

# 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 (EVDMDND), 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 [WE\\_CustomerService@welectricity.co.nz](mailto:WE_CustomerService@welectricity.co.nz)

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