



# 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 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.

Buller Electricity Limited (BEL) published an initial document on 31 March 2017 detailing the company's plans for the adoption of efficient pricing structures (this document can be viewed [here](#)). This document presents and update, and contains information on the following key areas:

- An overview of the key industry developments which have occurred in the intervening period, including the establishment of the Governments Electricity Price Review (EPR), expected review of the Low Fixed Charge Regulations 2004, and industry Working Group activities
- The recent submission by BEL of electricity consumption data requests to Retailers
- Indicative timeframes for the introduction of efficient distribution pricing by BEL

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

## **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.

## **Electricity Price Review (EPR)**

Following the General Election in 2017 the Government commissioned the Electricity Price Review (EPR) to investigate whether the electricity market, as it exists at present, is delivering a fair and equitable price to end-consumers. Electricity prices, especially for households, have increased faster than inflation for many years, putting pressure on household budgets. In comparison, prices faced by commercial and industrial customers have remained relatively flat.

The Review will consider whether the current electricity market and its governance structures will continue to be appropriate with rapidly changing technology and new innovations in the sector. As energy production and consumption is such an integral part to New Zealand's economy, this review will be of great interest to the industry and the public. The review will be structured into stages, with the initial stage focusing on determining facts and building evidence. The scope of further stages will be developed after findings emerge from the first stage.

BEL is following the EPR with interest as it has the potential to be a catalyst for significant change in the Electricity Industry and could become an important event in its history. The Review may also have a significant bearing on the future roll Electricity Distribution Business's (EDB's), such as Buller Electricity, and Regulators play in the industry.

## **Review of the Low Fixed Charge Regulations 2004**

Following on from the policy announcements made by Parties prior to the 2017 General Election it is clear that a political and industry consensus now exists for a review of the Low Fixed Charge Regulations 2004. These Regulations require BEL and other Distributors 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 effectively delivering the outcomes they were originally designed for e.g. primarily to assist low income households. Furthermore, as electricity and delivery prices have increase the inefficiency created by the Low Fixed Charge Regulations has grown as the amount of the fixed charge has remain constant and the amount of variable (consumption) charge has increased.

The need for a review of the Low Fixed Charge Regulations 2004 is a long-standing view by many party's involved in the electricity industry. BEL is of the view that the removal of the Low Fixed Charge Regulations 2004, or their replacement with a more effective alternative, is a key requirement for the implementation of cost-reflective serviced-based pricing. The EPR will almost certainly make recommendations with regard to the future of the Low Fixed Charge Regulations 2004.

## **Time-of-Use data request to Retailers**

In September 2018 BEL submitted data requests to the major Retailers for Time-of-Use (TOU) relating to mass-market consumers. This data will only be available for consumers with Smart Meters (50% of consumers on the BEL Network), where the Retailer is collecting this data, and is also willing and able (data privacy considerations) to provide the data.

The following two data types have been requested:

1. TOU data (consumer anonymised) aggregated by, date and 48 half-hour trading period, and BEL price code
2. Monthly Maximum Demand (consumer non-anonymised) including the date and trading period during which the maximum demand occurred

This data has been requested to allow BEL to undertake future analysis work for the development of our pricing structures, as well as consumer load group categorisation assessment (maximum demand data).

### **ENA working group activities**

The Electricity Networks Association (ENA) Distribution Pricing Working Group (DPWG) continues to pursue active work programs in relation to distribution pricing reform, with particular regard being given to:

- Formalising the methods which is used to allocate costs to the different consumer groups as part of the distribution price setting process
- Identification of the advantages/disadvantages and potential consumer impacts of different pricing strategies
- Consideration of the technical issues related to the implementation of different pricing structures e.g. billing data and processes

The DPWG is expected to release significant publications on their work during the first half of 2019 which will provide guidance to the EDB's. BEL strongly supports the ongoing work which is being done by the ENA on behalf of its members in relation to distribution pricing reform, and we look forward to the significant process which is expected to be made over the 12 months.

### **Indicative timeframes for the introduction of efficient distribution pricing**

As BEL is a very small rural based network, with limited growth and a relatively slow uptake of evolving technologies, the immediate need to implement pricing reform is not 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 2018–20**
  - Request TOU data from Retailers
  - 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 2020–2022**
    - 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 2023–27**
    - Widespread adoption of new technologies
    - Removal of legacy pricing options
    - Review of pricing strategy and consideration of next steps

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

- The findings, recommendations and outcomes of the Governments Electricity Price Review (final report to be delivered to the Minister of Energy and Resources by April 2019)
- ENA publications and guidance released by the Distribution Pricing working Group
- The Authority to release an update of their distribution pricing principles and information disclosure guidelines which offers some pragmatic guidance

Further key elements which will determine BEL’s progress towards pricing reform are:

- 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
- And the subsequent key decisions BEL’s management and owners make given the available advice and information

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.

BEL is mindful of the compromise which must be struck between:

- the complexity of the structures adopted to achieve cost-reflective service-based pricing
- the practical aspects associated with pricing administration and implementation
- the ability for the consumer to easily understand the pricing which are being applied

At this point in time it is unclear how this compromise, and the best pricing for BEL and its consumers, can be achieved. 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 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.