourth quarter
RFP	request for proposal
TOU	time of use
TPM	transmission pricing methodology
UoSA	use of system agreements