



PRICING ROADMAP **UPDATE 1 - IN RED** **UPDATE 2 - IN BLUE**

This update covers the period from 1 October 2017 to 1 April 2018

OVERVIEW

Solar, batteries, electric vehicles and other technologies can provide major benefits to customers but only if pricing structures reflect the gains they offer. Current distribution pricing which is 50% based on consumption, runs the risk of slowing the uptake of electric vehicles, LEDs and encouraging the uptake of solar. Over-rewarding owners of solar panels runs the risk of pushing costs onto other households not taking them up. These are some of the drivers OtagoNet Joint Venture has for reviewing its current distribution pricing options.

This pricing roadmap sets out OtagoNet Joint Venture's current plans with respect to possible future pricing changes. This is primarily in response to the expectations set by the Electricity Authority that distributors should set out their plans for any such changes.

It is important to note that no decisions have been made on any changes.

The Authority's expectations are as follows:

We will continue to facilitate the industry-led approach and intend to:

- *Monitor and report on distributor progress towards adopting efficient distribution price structures.*
- *Review the current distribution pricing principles and associated information disclosure guidelines and consult on any proposed changes.*
- *Assess alignment of distributor prices against the distribution pricing principles (each year from April 2018).*

We expect industry participants to continue to progress their work. Specifically, our expectations are that:

- *The Electricity Networks association (ENA) will continue to lead the development of more efficient pricing. We note the ENA will shortly release its New Pricing Options for Electricity Distributors consultation paper.*
- *Before 1 April 2017, each distributor will have published its plan for introducing efficient pricing. The purpose of setting a timeframe is to encourage distributors to communicate their intentions and to make progress. Information that we would expect to see in these plans includes:*
- *a clear outline of the process each distributor will adopt, including the nature of their planned consultation with retailers and consumers*
- *a timeline with the key milestones*
- *resourcing implications, including how resources will be allocated to the process of moving towards efficient pricing structures.*

Submissions on the ENA paper referred to closed in December 2016 and those submissions will be reviewed by distributors over the next few months. It is too early to say how that will influence any changes that we make, but it is an important input to the process.



PROCESS AND CONSULTATION

OtagoNet Joint Venture through its agent PowerNet is currently exploring options for rolling out smart meters to replace the existing retailer owned legacy meters on the network. We see a smart meter roll out as a key step in the process of developing future pricing options, due to additional data these meters provide.

We consider that retailers remain the key stakeholders. However, the sorts of changes contemplated by the distribution pricing review, and some of the options considered by the ENA paper, potentially represent a fundamental shift in approach, with potentially significant impacts across the customer base. For that reason we will be undertaking consumer consultation.

Having established initial consumer views and considered the data available from the smart meters, these will then form the sorts of options for change that we develop. We anticipate multiple rounds of stakeholder consultation.

In any consultation we will use the Authority's consultation guidance as a key reference.

TIMELINE

Because the size of the task is not yet known, we do not yet have a detailed timeline and milestones. However, we believe the following are key considerations:

- Negotiating and implementing a smart meter roll out, we see as a fundamental first step to implementing a pricing review.
- Negotiating the supply of the smart meter data with retailers. . [ENA & ERANZ technical working group established to progress this.](#)
- Enhancements to our existing ICP management and billing systems, currently at the scoping stage. [Software requirements specification document prepared.](#)
- Changes to regulation under Part 4 of the Commerce Act that will apply to the next Default Price Path reset – that is, from 1 April 2020. Of particular relevance is the change in the form of control from a weighted average price cap to a revenue cap.
- The final form of the Transmission Pricing Methodology (TPM) guidelines issued by the Authority, and how this manifests in the actual TPM developed by Transpower. We doubt the latter will be effective before April 2020, and it could be a year or two (from now) before the form and implications of the new TPM are sufficiently well developed for their impact on our own pricing development to be clear.
- The Authority's review of the distribution pricing principles, currently scheduled for May-June 2017.
- The Authority's recent changes to Part 6 of the Code (relating to the avoided cost of transmission) which, in OtagoNet Joint Venture's case, come into effect from 1 April 2018. [The EAs list of approved DG has been finalised.](#)
- Potential changes to the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004, which currently require distributors to offer residential



customers a pricing option with a fixed charge of no more than 15 cents per day. We see the current regulation as a barrier to developing new innovative pricing options.

- The extent of necessary consultation could be considerable.
- The knowledge that many other distributors will be making pricing changes at the same time. We need to keep abreast of these wider developments. [The ENA Strategic Working Group has been making progress in this area.](#)
- **Internal pricing options analysis has been completed with two service based and cost reflective pricing options selected for further exploration and analysis, consultation with stakeholders will now be planned.**
- [PowerNet Limited has partnered with emh Trade on a pilot scheme utilising their platforms and a select customer group to gain an understanding of customer behaviours given certain pricing signals.](#)
- [PowerNet Limited has set-up a “smart house” with the latest technology, enhanced monitoring devices along with PV and an electric car and charging station to gain a greater understanding of these evolving technologies. The results from these initiatives will be used in the development of our pricing structures.](#)

RESOURCING

OtagoNet Joint Venture has an agency arrangement with PowerNet limited for the operation of the network. Any additional resourcing would be met by PowerNet.

Additional resourcing may be required in the following areas:

- Internal or external resource for the retailer and consumer consultations.
- External consultant has been engaged to review the current ICP database management system and billing platforms.
- External consultant to help in the evaluation and development of preferred pricing options.
- Additional resources for the distribution billing team with a potential change to ICP based billing approaches.
- Educating and communicating with consumers during the transition phase to the new pricing options.
- Potential smart meter roll out will require additional resourcing.

There are also possible opportunities for the ENA to coordinate and support some activities.

Taken together, all of these considerations suggest that we are unlikely to implement material changes to our pricing before April 2020, although we may decide on what the changes are somewhat earlier than that. Depending on the magnitude of the changes, they may be phased in over a number of years.