Updated 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 is in progress, and as part of this the Electricity Authority has requested that Distributors report on the progress made towards achieving efficient pricing and publish their updated plans prior to 31 March each year.

Buller Electricity Limited (BEL) has previously published information detailing the Company's plans for the adoption of efficient pricing structures in March each year (2017-2023) and these documents can be viewed on our website here. This document presents an update and contains information in the following key areas:

- Background on future electricity industry trends and the need for efficient distribution pricing
- Low Fixed Charge (LFC) 2004 Regulations
- Commentary on the drivers and enablers for the adoption of efficient distribution pricing and BEL's relevant circumstances
- An update on the progress BEL has made on the indicative plan for distribution pricing reform published in March 2023
- Our indicative plans for the introduction of more efficient distribution pricing structures for 2024/25 and beyond

This document fulfils the Electricity Authority's expectations and demonstrates BEL's commitment to reviewing our pricing and to undertake pricing reform where appropriate.

Future Electricity Industry Trends & Efficient Distribution Pricing

The introduction of evolving technologies such as PV solar generation, energy storage and management systems, more energy efficient appliances, Smart Meters with modern data handling capabilities, advanced demand response, and electric vehicles (EV's) has significant implications for the electricity industry and consumers. The adoption of these technologies will increasingly be driven by the social and political desire to mitigate the impact of climate change through the decarbonisation of the energy and transportation industries.

The electricity related services consumers make use of, and their decisions to adopt evolving technologies, are influenced by the cost of electricity – energy cost plus delivery cost – and the relative benefits which they provide. To ensure that electricity infrastructure is used efficiently, and the investment decisions made by Distributors and end use consumers 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 consumers to make decisions that bring long-term benefit.

Low Fixed Charge (LFC) Regulations 2004

The Low Fixed Charge (LFC) Regulations 2004 were introduced to offer a low fixed charge pricing option to residential consumers at their primary residence. Due to the general trend of lowering electricity consumption at the household level and the introduction of new technologies, these Regulations are no longer delivering the outcomes they were originally designed for e.g. to assist low income households with electricity affordability. As a result the Government made a decision to amend the LFC Regulations 2004 in November 2021.

The Amendment puts in place an option for Distributors to phase out Low User pricing over a 5-year period from 1 April 2022. The Fixed Daily Charge for these users (originally set at $0.15/Con/Day) will be able to be increased by $0.15 each year for the next 5 years, after which the Standard User and Low User Residential categories can be amalgamated. BEL is of the view that it is appropriate that we phase out our pricing to Low Users in this manner and we have decided to implement this option.

Pricing Reform Drivers, Enablers & BEL Circumstances

Key drivers for distribution pricing reform include:

- The level to which cost-reflectivity currently exists in a Distributors pricing
- The uptake of evolving technologies
- The forecast capex expenditure required to manage/relieve network growth and constraints
- External factors such as transmission pricing

While BEL's circumstances are not unique, it is clear that our need to implement distribution pricing reform is not as strong as that for Distributors with high growth and/or major urban centres for the following reasons:

- A very small rural based network
- Significant spare network capacity and no existing congestion issues
- Limited forecast capex expenditure required to manage/relieve network growth and constraints
- A relatively slow uptake of evolving technologies (PV Solar & EV's)
- 50% of revenue is currently recovered as fixed charges

BEL's Asset Management Plan 2024-34, available from our website here, provides details on our Load Forecasts, Constraints & Proposed Capex Program in Sections 6.6 – 6.8 respectively. Section 6.8.2 states that BEL is forecasting limited growth for the 2024-34 planning period.

At this early stage in our pricing reform journey 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 industry understanding of distribution pricing develops and matures.

Progress on Indicative Plan for Distribution Pricing Reform 2023/24

BEL made a decision to adopt Anytime Maximum Demand (AMD) based pricing from 1st April 2021 for the reasons detailed in Section 8 of our Pricing Policy 2023/24 (available here). BEL's use of AMD based pricing remains an area of contention with the Authority.

We continue to seek the Authority's views on the AMD related pricing matters raised in our November 2021 distribution pricing consultation submission[1]. In addition, we await the outcome of the Authority's mid-2023 Distribution Pricing consultation where a number of submitters questioned the basis of the Authority's vehement opposition to demand based pricing.

BEL has had a very limited pricing reform program in place for 2024/25. Key changes which we are making to our pricing for the 2024/25 financial year are as follows:

- Increasing the fixed daily charge for residential low users to $0.60/Day in 2023/24 as allowed by the amendment to the Low Fixed Charge (LFC) Regulations 2004
- Increasing the portion of Fixed Charges in our largest Non-Residential Price Category to 75%
- The addition of 3 new Non-Residential Price Categories to in order limit the impact of transmission charge increases on Residential consumers
- The proportion of Fixed Charge revenue is expected to be 50% in 2024/25

Indicative Plan for Distribution Pricing Reform 2024/25 and Beyond

BEL does not anticipate making any significant changes to our pricing for 2024/25 with our expectation being that we will be rolling over our 2023/24 pricing structure. In discussions with the Electricity Authority in late 2019 the Authority made it clear that it did not perceive a need or expect BEL to implement TOU pricing at this point in time given our current circumstances (no network constraints existing or pending). We nonetheless see the introduction of TOU pricing as the most likely next step in our pricing reform journey so that we will be in a better position to be able to signal existing and future peak demand related costs to consumers.

As an alternative to TOU we will also be exploring the option of introducing demand based pricing for the signalling of peak demand related costs. While BEL considers that our recent changed to AMD based pricing has put in place a solid foundation for our future pricing structures, there remains significant work to be done in terms of further developing and refining our strategy for the most appropriate method for the recovery of our existing variable charges. Our longer-term view on an effective pricing strategy is that peak demand is the most important and relevant parameter, and this most likely needs to be considered over the long-term (12 months), medium term (monthly),

[1] https://www.ea.govt.nz/assets/dms-assets/29/Buller-DP-Practice-Note-submission-2021.pdf

and short term (critical peak), where the revenue recovered from these 3 components is weighted to create the required/desired overall pricing signals to consumers.

A key enabler for the implementation of Monthly Maximum Demand (MMD) is the availability of MMD data on a regular and timely basis as part of EIEP1 billing data or as a separate EIEP data format. In terms of Critical Peak Demand (CPD) pricing/billing using GXP data and billing methodology would seem to be the most viable and elegant option available for this under the existing market structure. Furthermore, given that BEL has implemented a Segmented Loss Factor (where a different Loss Code is used for each Price Category) from 1 April 2021 a certain ability exists to target Critical Peak Demand (CPD) charges to the consumer groups and areas where constraints exist. BEL will be raising this matter with the Authority as part of our annual distribution pricing discussions and future consultations.

Other options for distribution pricing reform which BEL Management and Board have decided are not to be considered for implementation at this point in time are:

- Increasing the overall level of Fixed Charges to being greater than 50% in Residential Price Categories
- Urban/Rural locational pricing differentiation

In terms of distribution pricing reform BEL's immediate plan for 2024/25 and beyond is outlined as follows:

- Monitoring, review and adjustment of the AMD based pricing structure changes put in place in 2021/22
- Further investigations into the options and requirements for TOU pricing/billing
- Further investigations into the options and requirements for MMD and CPD pricing/billing
- Reviewing the options available for managing the charging of new EV connections
- Review of our overall pricing strategy and consideration of the next steps

Key events, decisions, and outcomes which will have a significant impact on BEL's future decisions and implementation plans relating to the adoption of efficient pricing structures include:

- The progress we are able to make with the Authority in terms of the pricing matters which have been identified in our November 2021 consultation submission
- The ability for BEL to be able to receive meter information (such as TOU data) in order to undertake analysis/planning of new pricing structures to a sufficient level of accuracy
- Key decisions BEL management and owners (Buller Electric Power Trust) make given the advice and information available
- Wider adoption of new technologies by consumers

In terms of pricing reform BEL is mindful of the balance which must be struck between the:

- Complexity of the structures adopted to achieve cost-reflective service-based pricing
- Practical aspects and costs associated with pricing administration and implementation
- Ability for the consumer to easily understand the pricing which is being applied

At this point in time it is unclear how this balance, and the best pricing for BEL and its consumers, can be achieved in the long-term. BEL will be looking towards the future work undertaken by the ENA and its working groups, and the response of Retailers and consumers in other distribution areas where new pricing structures have been adopted, to provide guidance.

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 BEL, 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 introducing more efficient distribution pricing structures during this period of industry reform.