Electricity delivery pricing update

(for prices applying from 1 April 2022)

Our prices are reducing by an average of 0.1%

EA Networks maintains and operates the local electrical network to provide electricity delivery services for electricity retailers in its Ashburton based network area. We are a cooperative, owned by our customers, and we are committed to delivering value to our community.

We charge electricity retailers for the delivery service, and our charges are included in their retail prices. Each year we review our prices and this document provides a brief summary of the key changes we have applied in this year's update.

A schedule of our prices, the methodology that we use to establish prices, and our future pricing workplan are available on our website at https://www.eanetworks.co.nz/disclosures/.

EA Networks is the trading name of Electricity Ashburton Limited. Our offices are at 22 JB Cullen Drive, Ashburton Business Estate, Ashburton. You can call us on 0800 430 460, send us an email at enquiries@eanetworks.co.nz, or visit www.eanetworks.co.nz.

Regulated price adjustment

We operate under a regulated default price-quality path (DPP) which was updated and reset by the Commerce Commission to apply for the 5-year period beginning 1 April 2020.

In 2020 the price path reset required a 1.3% reduction in our underlying revenue, and the following 4 years provides an inflation based increase, together with a range of regulatory allowances. For this update, the following are the main drivers of change:

Distribution cost allowances	Regulated allowances for operations, maintenance, administration and asset-based costs (with an inflation based increment)	+1.7% +$0.7m
Transmission related costs	Charges from Transpower for the national grid (representing 20% of our total costs) vary from year to year	+0.4% +$0.1m
Regulatory incentives	The DPP includes incentives relating to expenditure and reliability, and changes in these incentives are reflected in prices	-0.7% -$0.3m
Pass through costs	The regulations allow us to reflect changes in costs that we can't control, including Commerce Commission and Electricity Authority levies, Utilities Disputes charges, and Fire and Emergency NZ levies.	+0.1% +$0.06m
Washups and adjustments	The price path captures variations in prior expenditure and revenue and reflects this in the allowable revenue cap	-0.5% -$0.2m
Network growth	When chargeable quantities increase we must set lower prices to remain within the revenue limit set under the DPP	-1.4%
Overall price reduction		**-0.1%**

(note: the overall price increase is calculated from unrounded components)

Of note, the larger distribution part of our delivery prices (representing our local distribution service) is remaining at a similar level, while the smaller transmission part of our delivery prices is reducing slightly (on average):

	Proportion of revenue	Price movement
Distribution component	80%	0.0%
Transmission component	20%	-0.2%
Delivery price (weighted average total)		**-0.1%**

Each of our pricing categories has a different exposure to the components that are increasing and reducing, so the impact varies a little. In summary, our average movements are:

- General connection prices (covering all residential and most business connections) are increasing by 0.1%
- Irrigation connection prices are reducing by 0.3%
- Industrial connection prices are increasing by 0.5%
- Large user prices are increasing by 0.1%

Pricing methodology

We maintain a cost allocation model to support our pricing updates, and the main aspects of this model are presented in our pricing methodology document which will be published on our website early March 2022. The document sets out how we define connection categories, how we allocate costs to each category, and how we establish prices to recover the allocated costs.

We consider a range of issues when setting prices. Subject to the many practical and regulated limitations, we think that the most important objective is to structure prices to appropriately reflect our cost drivers. When prices reflect costs, customers have an incentive to use electricity when and where it is economically efficient to do so (and select alternatives when there are lower cost solutions). This avoids an unnecessary economic burden for our community, and also minimises the extent to which some users might subsidise the costs imposed by other users.

The attributes that support our cost allocation and price setting vary from year to year and we smooth any impact by adjusting prices to reflect longer term trends in the attributes.

Fixed and volume price rebalancing

For our general category, covering all residential and most commercial connections, we apply a combination of fixed and volume-based pricing components.

Volume based pricing is supported by regulation and provides some useful outcomes – it encourages customers to purchase energy efficient appliances, use LED light bulbs and to upgrade their insulation.

However, the industry and our regulators have recognised that volume-based pricing is driving some inefficient outcomes, particularly in terms of our sustainability objectives:

- it discourages customers from using our network to share local renewable energy resources (like solar generation),
- it adds a barrier to adoption of electric vehicles and electrification of commercial process heating,
- it discriminates against families in energy poverty, particularly larger families in poorly insulated rental accommodation with inefficient heating appliances and no access to solar panels or other alternatives.

We recognise that New Zealand's greatest opportunity for sustainability improvement is decarbonisation through electrification of our transport fleet. For this journey (among other things) we will need more renewable generation. To keep our energy costs at a reasonable level, it is important that this generation need is fulfilled by low-cost renewable generation. Our volume-based pricing is currently encouraging customers that can afford it to install small scale bespoke roof-top solar systems, rewarding them with a lower share of our fixed overhead costs. The alternative is large scale solar and wind generation solutions which can provide the same energy at around a third of the cost, and lower volume-based pricing will provide the opportunity and encouragement for all customers to purchase this lower-cost energy through our network.

Recognising these influences the regulations that limit the level of fixed charge that we can apply are being phased out. Alongside other NZ electricity networks, we will be lowering our volume-based charges over a period of several years, and instead recovering this revenue by increasing our fixed charges.

In itself, this change will be revenue neutral and, for customers with average usage levels, the adjustment will not change the total amount we charge. In the longer term it will lead to lower overall energy costs for our community. However, higher usage customers (including those in energy poverty, and those charging electric vehicles) will pay less, and low use customers will pay more.

Looking forward

Alongside the fixed and volume rebalancing noted above, we expect several factors will influence our future pricing levels:

- Our regulated price path regulation provides an inflation-based increment to our asset based revenues for the remaining 3 years of the current price path, and we expect a similar approach when the price path is reset in 2025.
- Transpower is currently developing a new pricing methodology to meet the revised guidelines issued by the Electricity Authority and this will affect the way it charges us. The main feature of the proposed change is a move away from demand-based pricing in favour of various forms of fixed (unavoidable) pricing. Subject to Transpower's proposals being ratified by the Electricity Authority, we expect that EA Networks will attract a greater share of grid costs under the new methodology supporting around a 10% increase in our charges when the revised methodology becomes effective (in 2023 or 2024).

Further information

Our pricing documentation including current and previous price schedules, loss factor schedules and our updated pricing methodology document are available on our website at https://www.eanetworks.co.nz/disclosures/. Any queries can be directed to Alex Nisbet, Pricing Manager at EA Networks (phone 03 307 9825)