



# Electricity Pricing Reform Roadmap

Update: April 2019

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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, and is referred to as Time Of Use ("TOU") pricing. This allocates the costs of the network more efficiently, so that investment to handle the peaks is funded by those that contribute to the peaks.

### 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 TOU pricing plan that includes different rates for peak and off-peak usage. There are some existing pricing plans that do this, but they typically haven't focused as much on peak usage on 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 will be keeping this in mind when looking at our new pricing structures.*

## Who is Powerco?

Powerco owns and maintains the electricity and gas networks across parts of the upper and lower North Island.

We are New Zealand's largest electricity and second largest gas distributor in terms of network length – electricity of 22,000 km and gas of 6,200km. We connect over 1.1 million customers to our networks, across more than 330,000 households, businesses and major industrial sites across the North Island.

Our electricity prices are based on two distinctive areas, which we refer to as Powerco's Western and Eastern regions:

- The Eastern region comprises Tauranga and surrounding rural areas, eastern and southern Waikato, Thames and Coromandel
- The Western region consists of Taranaki, Whanganui, Rangitikei, Manawatu and Wairarapa



## 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 are 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<sup>2</sup>) 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 planning to move to a single pricing structure

We want to align the pricing structures in the Eastern and Western regions, with both eventually being on TOU prices that are billed at the ICP level (we have made progress towards this goal, please see our 'Status update' on the next page).

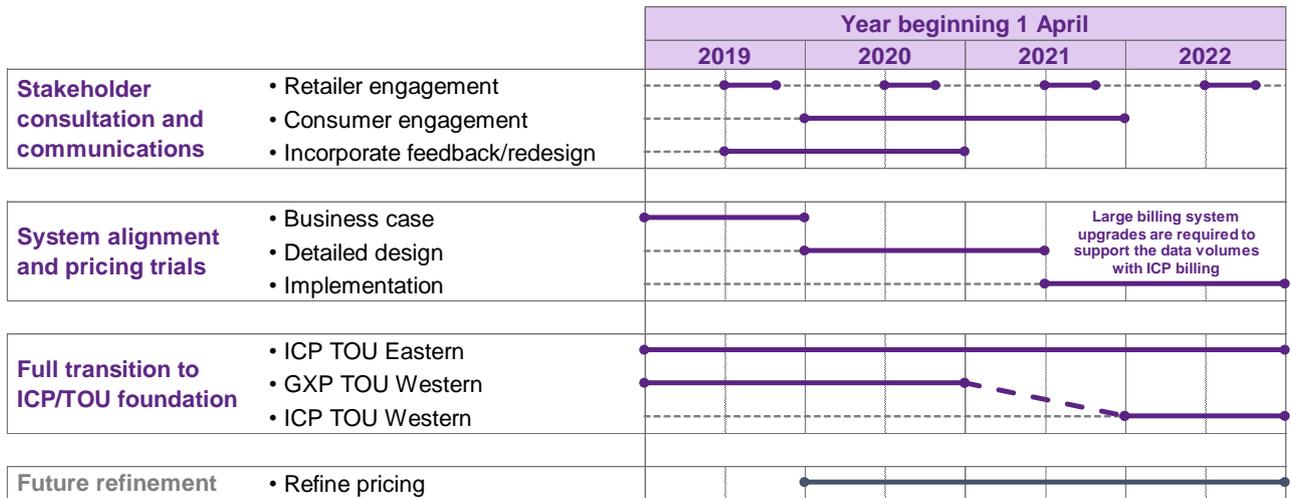
The factors we consider as we make this change:

- Customers: Managing retailer and consumer engagement, ensuring a smooth transition
- Technology changes: The deployment of smart metering technology and uptake of evolving technologies, such as solar, battery storage and electric vehicles
- Regulations: Powerco's CPP and the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 (LFC) regulations
- 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

Considering the changes described above, our revised timeline is:



### April 2019 update:

- Eastern: As of 1 April 2019 we have TOU pricing across the Eastern region, having trialed it since 2017. Lessons from the trials, and feedback from retailers, supported TOU pricing as an appropriate first step towards more cost reflective pricing – while minimising the potential impact to customers.
- Western: As of 1 April 2019 we have TOU pricing across the Western region, while maintaining the existing GXP approach. This was to align with the timeframe of our system upgrades, which targeted ICP based billing from 1 April 2021. Some delays to system upgrades may delay this until 1 April 2022, which is shown in the chart below.

We welcome feedback or questions about our Electricity Pricing Reform Roadmap. Please contact us at [pricing.enquiries@powerco.co.nz](mailto:pricing.enquiries@powerco.co.nz)