



Transition, Communication and Managing Consumer Impacts

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Future Distribution Pricing Options Guidance



Distribution pricing guidance –
Consultation paper

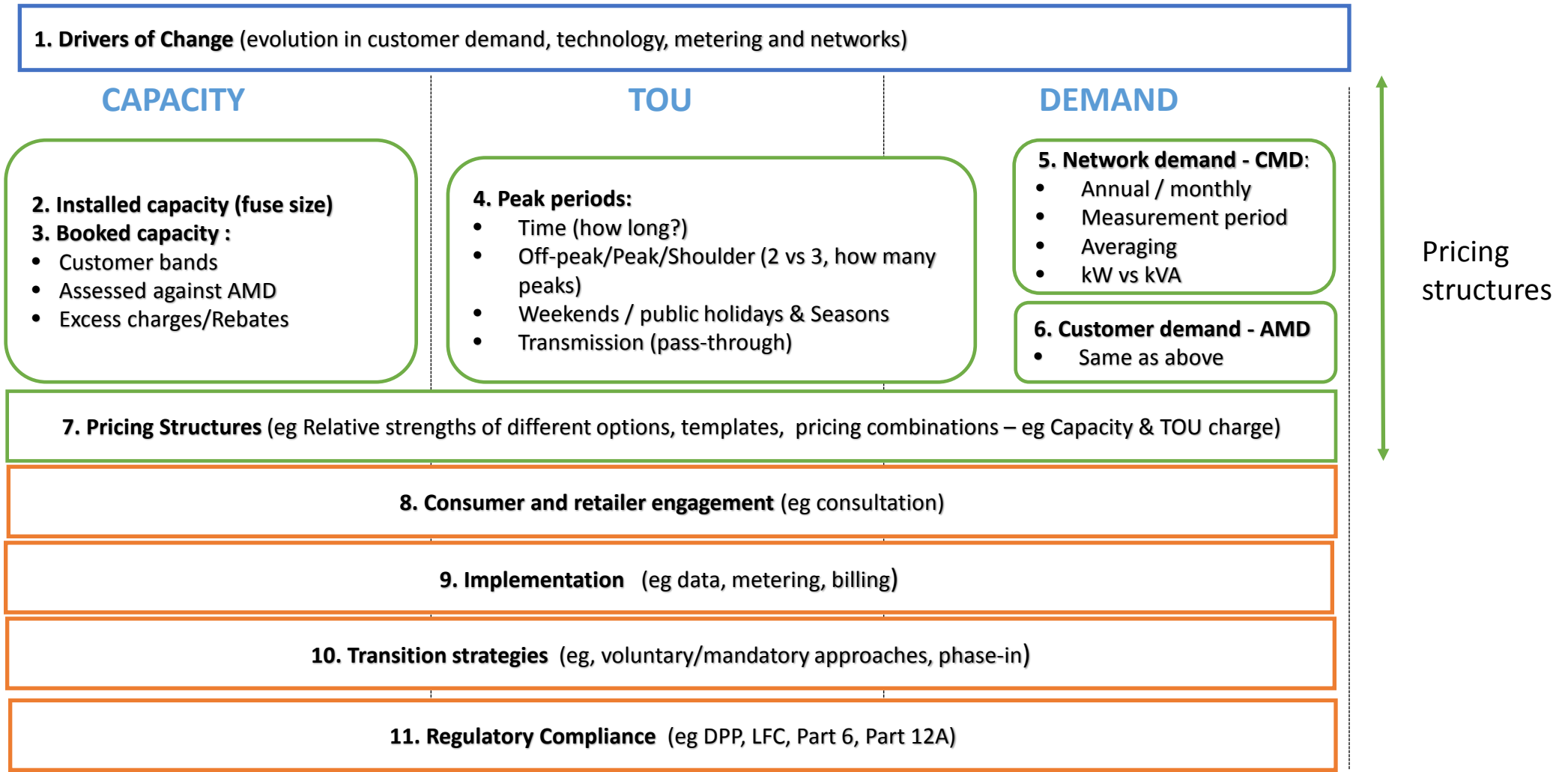
Prepared by the Future pricing subgroup of the
Distribution pricing working group

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DRAFT for discussion purposes



Future pricing consultation



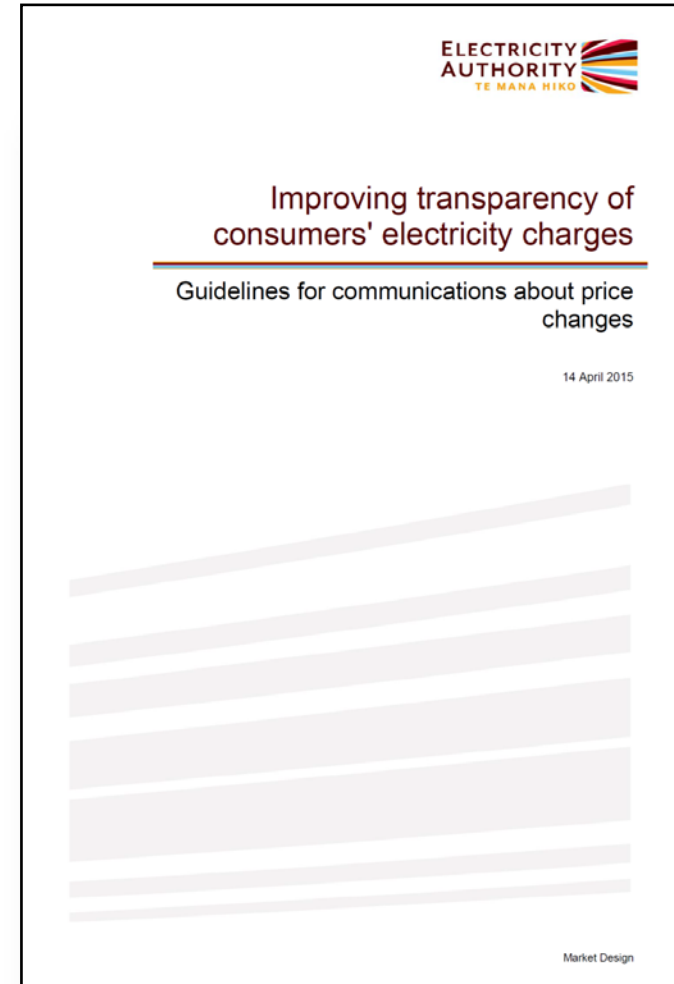
Developing an industry approach

- ENA consulting on strategies for communication, implementation and transition
- What is clear is that:
 - It will be hard (to do well)
 - One approach will not necessarily fit all
 - There is an obvious trade-off between transition timing and impact
- Which approach will serve consumers best?

Roles and responsibilities

- **Distributors** –
 - Consult with stakeholders to develop pricing. Follow established principles for consultation.
 - ENA Australia: “social license” concept
 - Agree communications with retailers – consistency required
 - **Retailers** –
 - Input into with the development of pricing
 - Implementation and communication
 - **The Electricity Authority** – facilitate, review and determine policy settings e.g. principles, timing and communication guidelines – intervention only when necessary;
 - **Consumers** – opportunities to provide feedback and shape the preferred options, adapt and respond.
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Regulatory Guidelines



Practical implementation

- Is the necessary smart metering infrastructure available?
- If not, when will it be? What means can be used to fill data gaps?
- Retailers expectation and requirements?
- What are consumers' preferences?
- Billing (and metering data) systems sufficiently advanced that they can accommodate new pricing?
 - Distributors and Retailers
 - Timeframes
 - Cost

Consumer impact analysis - example

One/two person, (at home) household: 20-25% of population

- Low annual consumption (<6,000 kWh/year).
- Strong morning and afternoon peaks.
- Medium level consumption between 11am – 5pm.
- Potentially retired couples, unemployed, solo parents.

One/two person (working) household: 25-30% of population

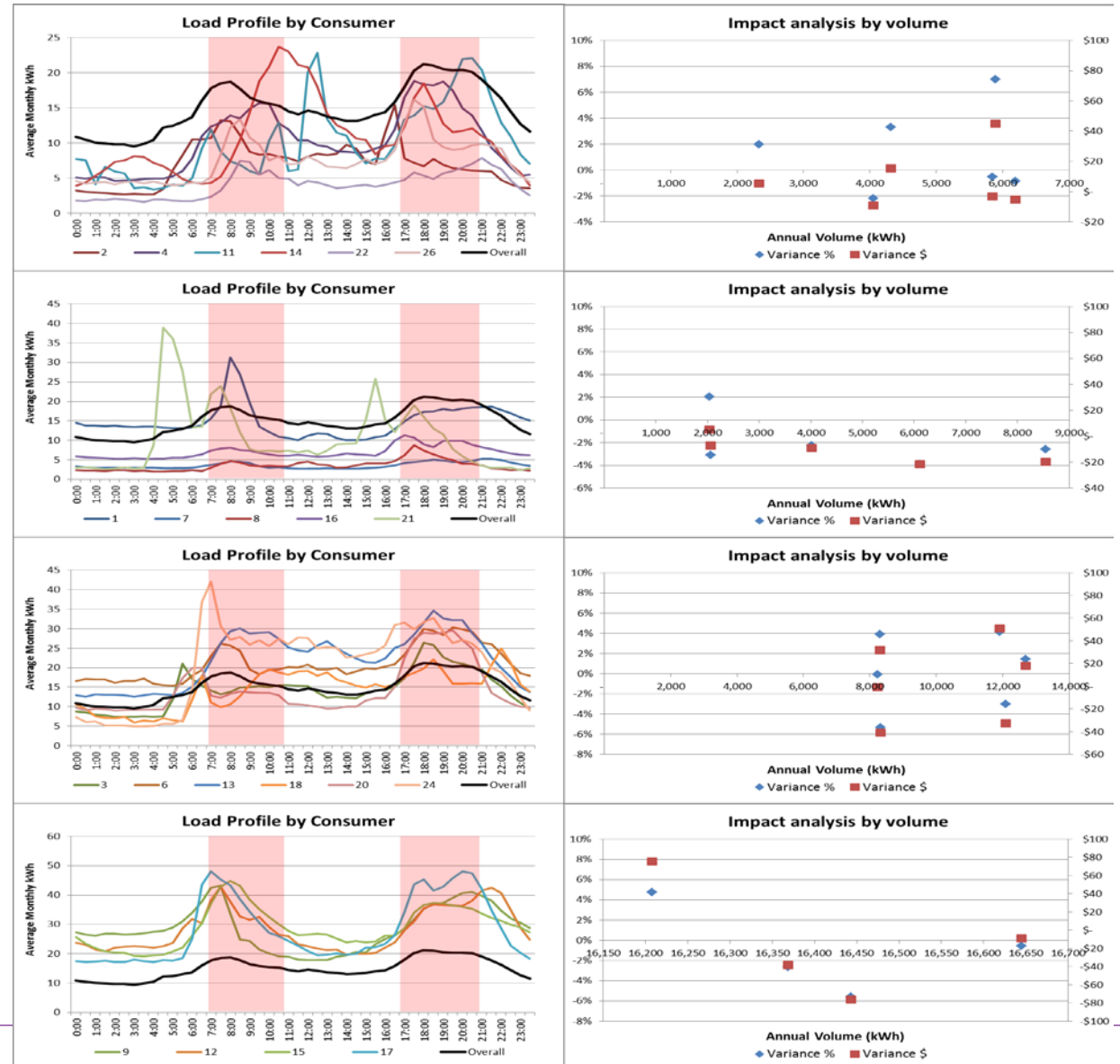
- Annual consumption <9,000 kWh/year.
- Strong peaks but outside of peak periods.
- Limited consumption between 11am – 5pm.

Couple with children: 20-25% of population

- High annual consumption (>8,000 kWh/year).
- Strong peaks during peak morning and afternoon periods.
- Strong consumption during 11am-5pm period.

Large working family: <5% of population

- Very high annual consumption (>16,000 kWh/year).
- Strong morning and afternoon peaks
- Limited consumption between 11am – 5pm.



Managing adverse consumer impacts

Surveyed examples include:

Approach	Description	Example	Considerations
Phased rebalance of prices	New price component introduced in year 1 and increased annually over several years, while legacy price component decreases annually	Jemena (Australian) plans phased introduction of demand charge over 7 years between 2018–2025.	<ul style="list-style-type: none">• Introduces consumers early on to the concept of cost-reflective charges, with limited financial impact• Consumers have time to adjust their behaviour• The phasing results in yearly changes in pricing which pro-long the effects of transition
Cap on price increases	A maximum annual price increase is applied over the transition period	Wellington Electricity recently applied a 6% price cap to minimise the effect of its 2016 price restructure	<ul style="list-style-type: none">• A higher price cap will allow new prices to be introduced faster and vice versa• Impact on retail bills may be less - distribution charges only one component of final bills
Cap on billed quantities	Peak demand/usage quantities capped to minimise high bills over a transition period	Energex's Financial Risk Reduction Mechanism essentially caps billable monthly demand at 5kW for an initial transition period	<ul style="list-style-type: none">• The distributor must set the level of capped quantities• An annual rising cap could be applied to slowly increase incentives on consumers

Transition strategy options

Surveyed examples include:

Approach	Description	Examples	Considerations
Opt-in for initial period	Clearly defined timeframe set for mandatory implementation	Waipa implementation of TOU	<ul style="list-style-type: none"> Allows for teething issues (data, systems etc) to be addressed during the opt-in period
Mandatory with voluntary opt-out	A mandatory transition is complemented by an opt-out pricing option	This approach has been adopted by some Australian distributors (eg Jemena), who have provided a limited opportunity for consumers to opt out of demand-based pricing approaches	<ul style="list-style-type: none"> Research suggests this drives 3-5 times higher uptake than voluntary approaches.
Shadow pricing	Legacy pricing supported by shadow bills of the alternative pricing structure that show consumers the savings under new pricing options	For example, opt-in demand charge is adopted with an Anytime kWh price shadow bill provided	<ul style="list-style-type: none"> Some consumers will be worse off under new pricing Making new pricing options attractive promotes greater uptake
Close legacy pricing to new connections	Legacy pricing is closed to new connections.	WEL Networks has adopted this approach for its new TOU Smart Pricing	<ul style="list-style-type: none"> Is effective at driving uptake where there is reasonable connections growth

The way forward

- Positive engagement with stakeholders
- Consistency in communications
- Holistic approach to developing pricing, implementation and transition

Thank you

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