



# Electricity Pricing Reform Roadmap

Update: April 2021

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

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

### WHY CHANGE?

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 people 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 – but also providing solutions. Technology such as electric vehicle (EV) charging and solar photovoltaic (PV) generation are impacting demands, while smart metering offers more information, and the ability for pricing to align with demands. Load management options, like battery storage, also mean that consumers can react to pricing signals.

### WHAT ARE WE DOING?

We're changing 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 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 around fixed charges, and future investment requirements for the network.

### WHAT DOES IT MEAN FOR YOU?

Retailers will package our prices together with the cost of electricity in different ways, but over time you will move to a pricing plan that includes different rates for 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.

*Please contact your retailer to understand more about how they are planning to implement this pricing. 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/publications/pricing-schedules/electricity/>*

*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 on Time Of Use (TOU) prices that are billed at the ICP level. (We have made progress towards this goal, please see our implementation timeline below.)

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 been tasked by the Electricity Authority to develop a new proposed Transmission Pricing Methodology (TPM) by 30 June 2021
- Regulation: Powerco’s CPP, Low Fixed Charge (LFC), and decarbonisation.
- Back-office processes: Developing data management and billing systems to manage different 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 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

