
Future Pricing Roadmap – Update

29 September 2017



1 Introduction

The Electricity Authority (Authority) announced in October 2016 that, as part of its next steps in its ongoing Distribution Pricing Review, it had an expectation that distributors would, by 1 April 2017, publish their plans for introducing more efficient pricing. Specifically, the Authority's statement of expectation stated that distributors should include in their plans:

- 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; and
- resourcing implications, including how resources will be allocated to the process of moving towards efficient pricing structures.

This externally published Future Pricing Roadmap document is Aurora Energy's response to the Authority's request.

2 Updates from prior version

2.1 Future Pricing Roadmap document

Whilst this is the first published version of its future pricing roadmap, Aurora Energy previously complied with the Authority's expectations in its pricing methodology, published on 31 March 2017 (section 8.2). Given that the Authority expects distributors to update roadmaps every six months, and this does not align with the traditional revisions of the pricing methodologies, we have created this standalone document to outline the roadmap to future pricing.

2.2 Communication from the Electricity Authority

On 7 August 2017, the Authority sent a letter to all distributors (including Aurora Energy) thanking them for publishing the roadmaps to-date, and offering their views on distributor's progress, discussing issues that had arisen so far, and outlining what they see as the next steps for distribution pricing. The Authority also published the roadmaps provided to them by distributors, and summarised the processes to be adopted, timelines, and resource implications for each distributor in a separate document.

In the letter the Authority re-affirms that the existing distribution structures are not sustainable, that they are broadly pleased with the progress made so far towards future pricing, and that they are encouraged by the industry co-operation that is occurring. The Authority also confirms that they are currently reviewing the voluntary distribution pricing principles and information disclosure guidelines, and that they will continue to monitor distributor's progress toward future pricing, and distributor and retailer collaboration on technical and implementation issues.

2.3 ENA pricing reform roadmap

The Electricity Networks Association (ENA) developed a pricing roadmap document to assist members with meeting the Authority's expectations in a consistent fashion. Aurora Energy has used an extract from the ENA pricing roadmap document to provide an update of the industry collaboration taking place in Section 4.

3 Distribution Pricing Reform

3.1 Aurora Energy's intended process

Aurora Energy has a commercial interest in ensuring prices are as cost reflective (i.e. efficient) as practicable. Cost reflective network pricing (when reflected through retail prices) will provide appropriate commercial incentives for consumers to moderate their electricity use, or use on-site

generation / storage, during times of high network demand. Conversely, it will incentivise consumers to use electricity, or charge their storage facility, during times of low network demand.

As all distributors in New Zealand are subject to similar commercial pressures, we have been an active participant in ENA working groups and forums over the past few years. This has allowed us to understand the learnings of other distributors in relation to pricing reform, and to contribute to pricing guidance issued by the ENA for all distributors. Further explanation of the industry collaboration occurring in regard to future pricing is contained in Section 4.

Aurora Energy's future pricing roadmap is presented in table 1. The Future Pricing Roadmap outlines the key stages of implementing more cost reflective pricing, the activities that are required to be performed at each stage, and when these activities are going to take place. The Future Pricing Roadmap is expected to evolve as the project progresses.

Our future pricing roadmap has grouped the transition to more cost reflective pricing into four main stages:

- Initiate the cost-reflective pricing plan;
- Regulatory enablers;
- Plan changes in more detail; and
- Manage roll out of new pricing options.

3.2 Timeline & key milestones

3.2.1 Retailer consultation

During the initiation phase, we plan to communicate with retailers regarding our strategy for pricing change. This is already underway through our periodic consultation with retailers, and our support for the ENA's "New Pricing Options for Electricity Distributors" paper, which both occurred in 2016.

We plan to have further discussion with retailers over the next two years. Since the publication of the initial future pricing roadmap in March 2017, we have undertaken some verbal engagement with several retailers outlining our intended process for future pricing development, and have received their high-level thoughts on what types of prices are more likely to be passed through to consumers. The feedback received so far is very valuable, and will be incorporated into our own guidance on future pricing to be issued in mid-2019.

3.2.2 Consumer consultation

Following consultation with retailers, we will develop more detailed plans and strategies for future pricing. At this point we will commence a broader consultation and education programme on the likely composition of future pricing. Consultation with consumers will be valuable at this point, as the future strategy will be more refined. Aurora Energy is concerned that premature consultation has the potential to confuse, rather than educate, given consumers' general lack of awareness of distribution pricing.

3.2.3 Regulatory change

Between the retailer and consumer consultation phases, the 2020 change in the form of control for distributors under Part 4 of the Commerce Act 1986 (from a weighted average price cap to a revenue cap) becomes a key regulatory enabler for pricing reform. The current weighted average price cap exposes Aurora Energy to significant risk of regulatory non-compliance (price path breach) when the structure of prices are changed, particularly where the customer responses to these changes are unknown.

3.2.4 Roll-out & transition

Following consumer consultation, Aurora Energy will move into a phase of managing the final roll-out and transition to future prices. This stage will look at how to incentivise the take-up of future pricing by retailers / consumers, monitoring how consumers change their behaviour once they are subject to future pricing, and managing the reputational and political risk of the transition to future pricing.

3.3 Resources required

To implement pricing reform, Aurora Energy will primarily use internal resources but will complement this with external consultants if, and when, required.

4 Industry collaboration

Aurora Energy will also continue to contribute and participate in ENA pricing development working groups and forums. Most notably this includes the ENA Distribution Pricing Working Group (DPWG).

4.1 Distribution pricing working group

The DPWG membership comes from all ENA member businesses. It meets regularly to progress greater standardisation and consistency across members pricing, across terminology, and especially with definitions and components of pricing and services. It is also required to advance pricing reform in response to network developments and broader change in the electricity sector.

Over the last 12 to 18 months, the latter objective has dominated the standardisation efforts that the DPWG managed prior to this time.

4.2 Guidance on pricing reform for members

The final version of the pricing reform guidance was published in August 2017, following considerable feedback from members and external stakeholders on the draft versions. This report provides members with practical guidance on; how to think about the various issues that result from pricing that is not cost reflective, on how to think through pricing reform and the pricing options that would be more cost reflective from a network point of view and, importantly, on the complex issues relating to implementation of reform that need to be dealt with over an extended transition timeline.

ENA members were all very active and engaged in this process.

4.3 Retailer workshop

On behalf of its members and in conjunction with the Electricity Retailers Association New Zealand (ERANZ), the ENA held a pricing reform workshop on July 4 at PwC Auckland. For ENA members, the outcome of this workshop is a key part of their strategy preparation – a joint work group to consider just what technical issues could get in the way of successful pricing reform and to devise practical solutions that both EDB's and retailers could use to resolve the technical issues that impact pricing reform for their own business.

4.4 DPWG ToR and strategy

Following completion of the guidance document, it was timely for the DPWG to review its terms of reference and the go-forward strategy for pricing reform and other DPWG priorities. The review workshop was attended by nearly all ENA members and generated a high level of engagement and commitment to support individual and joint efforts with pricing reform.

4.5 2017/18 ENA pricing reform initiatives

The following are the initiatives that are underway in 2017/18, as ENA members move forward with pricing reform.

4.5.1 Implementation strategy

A new workgroup of ENA members has been formed to focus on developing an overall strategy for implementing pricing reform, and then working with individual members to develop their own implementation approach. Aside from being an efficient use of resources and expertise, this approach will deliver more consistency and cooperation across the membership. This group will consult with external stakeholders (including retailers) to assure the quality their work. This process was successfully used when the guidance document was being developed.

The joint EDB/retailer working group on technical issues that was agreed on July 4 is up and running. ENA and ERANZ have agreed a draft term of reference for the group, and the practical issues of governance and leadership are now also resolved.

4.5.2 Learnings from NZ and overseas

Members are drawing on local and international pricing reform experiences. Many pricing reform trials (and full implementations) have been undertaken, which provide valuable input to the development of reform strategy and implementation tactics by ENA members. A number of members have already engaged with local and international advisors to inform their strategy development. ENA is holding a workshop for all members in October, where tactical approaches to implementation will be reviewed with two international experts.

4.5.3 Stakeholder engagement

Experience when developing the guidance document revealed that the task of stakeholder engagement around pricing reform is complex and time consuming. A subgroup of the ENA consumer engagement working group has been established to support members with this important task. Again, this work will be undertaken with retailer involvement.

4.5.4 ENA coordination

The ENA has been tasked by its members to ensure that the process of reform is not only efficient across the membership but that individual reform efforts are coordinated and consistent.

4.6 Overall timeline

In their April 2017 roadmaps, some ENA members noted that reform of distribution pricing was conditional on changes and progress in other parts of the energy sector. Reform of the LFC (Low Fixed Charge Regulations) was prominent in this regard, as was the Electricity Authority work programme. We note that, since April, the timelines for key elements of the work programme have slipped, or in the case of the TPM review, have been overlaid by an alternative Transpower-led review. Aspects of the Authority's work programme are integral to the overall progress of the sector and will impact progress.

5 Aurora Energy Future Pricing Roadmap checklist

Table 1: Aurora Energy Future Pricing Roadmap

Future Pricing Roadmap Checklist

EDB :

Aurora Energy Limited

Roadmap Stages		Activities												
		Timeline												
		2017 H1	2017 H2	2018 H1	2018 H2	2019 H1	2019 H2	2020	2021	2022	2023	2024	2025	
1. Initiate pricing reform														
Communicate	Prepare and publish future pricing roadmap, include reasoning and why it's important	X												
Problem Identification & Discovery	Justification and early modelling		→	X										
Define overall objectives for reform	Set overall goals including target dates or date ranges		→	X										
Develop strategy to deliver reform	Develop ideas on how to go ahead (including long list of future pricing options if available)		→	X										
	eg, resourcing implications, billing systems, EIEP1 file formats, AMI penetration and technology, accessing data		→	X										
Identify challenges														
Establish high level plan	Gain commitment to reform, agree plan, allocate resources				→	X								
Consult retailers	Socialise ideas & plans with retailers				→	X								
	What do we need to know to progress reform? (eg. AMI penetration? Moving from GXP to ICP billing? Survey customers)						→	X						
Gather basic data for analytics														
Define pathway	Prepare final strategic pricing plan (including target dates)						→	X						
Alignment across EDBs	Compare plan with other EDB's, form coalitions						→	X						
2. Regulatory enablers														
Form of price control	Change in form of price control from 'Weighted Average Price Cap to Revenue Cap							X						
3. Plan changes in more detail														
Develop detailed plans, including:	Identify issues/prepare detailed pricing reform plans													
- regulatory compliance	Check plan meets regulatory expectations							→	X					
- data analysis to assess customer impacts	Narrow down preferred options and test market impacts							→	X					
- implementation and transition arrangements	Identify what will drive success							→	X					
	Develop processes to account for stakeholder views and review against target dates.							→	X					
- feedback loops and issues resolution	Participate in ENA processes to provide stakeholders with single point of contact							→	X					
- communication	Educate customers and retailers about change							→		X				
4. Manage roll out of new pricing options														
Develop transition strategies	Incentivise and manage take-up over time for retailers and customers							→		X				
Adopt risk management approach	Identify and manage risks to markets, customers, EDBs (eg political and financial risks)							→			X			
Review progress and make adjustments	Actively consider progress towards outcomes over time							→			X			
Ongoing customer interactions	Monitor customer responses and manage as required							→			X			