Electricity delivery pricing update

(for prices applying from 1 April 2023)

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, making up about 24% of the final retail power bill for residential customers. 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. Last year we were able to reduce our prices by a small margin. This year, inflation pressures and an increase in the amount we are charged for our connection to the national grid underpin a 10% average increase in our charges. The main drivers for this change are:

Our management costs	Our forecast for operations, maintenance, administration of the network	-0.7% -$0.3m
Our asset costs	Return on investment, depreciation, tax allowance and loss on disposal	+7.3% +$3.0m
Transmission related costs	Charges from Transpower for the national grid (representing 23% of our total costs) vary from year to year	+5.9% +$2.5m
Regulatory incentives and limits	The DPP includes incentives relating to expenditure and reliability, and changes in these incentives are reflected in prices. It includes a wash up mechanism for prior under or over recovery, and it also imposes limits on the overall change that we are allowed to apply.	-2.5% -$1.0m
Overall charge increase		**+10.0%**

Asset costs

The return we make on our assets is regulated at about 2% and linked to the indexed value of our asset register. This year the indexation of asset values, which tracks movements in other costs, has reflected the high level of cost inflation that we are currently seeing in the economy.

Transmission costs

The industry regulator, the Electricity Authority, has spent more than 10 years developing a new way to share around the costs of our national grid. While we have advocated for our interests throughout the development, this new approach allocates a significantly greater proportion to us than the previous approach. The key change is that the new approach takes account of our year-round peak loads, whereas the old approach usually only looked at our winter peak loads (when our load is relatively low). In total, the transmission charges we pay are increasing from $7.9m to $10.3m.

Taking account of movements in our forecast chargeable quantities and movements between connection categories (as customers upgrade and downgrade their supplies), this 10% increase in revenue translates to an 11.2% increase in the prices that we apply.

Offsetting the increase in the amount we charge electricity retailers through prices, we will now also pass through to electricity retailers transmission rebates (totalling around $1m) that we previously used to offset costs.

Breaking down the numbers

We have reset the way we allocate costs to connection categories to better reflect the drivers of costs (as well as the updated transmission approach). This reset means that some categories will see price increases above the 10% average, and others below.

In summary, our average price movements for our main categories are:

General connection 20 kVA (covering most residential)	+12.6%
General connection 50 kVA	+9.4%
General connection 100 kVA	+0.6%
General connection 150 kVA	+0.4%
Irrigation	+13.2%
Industrial	+21.6%
Large customers	up to +53%
Generation customers	up to +50%
Streetlighting	-17.7%

Finally, within each category we have adjusted the structure of our pricing in line with the new allocation and to better reflect costs. This means that the charges in respect of individual customer's supplies will change by more or less than the averages above.

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 2023. 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.

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 delivered 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 our future annual pricing reviews will result in increases around the 10% mark as inflation-based increments remain high and we recover shortfalls from prior years.

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 0800 430 460).