

# Electricity Pricing Reform Roadmap

Update: April 2023



## You're using our network differently – and we're evolving the way we price

This document outlines how our pricing structure is evolving over the next few years.

### WHY EVOLVE?

There are two ways to measure the usage of our network: the total energy distributed through it, and the peak demands that are created when a lot of our customers are using electricity at the same time. Our network must be designed so it can handle those peak demands without the quality of service being affected, which requires a higher level of investment than if energy usage was constant.

Developments in technology are changing the way customers use electricity which is influencing how and when these peaks occur – they are also providing solutions to how we optimise the network. Technology such as electric vehicle (EV) charging and solar photovoltaic (PV) generation are impacting demand throughout the day and year. Smart metering offers more information and the ability for pricing to align with demand where and when it's useful. Load management options, like battery storage, also mean that consumers can react to pricing signals.

### WHAT ARE WE DOING?

We're evolving the way prices are structured to better reflect the costs and services we provide at different times of the day and across different parts of our network. This generally means charging a higher rate for delivering electricity during peak times, versus a lower cost at off-peak times. Thus, investment to handle the peaks is funded by those that contribute the most to these peaks. This allocates the costs of the network more efficiently.

Future changes to the fixed-variable makeup of our prices will coincide with changes to regulations affecting their make-up along with the future investment requirements for the network.

### WHAT DOES IT MEAN FOR YOU?

Retailers package our prices together with the cost of electricity in different ways. Over time we expect you will move to a pricing plan that differentiates between peak and off-peak usage.

Our distribution charges account for around a quarter of your overall electricity bill. Changes to our prices relate only to that portion of your bill. Your retailer can help you understand how they bundle our pricing into your bill.

We are aware of the impact pricing changes may have on customers and keep this in mind when looking at our new pricing structures.

For current pricing updates and changes to pricing for this financial year, as well as our Pricing Methodology, please view our disclosures at <https://www.powerco.co.nz/who-we-are/disclosures-and-submissions/electricity-pricing>

To provide feedback or ask questions about the content in this Electricity Pricing Reform Roadmap, please contact us at [pricing@powerco.co.nz](mailto:pricing@powerco.co.nz)

## Our current pricing approach varies – depending on which region you're in

Powerco's Eastern and Western regions use different pricing methodologies and structures which are mainly based on the historical arrangements for these networks. Within each of those regions is a range of price categories for different consumer types. These groupings are different between the regions, and we intend to improve the alignment of these over the next few years.

The fundamental difference between each region is where we measure the quantities used to calculate electricity distribution charges.

### Eastern Region

We use an Installation Control Point (ICP) pricing methodology in the Eastern Region. This means we charge retailers based on the connection type and consumption of their individual customers, with consumption data coming from smart meters where available. Our pricing is based on the measured quantities as the electricity leaves our network and into your home.

### Western Region

In the Western Region we charge retailers for the total electricity used across all their customers at each of the 17 Grid Exit Points (GXP) in the region. Pricing is based on the measured quantities of electricity as it comes into our network.

Regardless of which region you are in, retailers choose how they pass these charges on to you, based on the metered consumption at your home, and bill you accordingly.



## We are progressing toward a single pricing structure

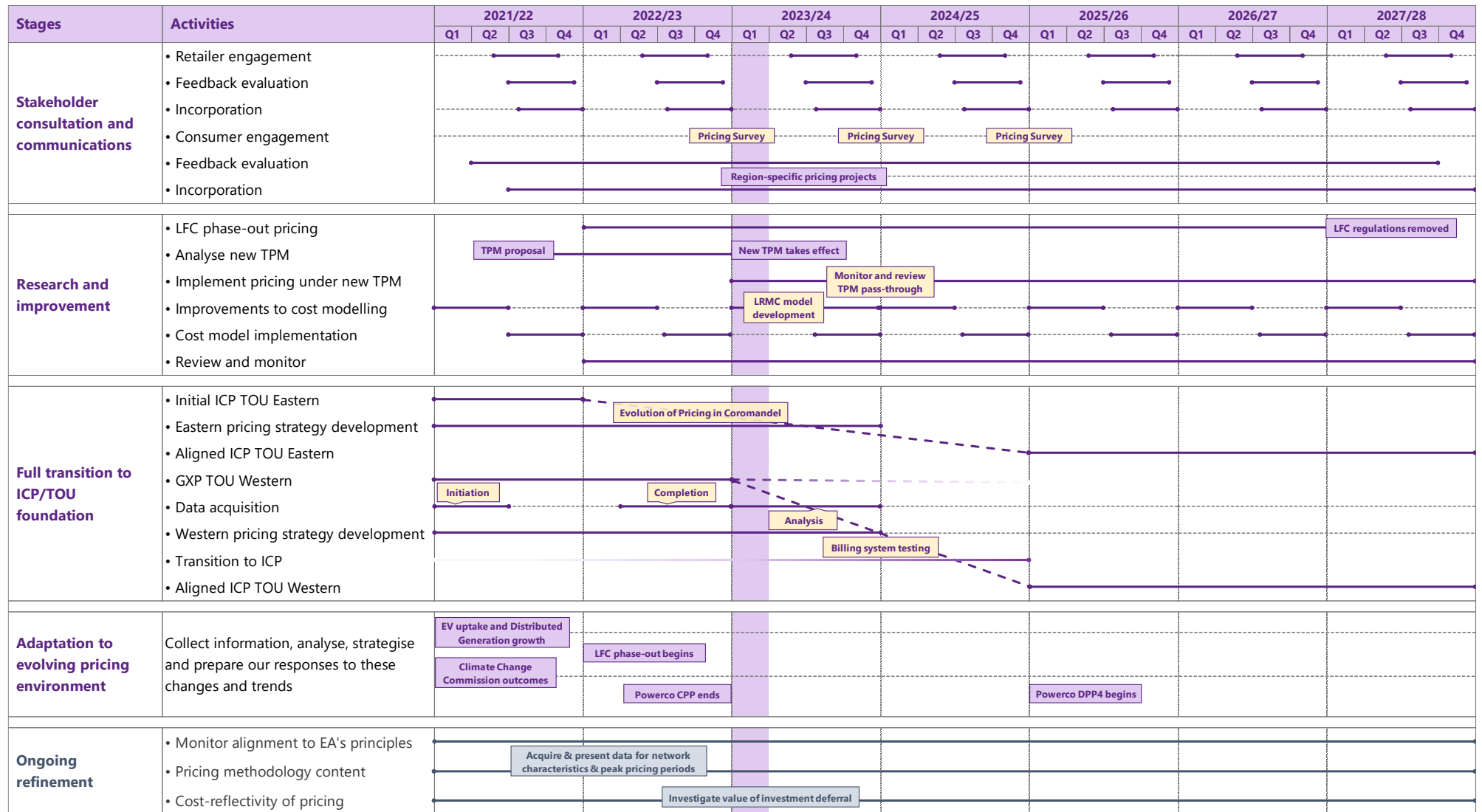
We are aligning the pricing structures in the Eastern and Western regions, with both eventually being billed at the ICP level, on efficient pricing that adapts to changing needs. We have made progress towards this goal, please see our implementation timeline on the next page.

The factors we consider as we make this change:

- **Customers:** Managing retailer and consumer engagement, to ensure a smooth transition
- **Technology changes:** The deployment of smart metering technology and uptake of evolving technologies, such as solar, battery storage and electric vehicles
- **Transmission charges:** Transpower has applied its new Transmission Pricing Methodology when determining our FY24 transmission charges, which we must pass through in our charges
- **Regulation:** Powerco's regulated revenues, Low Fixed Charge (LFC), and decarbonisation
- **Back-office processes:** Developing data management and billing systems to manage new price structures. Upgrading these systems will provide more functionality and flexibility in how we structure and apply our prices across customers.

We think our roadmap strikes a balance across these considerations, while taking us down the path to a more efficient pricing structure. We continue to work with the Authority, other network companies, and retailers to ensure our thinking and approach is consistent with industry guidelines, while still reflecting the characteristics of our network. This will help ensure our pricing is efficient, achievable, and durable.

## Implementation timeline



## Implementation checklist

Stages	Activities	Completed (prior to April 2023)	In Progress (currently occurring April 2023 - Mar 2024)	To Be Completed (beyond March 2024)
<b>Stakeholder consultation and communications</b>	• Retailer engagement	✓ Previous annual retailer consultations	• Engagement on TPM pass-through, FY24 annual price changes, ICP to GXP transition for Western	~ Future annual retailer consultations
	• Feedback evaluation	✓ Post-consultation process	• Post-consultation process	~ Post-consultation process
	• Incorporation	✓ Retailer feedback incorporated	• Post-consultation process	~ Post-consultation process
	• Consumer engagement	✓ Surveys, commercial customer contact, community/iwi engagement	• Pricing surveys planned/initiated, prior activities continued	~ Future surveys planned/initiated
	• Feedback evaluation	✓ Post-engagement process	• Post-engagement process	~ Post-engagement process
	• Incorporation	✓ Customer feedback incorporated	• Analyse survey findings, consider them in annual price review, apply to region-specific pricing project(s)	~ Incorporate findings from future engagement and surveys
<b>Research and improvement</b>	• LFC phase-out pricing	✓ Strategy and modelling developed	• Phase-out pricing implemented - continue to monitor/review	~ Phase-out complete by April 2027
	• Analyse new TPM	✓ Pass-through methodology determined	• Monitor TPM developments	
	• Implement pricing under new TPM		• Pass-through implemented - continue to review and monitor	~ Review and adjust as needed
	• Improvements to cost modelling	✓ COSM inputs updated and improved	• LRMC model development	
	• Cost model implementation	✓ COSM implemented annually	• COSM implemented annually	~ COSM & LRMC models implemented
	• Review and monitor	✓ Annual review and update of COSM	• Annual review and update of COSM	~ Annual review and update of models
<b>Full transition to ICP/TOU foundation</b>	• Initial ICP TOU Eastern	✓ Implemented in FY20 after trials		
	• Eastern pricing strategy development		• Strategy development for aligned pricing, improvements to current pricing and investigate evolution of pricing in Coromandel	
	• Aligned ICP TOU Eastern			~ Achieved by FY26 - aligned East and West pricing methodologies
	• GXP TOU Western	✓ Implemented in FY20 after consultation		
	• Data acquisition	✓ Data successfully acquired	• Manage and analyse data	~ Future data acquisitions
	• Western pricing strategy development		• Determine price structures and billing system capabilities	~ Finalised strategy to be implemented
	• Transition to ICP	✗ Delayed due to billing system limitations	• Billing system testing and stakeholder engagement	~ Begin transition from GXP to ICP pricing
• Aligned ICP TOU Western			~ Complete transition - aligned East and West pricing methodologies	
<b>Adaptation to evolving pricing environment</b>	Collect information, analyse, strategise and prepare our responses to these future changes and trends	<ul style="list-style-type: none"> <li>✓ EV uptake and DG growth</li> <li>✓ Climate Change Commission outcomes</li> <li>✓ LFC phase-out</li> <li>✓ CPP roll-off to DPP</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor current changes to industry regulations and trends</li> <li>• Analyse DG growth and review pricing approaches as needed</li> <li>• Review and monitor LFC phase-out pricing approach</li> <li>• Analyse impact of DPP4 transition</li> </ul>	Examine future technologies, changes and trends that could impact our pricing methodology
<b>Ongoing refinement</b>	• Monitor alignment to EA's principles	✓ Part of annual price review process	• Part of annual price review process	~ Part of annual price review process
	• Pricing methodology content	✓ Network characteristics, peak price signals and TOU peak periods	• Update to reflect Western transition to ICP, alignment to AMP	~ Aligned East and West methodologies
	• Cost-reflectivity of pricing	✓ Improvements to COSM	• Investigate value of investment deferral, LRMC model development	

