

Future Pricing Roadmap

1 April 2017

1. Introduction

Wellington Electricity owns and operates the electricity distribution network in the Wellington region, covering Wellington, Porirua, Lower and Upper Hutt cities, and delivers electricity to more than 165,000 homes and businesses. Wellington Electricity recovers the cost of owning, renewing, extending and maintaining the network through a combination of standard (published) and non-standard prices for lines function services. Wellington Electricity's price changes are determined by Part 4 of the Commerce Act as administered by the Commerce Commission. These prices are then packaged and passed onto consumers by their energy retailer.

Wellington Electricity intends to continue moving towards fully cost-reflective pricing by introducing price signals that clearly identify time periods when the network has capacity for more demand and when it does not. This should be a significant help to enabling new technologies and for customers and ourselves to derive mutual benefits from new technology investment. Designing and implementing clear cost reflective prices will send the right signals to consumers to reduce peak demand. This has the benefit of avoiding the need for expensive electricity network reinforcement expenditure necessary to support increasing peak demand, keeping prices lower than they otherwise would be.

Appendix 1 shows Wellington Electricity's broad plan for future pricing ("future pricing roadmap"). This is published at the request of the Electricity Authority. The future pricing roadmap explains the activities that are expected to occur for pricing reform, together with the anticipated timeframes for these activities.

2. Critical success factors

There are a number of critical success factors that will support the positive adoption by consumers and retailers of the pricing reforms.

2.1. Stakeholder engagement and consultation

Stakeholder engagement and consultation is crucial to the success of pricing reform. Wellington Electricity has ongoing consultation with retailers and other stakeholders to ensure that the need for pricing reform is well understood and that various pricing options are thoroughly considered. Going forward (either indirectly through retailers or directly by Wellington Electricity in conjunction with Retailers), this consultation will include end consumers to ensure those who pay the bill have a strong input into future pricing structures.

Wellington Electricity believe it is important for consumers to understand how they are able to achieve cost savings and/or avoid future cost increases, to improve the value they



receive from our network assets, by managing their demand so that the network is used more efficiently.

We will continue to consider the best methods for this engagement and note that other distributors in other countries have developed effective web education tools to assist consumer communication and understanding.

2.2. Industry Alignment

Wellington Electricity believe that it is important that distribution price signals are passed through to end consumers, rather than repackaged by retailers which dilutes the price signal. We will work with the Electricity Authority and retailers to achieve this goal.

Wellington Electricity is also working with other distributors, including through the Electricity Networks Association and the Distribution Pricing Working Group to ensure that wherever possible our pricing reforms are consistent with other Distributors so that retailers receive an industry efficiency through consistent pricing plans across the country.

2.3. System changes

Traditionally residential consumer prices have consisted of a fixed daily charge and a variable consumption charge which is a fixed cost per unit consumed. The introduction of cost reflective pricing will require more data (e.g. demand and/or consumption separated by time period or other time of use information), which may require significant changes to current metering and billing systems. These requirements need to be determined and may vary depending on the final pricing structures. There could be significant costs associated with this, which will require additional funding and Wellington Electricity will request this through Commerce Commission allowances.

2.4. Regulatory Environment

Cost reflective pricing reforms are currently limited by regulatory constraints including the Electricity (Low Fixed Tariff Option for Domestic Consumers) Regulations and the weighted average price cap. A revenue cap, which is expected to be in place by 1 April 2020, is an important dependency for Wellington Electricity to implement the change to a cost reflective pricing structure.

2.5. Electric Vehicles

The increasing availability of affordable electric vehicles (EVs) has the potential to significantly increase their usage of the electricity distribution network.

Wellington Electricity has introduced time of use pricing for customers with EVs, with a cheaper night price option (EVNITE) applying from 9pm to 7am. The aim of this pricing is to support EV uptake in Wellington and also to encourage the charging of EVs during off-peak periods. From 1 April 2017, Wellington Electricity is introducing a demand charge period for the EV tariff (EVDMND), which will work in conjunction with the EVNITE price option and signal to customers to avoid the network peak demand period



between 5pm to 9pm in favour of the cheaper night period from 9pm to 7am for EV recharging. Wellington Electricity look forward to work with retailers on the implementation of this tariff and how it can be managed to deliver satisfactory outcomes for distributors, retailers and consumers with electric vehicles.

Wellington Electricity intends to further evaluate pricing options for EV owners as part of its pricing roadmap work.

3. Feedback

We welcome any comments or suggestions regarding this Future Pricing Roadmap. Feedback can be provided to <a href="https://www.welcommons.org/welcommons.org

Future Pricing Roadmap



April 2017 - March 2018

April 2018 - March 2020

April 2020 - March 2023

Initiate pricing reform

Develop detailed plans for pricing reform

Manage roll-out of future pricing

Identify overall objectives for pricing reform and update strategy and plan.

Work with ENA and other distributors to ensure alignment of proposed price structures.

Determine preferred future price structures, e.g. TOU and/or demand and/or capacity.

Consult with stakeholders on future pricing structures.

High level scoping of metering, data and billing constraints/issues.

Gather data for analytics.

Introduce trial demand charge for residential EV customers.

Further consult with stakeholders to explain preferred pricing structures and to educate them about upcoming pricing changes.

Develop plan for remediation of metering / billing / data issues.

Seek funding from Commerce Commission for required changes to billing systems. Work with 3rd parties (retailers, MSP) to resolve metering and data issues.

Detailed modelling of new pricing structures and prices, including likely impacts on customers. Customer trials if required.

Check of regulatory compliance.

Separate pricing categories for EV residential customers and update of demand charge from \$0.00/kW/month.

Agree with EA/Retailers how retailers will pass through distribution price signals to end customers.

Implement new price structures and prices (under revenue cap).

Transition customers from old to new price structures.

Further consult with stakeholders. Educate customers on how to save money on distribution charges by managing usage and shifting load to off-peak periods.

Resolve implementation issues.

Ongoing review of progress towards achieving pricing objectives.