Incentives for network pricing reform

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The Authority's questions

- What are the incentives on distributors to introduce more efficient price structures within the next two to five years? What factors matter, and how much?

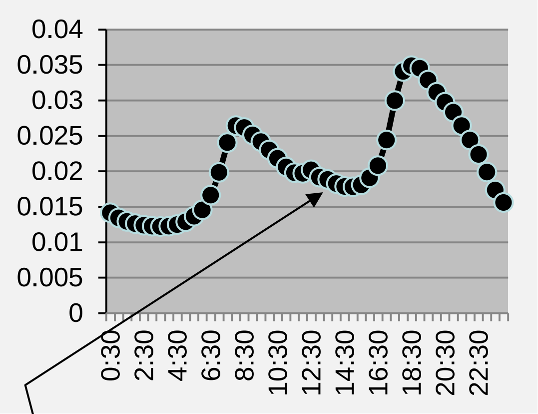
- What is stopping distributors acting immediately? If there are barriers, how can they be addressed?

- How are distributors incentives changing, and why?

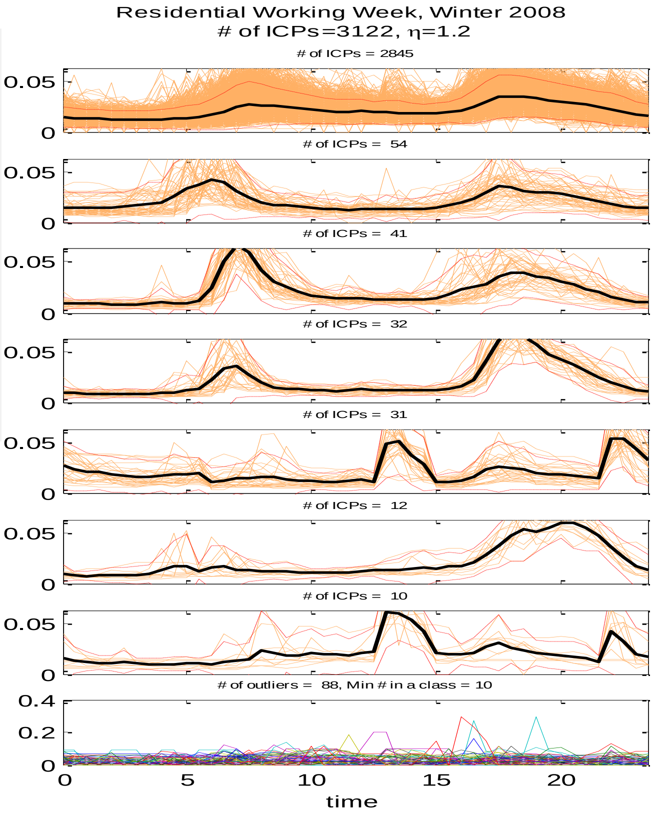
Unison's response to 2016 storms was not driven by any regulation, but by the desire to do the "right thing" by customers. Pricing reform is in the same category.

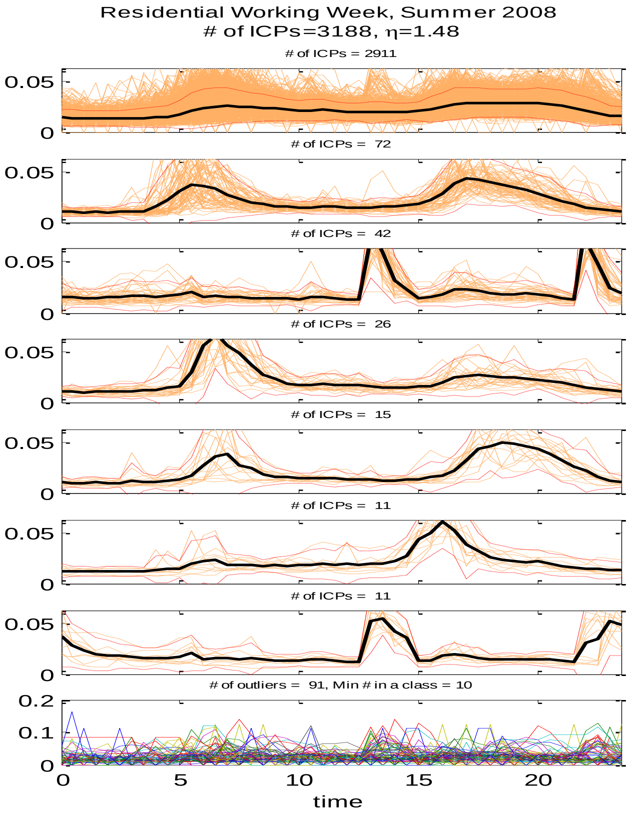
CONTEXT

As recently as 2010, most people had the same load profile



This generic profile represented more than 90% of consumers





In 2010…

- Load profiles were similar between the majority of customers
- Electricity prices were lower – so customers had less incentive to look for alternatives
- Metering technology allowed only basic cost signalling (day/night, controlled/uncontrolled)

- So…flat, volume-based charges were a reasonable and fairly socially equitable way of recovering network costs
  - Limited alternative options, given metering stock

In 2016… some customers have choices and incentives to look for alternatives

But many customers lack choices or understanding

- In 2015 Unison undertook “Customer experience mapping”
  - Detailed engagement with customers on their lives and their interactions with energy
  - Across a range of life stages and socio-economic dimensions
- Highlighted that many customers do not have choices about technologies (e.g., struggle to put food on the table, let alone afford energy efficient lightbulbs)
- Many customers lack even a basic understanding of electricity (e.g., plugging multiple appliances into a multi-board on the theory that if its going through one wall socket it will use less electricity)

INCENTIVES FOR PRICE REFORM

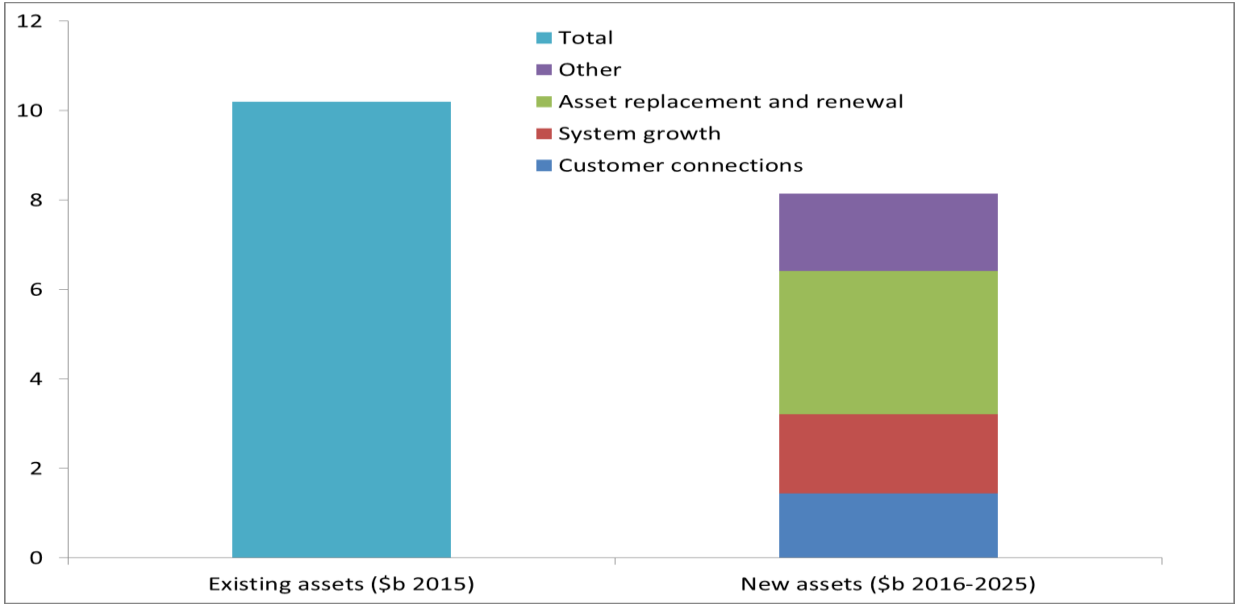
The long view

- Network businesses’ incentives are shaped by
  - Long-term commercial drivers
  - Regulatory considerations
  - Desire to look after our customers

Investment capital at risk

- Network businesses expect to add significantly to their asset bases over the next ten years, placing significant additional investment capital at risk

- We break even on new investments in 40+ years



Commercial incentives for pricing reform

- Absent reform, as fewer kWh flow through networks, prices must increase to cover costs
- Higher prices create risks
- The benefits of charging electric vehicles at the “right” time

Customer imperative for reform

- Most network businesses are customer/community owned
- Irrespective, our people live in our communities and we feel accountable and tied to the fortunes of our communities
- Failing to undertake pricing reform does a disservice to all our customers
- The longer the industry leaves it, the larger the resistance to reform
- Starting soon allows more time for a gradual transition

What's slowing us?

- Price cap regulation
- Developing the right pricing approach, calibrating levels
- Low fixed charge regulations
- Commercial challenges/coordination in a fragmented industry
- Customer communications challenge
  - Building understanding and the case for reform

Summing up

- Pricing reform is a win-win for customers and for network businesses
  - Reduces network investment and prices (compared to counterfactual)
  - Assists in avoiding uneconomic bypass / cost shifting between consumers
- **We sell access** (24/7 ability to access the grid) **and capacity** (as much as you want at peak times)
- **We don’t sell kWh**
- Price reform will not be easy, but the prize is worth it