



## **Pricing roadmap update**

**September 2019**

## **Introduction**

This document is the six-monthly update of Orion's roadmap for distribution pricing reform. We publish a roadmap as part of our pricing methodology which is produced annually. This update discusses important developments since the last methodology was published in February 2019.

This update should be read in conjunction with our previous methodologies and consultation documents.

## **Developments**

There have been important developments in a number of areas.

### **Pricing principles**

The Authority has finalised and published its:

- Distribution pricing principles,
- Practice Note
- Pricing Scorecard framework

We have not had time to consider these documents for this update, but they look to present some new perspectives. These will be reflected in our next methodology.

### **Low fixed charge regulations**

The government has not released or responded to the final report of the Electricity Price Review, which we suspect made some recommendations in this area. We await developments.

We have previously clearly set out our position on the regulations as they stand, and the Authority's guidance that daily capacity based charges would be viewed as variable charges under the regulations. We do not consider the guidance is robust or practicable. We will continue to comply with the regulations by having kWh-based components of our pricing that are higher than they would be in the absence of the regulations.

We might move to presenting our prices in a different way to show the prices that might result in the absence of regulations, which will then more clearly highlight the impact of the regulations.

We might also move to changing the structure of our prices for consumer groups to which the regulations do not apply (for example, commercial customers within the general pricing category).

### **Transmission pricing methodology (TPM)**

The latest TPM proposal has a number of important elements:

- The significant negative implications of RCPD discouraging high value use at peak times. This is a radical idea that may also have implications for distribution pricing.
- The associated concern that TOU pricing structures for recovery of transmission costs are worse (less efficient) than flat rate arrangements.
- Benefits based and residual charge components that will be applied to distributors on a basis that distributors cannot apply to retailers / end consumers without being re-bundled into alternative price structures.

## **Electricity Networks Association**

The ENA continues to lead and coordinate distributor activity in this area, and Orion continues to be involved.

## **Stakeholder engagement**

Our stakeholder engagement this year consisted of a summary of the position we have arrived at following consultations in 2017 and 2018. In short our concerns about the limited ability of TOU (fixed time) pricing to provide better price signals when compared with peak pricing remain, while the LFC regulations limit our ability to explore alternatives around service-based capacity pricing. The paper is available at

<https://www.oriongroup.co.nz/assets/Company/Orion-pricing-discussion-paper-2019.pdf>.

## **Likely timing**

We are not intending to make any material changes to our pricing from 1 April 2020.

With the TPM still being consulted on, and this potentially having a significant influence on our thinking for the reasons noted above, the timing of the eventual changes is highly relevant. The latest TPM paper suggest that a new TPM could be put in place in 2022, but not coming into actual effect before 1 April 2024. Any associated changes to the structure of distribution pricing would seem most likely to apply from that date as well.

Absent changes to the low fixed charge regulations, we are materially constrained from making changes with respect to most residential customers. As noted above we are also in the early stages of considering changes to pricing for customers where the regulations do not apply – what might be termed larger but not very large commercial connections. We will not be making any changes for that group before 1 April 2021, although we might consult on changes during the 2020 calendar year.