



# Plan for the Adoption of Efficient Distribution Price Structures

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## Distributors to publish plans for adopting efficient distribution pricing

The Electricity Authority has identified the adoption of efficient distribution pricing – which is cost-reflective and serviced-based – as a key area of importance to promote the efficient operation of the New Zealand electricity industry for the long-term benefit of consumers. Electricity industry participants and stakeholders agree that distribution pricing needs to be reviewed to ensure that the structures being employed are fit for purpose and suitable for the widespread introduction of new evolving technologies in the distribution sector. An industry-led approach to distribution pricing reform has been initiated, and as part of this the Electricity Authority has requested that Distributors publish their plans for adopting efficient pricing prior to 1 April 2017, and report on the progress made towards achieving more efficient pricing on a 6-monthly basis. This document fulfils the Electricity Authority's expectations and demonstrates Buller Electricity's (BEL's) commitment to review our pricing and undertake pricing reform where appropriate.

As part of this process the industry needs the Electricity Authority to complete their review of the distribution pricing principles and information disclosure guidelines, which we believe are due in 2017. The results of this are important to us in order to ensure we clearly understand the Electricity Authority's requirements and expectations. Similarly, the Electricity Authority needs to reconsider its position on other regulatory mechanisms which are likely to have an impact of the adoption of efficient distribution pricing – such as the low fixed charge tariff option for domestic consumers – and provide further clarification or implement appropriate changes.

## Cost-reflective service-based distribution pricing

The introduction of evolving technologies such as PV solar generation, energy storage systems, LED lighting, smart meters with data handling capabilities, advanced demand response, and electric vehicles has significant implications for the electricity industry and consumers. The electricity related services consumers make use of, and their decisions to adopt evolving technologies, are influenced by the cost of electricity and the relative benefits which they provide. To ensure that electricity infrastructure is being used efficiently, and the investment decisions being made are in the long-term benefit of all consumers and the wider economy, it is necessary for electricity pricing structures to be put in place which accurately signal the costs to consumers of the services they use. This is referred to as cost-reflective service-based pricing and encourages the consumer to make decisions that bring long-term benefit.

## Industry-led work currently in progress

Industry-led work is currently being undertaken in relation to distribution pricing by the Electricity Networks Association (ENA) in consultation with organisations including the Electricity Authority and the Electricity Retailers Association of New Zealand (ERANZ). It is BEL's expectation that this work stream will make significant progress over the next 12 months towards the development of guidelines and standards for the development/implementation of appropriate distribution pricing structures. As these guidelines and standards will most likely have a significant bearing on BEL's distribution pricing implementation plan, we are of the view that until this work is closer to completion, it is pre-mature to develop and commit to detailed implementation plans.

BEL will be closely following the ENA's and other industry-led work, providing input and feedback where appropriate. We will also seek to engage with our stakeholders including Retailers, industry experts, and our consumers once the industry understanding of the issues and available options matures, and clear paths for the development of appropriate distribution pricing structures are established. BEL is of the view that a certain level of distribution price structure standardisation across the industry would be advantageous in terms of limiting the implementation costs/complexities of new distribution pricing strategies. This issue has been clearly highlighted by ERANZ as being an important step the industry needs to take. BEL is in favour of aligning our practices with those adopted by other distributors, and until industry standardisation information becomes available, it is prudent to take up the role of interested observer/engager rather than an early adopter.

## Indicative timeframes for the introduction of efficient distribution pricing

As BEL is a very small rural network, with limited growth and a relatively slow uptake of evolving technologies, the immediate need to implement pricing reform is unlikely to be as strong compared with high growth urban centres. At this early stage BEL is of the view that the best option for us is to adopt a measured approach to reform where we can learn from the early adopters, and make the best use of industry experience as the understanding of distribution pricing develops and matures.

BEL considers the indicative time frames and milestones listed below to be representative of a realistic implementation plan for efficient distribution pricing:

- **Preparation & Planning 2017–2018**
  - Industry-led development of pricing guidelines and standardisation of practices
  - Electricity Authority review of the distribution pricing principles and associated guidelines published
  - Comparison of BEL's existing pricing methodology with the distribution pricing principles and determine areas where reform is necessary
  - Establishment of BEL's decision making framework
  - Formulation of options for pricing methodologies and strategy's
  - Stakeholder engagement plan developed
  - Preparation of stakeholder consultation documents
  - Stakeholder engagement process
  - Finalisation of long-term pricing strategy

- **Implementation & Transition 2019–2021**
  - Completion of implementation plans
  - Communication with retailers and consumers on new pricing strategy implementation plans
  - Adjust strategies and implementation plans if required
  - Launch new pricing options
  - Transition consumers to new pricing options as per implementation plan
  
- **Future 2022–26**
  - Widespread adoption of new technologies
  - Removal of legacy pricing options
  - Review of pricing strategy and consideration of next steps

BEL has limited expertise and resources available for the development of efficient pricing structures, and as a result we intend to make use of consultants to advise us and help conduct this work where appropriate. We also intend to make extensive use of the industry-led work currently underway to develop distribution pricing guidelines and standards. This will limit the amount of preparatory and consultation work we will need to do ourselves.

### Concluding comments

BEL is looking forward to working with our stakeholders in the development and implementation of distribution pricing structures which are fit for purpose and facilitate the best outcomes for consumers and the wider economy. It is important that we consult with our consumers and stakeholders to ensure that any change to our pricing meets the needs of the majority now and into the future. BEL also looks forward to meeting the Electricity Authority's requirements for transparent reporting and introducing more efficient distribution pricing structures during this period of industry reform.