



22 September 2017

Craig Evans
Manager Retail and Network Markets
Electricity Authority
Wellington

By email: craig.evans@ea.govt.nz

Dear Craig

Orion pricing consultation and roadmap update

The Authority is expecting six-monthly updates of EDB pricing roadmaps. We intend to publish annual updates with our pricing methodology around the beginning of February each year, but we have no existing vehicle for intermediate updates. Hence I trust this letter will suffice.

The basis of this update is the information we published in our 2017 pricing methodology as Appendix C.

Process

Our consultation on future changes has commenced. I attach a copy of a recent consultation and discussion paper that we distributed to stakeholders – retailers, consultants and technology providers. The paper proposes a particular, if small, first step in pricing reform and invites comments on possible future options.

We have engaged a research company to assist with direct customer consultation on pricing and we intend to hold a number of focus groups in October/November.

Timeline

Of the factors we noted back in February, we observe that the timeframes for some components of the Authority's work programme – specifically the TPM and distribution pricing principles - have since slipped materially. On the TPM it is unclear at this stage how Transpower's operational review will play out, and it appears we will not have clarity on that before some time in 2018.

A new factor to enter the mix is the welcome announcement that MBIE is to review the low fixed charge (LFC) regulations. We also note that a number of political parties have also expressed concern about whether the regulations are still fit for purpose.

Overall we remain of the view that material changes to our pricing are unlikely to occur before 1 April 2020 given the number of external factors. In the interim we will continue to work on options, seek further input from our customers and continue to be actively engaged in the Electricity Networks Association's pricing reform process.

Resourcing

Our views on resourcing remain unchanged since February.

Update on current and emerging views

This is captured in the attached consultation and discussion paper. The paper discusses the various options identified in the Electricity Networks Association guidance paper, as well as some others, and proposes two for further investigation and analysis:

- An arrangement of credits / rebates where the consumer provides access to us to manage certain technologies (for example hot water heating).
- An arrangement that takes our coincident maximum demand pricing and turns it into a dynamic per kWh price.

A key observation in the paper is that we have firmed up our view that the Authority's guidelines on variable charges under the low fixed charge (LFC) regulations do not solve the fundamental problem. Therefore the LFC regulations are and continue to be the principal barrier to more service-based and cost-reflective pricing, at least for most residential customers. This discussion is in section 4.3 of the paper.

Responses to our paper will guide our future work programme, and we will provide an update on this when we next publish our pricing methodology in January / February 2018.

Please email or call if you have any questions, comments or concerns about this letter or our approach.

Yours sincerely

A handwritten signature in black ink, appearing to be 'BR', written in a cursive style.

Bruce Rogers
Pricing Manager