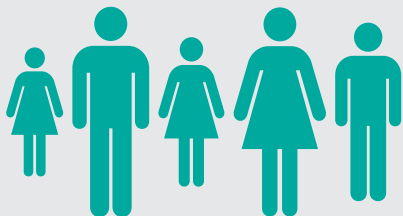




An overview of the future of network pricing

Update - September 2017



Most of us use electricity every day to make our lives easier and more comfortable. In New Zealand, around 80% of our electricity generation comes from renewable sources like sun, wind and water. It's the bit in between boiling a kettle and the generation of electricity that involves us.

We are your local electricity lines company, responsible for delivering and maintaining a safe, secure and reliable power supply to the North Canterbury and Kaikoura region. Simply put, we look after the 'poles and wires' that deliver electricity to our region's homes, businesses, schools and communities.

Managing our network of 4,996 kilometres of overhead lines and underground cables as well as associated electricity infrastructure is a team of dedicated staff who do an all-round great job for our local communities.



4,996 

**kilometres of overhead lines
and underground cables**



Consumer Ownership

The MainPower Trust holds the ownership of MainPower New Zealand Limited on behalf of qualifying customers. Consumer ownership of MainPower entitles qualifying customers to a share of profit. Once a customer* is connected to the MainPower network, that customer is issued with a redeemable preference share (also called a rebate share) in MainPower through which they receive a rebate or 'pay back' which is credited on each monthly electricity bill. MainPower also provides profit distribution in the form of funding for community initiatives, which is administered through MainPower's sponsorship programme.

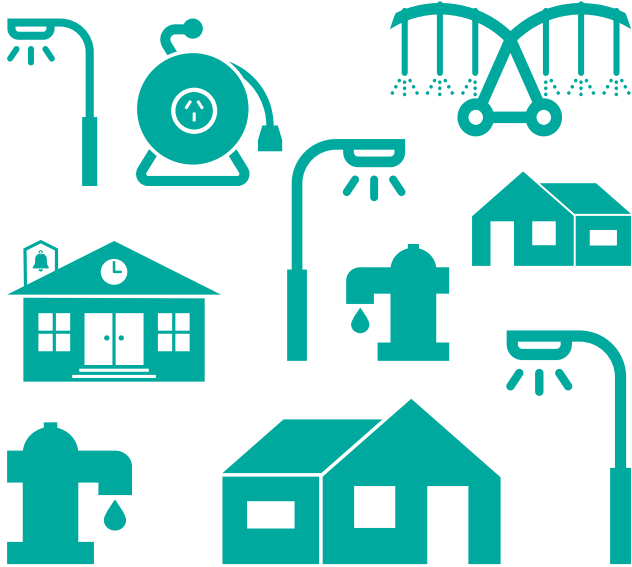
*Customers previously connected to the Kaiapoi Electricity Network and builders' temporary supply are not deemed qualifying customers under the Trust Deed.

Our network covers
11,180
square kilometres

Our customers

MainPower provides distribution line services (poles and wires which deliver electricity to homes and businesses) to a population of over 65,000 people in the North Canterbury and Kaikoura region. Approximately 76% of our customer base is residential, with the majority of the remaining being small commercial, farming or irrigation customers.

Within our network we have two pricing regions and six standard customer groups.



Pricing region

- MainPower region
- Kaiapoi region (customers previously connected to the Kaiapoi Electricity Network)

Customer groups

Residential: the customer's connection is for a private dwelling intended for occupation mainly as a place of residence, not normally used for any business activity.

Non-residential and large users: treated as a separate customer group to recognise the different connection load usage profiles.

Lighting: established to recognise the night-time only usage profile and dedicated assets attributable to lighting connections.

Irrigation: added in response to significant growth in irrigation in North Canterbury. Recognises the unique summer demand peaking load profile of these customers and incentivises efficient utilisation of available capacity in the network.

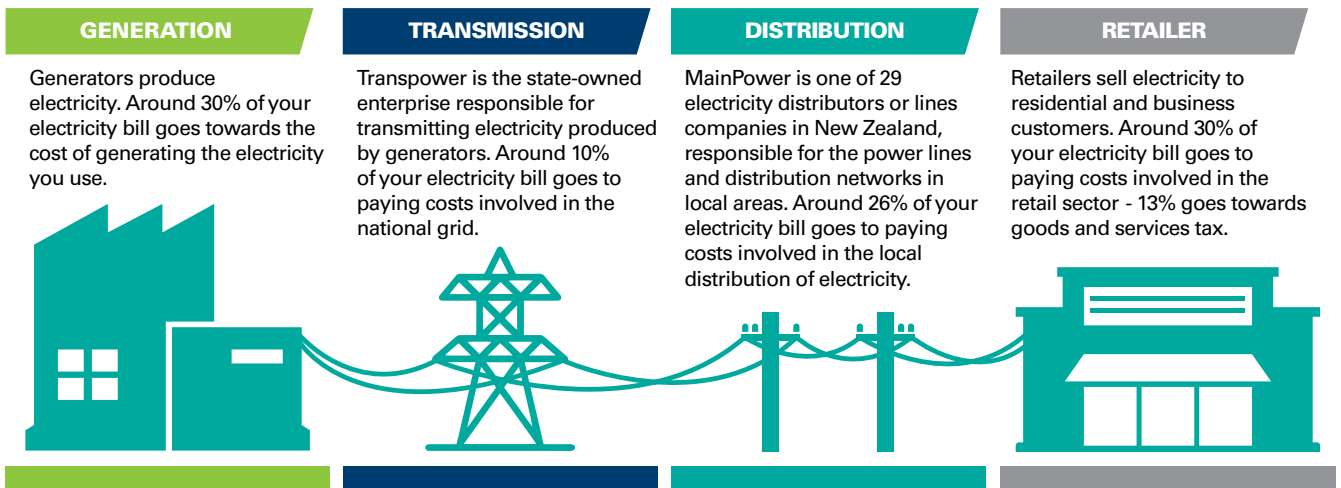
Council pumping: recognises their high peak load but less frequent use.

Temporary supply: recognises the need for temporary supply connections (e.g. related to construction) as well as the additional costs associated with servicing this group.

Your electricity bill

As your local distribution company, MainPower charges 'line charges' to cover the cost of delivering electricity to homes and businesses. This is passed onto electricity retailers who send you your electricity bill. MainPower doesn't sell electricity or set the final price you pay for it – your retailer does that. We determine our target revenue to ensure it will be sufficient to cover the operating and capital costs necessary to deliver

electricity to the region. This covers everything from administration costs through to network maintenance and transmission charges. Transmission costs are a direct pass through of those charges levied on MainPower by Transpower. Pricing or 'tariffs' are set to recover cost allocations to each customer group and pricing option, using forecast volumes and current pricing structures.



What's changing?

MainPower is currently reviewing its approach to electricity line charges which has remained unchanged since 1998.

The past 12 months have been a period of significant change for our organisation as we prepare the business to respond to the game-changing potential of emerging technologies, like solar photovoltaics (PV) and battery storage. These technologies give our customers greater choice on how they produce, store and consume electricity. The opportunity and impact on our core business as an electricity distributor is significant.

Basically, our customers are changing the way they use the network, so we need to reconsider the way we charge for our services.

The Electricity Authority, the independent Crown entity responsible for the operation of the electricity market in New Zealand, also believes that pricing of distribution services (or 'line charges') needs to change to maximise the benefits of emerging technologies for consumers.



What do we hope to achieve?

MainPower's ownership structure means that our organisational goals need to benefit the Kaikoura, Hurunui and Waimakariri communities. Our challenge is how we can continue to provide our customers with solutions by adopting new energy supply technology while still providing customers with value for money through simple and transparent pricing.



The electricity distribution network has provided a reliable and secure supply of electricity for many years. New technologies like solar PV mean customers can now generate their own electricity and in some cases, export any excess solar electricity back to the grid. Current distribution pricing means those customers without access to alternate energy sources like solar, would pay more for the same service which isn't fair or equitable.

The future of network pricing. What does success look like?



Customers and Community

- Customers and the community are engaged in planning and decision making.
- We develop a pricing structure that is transparent and concise; and
- Accommodates the evolving needs of customers and the community while encouraging economic activity.



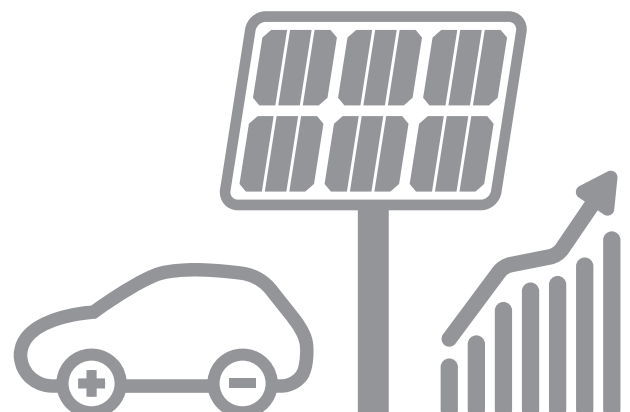
Government and Industry

- Pricing is cost reflective (both the structure and the level), except where legal/regulatory requirements and community considerations dictate.
- The pricing structure aligns with common approaches adopted by the distribution sector (to the greatest extent practicable) taking into account ENA (Electricity Networks' Association) and EA (Electricity Authority) guidance.
- The pricing structure is compliant with all applicable regulations and provides a rate of return within the regulatory thresholds.
- We involve retailers and regulators in planning and decision making.



Sustainability

- The pricing structure maintains the long term financial sustainability of the network.
- The pricing structure is simple to administer.
- Pricing facilitates a stable and efficient transition towards the adoption of future energy related technologies e.g. PVs, electric vehicles and energy efficiency improvements.
- The pricing structure supports customer choice and their ability to manage their consumption.



A summary of what's happening



2015–2016

Defined overall pricing objectives and started consultation with customers



2016–2017

Developed pricing options and further consultation with customers and stakeholders



2018–2019

Implementing pricing change and ongoing communication with customers and stakeholders

Our pricing reform journey



Timing is indicative and subject to review. MainPower's pricing reform journey will be updated on a six monthly basis.



Stages	Activities
1. DISCOVERY	
Define overall objectives	Goals outlined in this document
Develop strategy to deliver	High level options identified
Establish high level plan	Gain commitment for reform
Gather basic data	Stream 1, 2, 3A of engagement
Identify refinements to current structure	Including simplification of structure and balance between fixed and variable charges
Stakeholder engagement	Engagement with Board about pricing options and pathway
Consult with retailers	Ongoing engagement with retailers regarding refinements and long term structure
Define pathway	Prepare final strategic pricing plan
Internal capability	Review internal resources eg, analytical capability and arrange training as necessary
Consult with retailers	Engagement with retailers on changes to be made in 2018-19 pricing year
Internal capability	Review billing systems capability and identify options for upgrades if required
2. DESIGN	
Develop detailed plan, including:	Prepare detailed pricing reform plans
Identify priorities for reform	Review current knowledge, set timelines and establish plans for each pricing group
Identify challenges and implement plan to address	Known issues- metering configuration, AMI penetration, availability of data
Consultation and engagement	Confirm consultation plan and implement stream 3
Pricing trials to test ideas	Identify options for trial and discuss with customers
Data analysis to assess impacts	Narrow down preferred options and test market impacts
Communication with customers	Formulate plan for communicating with customers
Implementation and transition arrangements	Plan for implementation of changes
Feedback loops and issues resolution	Develop processes to account for stakeholder views
Adopt a risk management approach	Identify and manage risks
Repeat stage 2 for other pricing groups	Timing for other pricing groups dependent on findings from stage 1
3. IMPLEMENTATION	
Implement change	Introduction of pricing
Notification to retailers	Engagement with retailers on 2018-19 changes
Manage transition	Incentivise and manage take-up over time
Adopt risk management approach	Continue to identify and manage risks
Review progress and make adjustments	Actively consider progress towards outcomes over time
Ongoing customer interactions	Monitor customer responses
Develop review mechanism	
Repeat stage 3 for other pricing groups	Timing for other pricing groups dependent on findings from stage 1

[illegible]

Customer and stakeholder engagement is key

To deliver a fair and equitable pricing approach, it is necessary to seek the involvement of our customers and other stakeholders in planning and decision making.

As part of our future pricing journey, we plan to engage with customers and the community to ensure that their feedback informs the way in which pricing structures are set.

It is also important that once the pricing approach has been determined, we adequately educate customers' so that they have confidence in our approach and it meets their wants, needs and expectations.

A transition and communication plan will be presented prior to implementation, setting how the new pricing structure will be introduced and communicated to customers and stakeholders.



Engagement and consultation activity

	Stream 1	Stream 2	Stream 3	Stream 3		Stream 3
			Phase A	Phase B		Phase C
Focus	Touchpoint expectations and service preferences	Supply expectations and preferences	Quantify needs and preferences	Understand needs and preferences		Test/consult on changes
Broad Coverage	Operational level preferences for service interaction between MainPower and its customers	Understand and prioritise customer needs and preferences regarding supply	Broad topics around tariff knowledge and behaviour as well as adoption of new technologies	Greater understanding about perceived benefits and negatives of various tariff options in eyes of customers		Final test of tariff option/s. Make sure we haven't misinterpreted feedback
Target Audience	Representative sample of customers	Representative sample of customers	Residential, Small Medium Enterprises, rural customers	Residential, Small Medium Enterprises, representative groups	Large users, electricity retailers, rural customers	Residential, Small Medium Enterprises, representative groups
Status	Completed June 2015	Completed November 2015	Completed April 2016	To be completed	Completed May 2016	To be completed

How we are keeping customers informed



www

Website

<http://www.mainpower.co.nz/customers/community-consultation/line-charges-survey>



Online surveys



Focus groups and one-on-one interviews



Advertorial and advertising in local newspapers and on radio



Community consultation

Appendix

MainPower Price Consultation Summary

MainPower is one of 29 electricity distribution businesses in New Zealand that are required to comply with Electricity Authority and Commerce Commission rules governing how prices are set. These rules require electricity distribution businesses to consult with their communities and customers regarding pricing methodologies. In April 2016, MainPower completed stage one of a consultation project with its community on various possible pricing structures. The survey proved highly valuable in enabling MainPower to gain an indication of which pricing approaches might better meet the needs of customers and the community at large. Here are some of the key findings of that research.

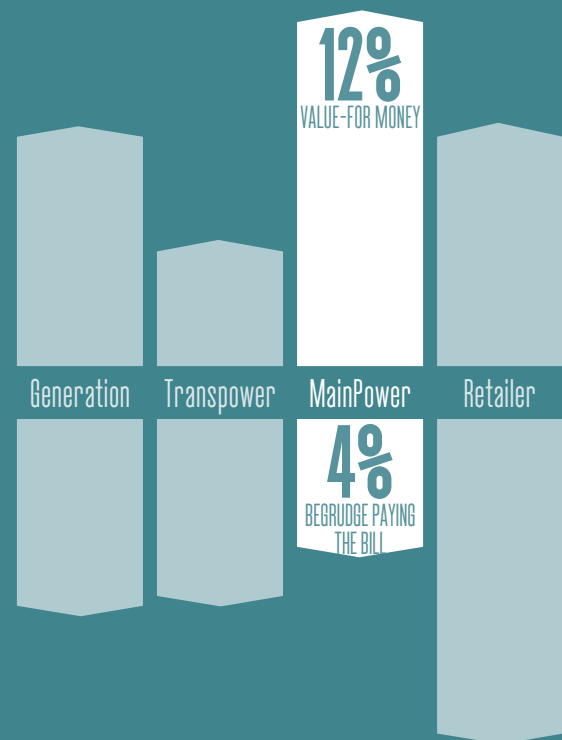
Survey sample

1446
PARTICIPANTS

94% **6%**
RESIDENTIAL BUSINESS

12,829 customers were asked to participate in an online survey about price structures and 1446 responded providing a margin or error of +/-2.5%.

Attitudes to power bill



More customers think that MainPower is value-for-money than other suppliers in the supply chain. Fewer customers begrudge paying the MainPower bill than the other suppliers bills.

Price Structures

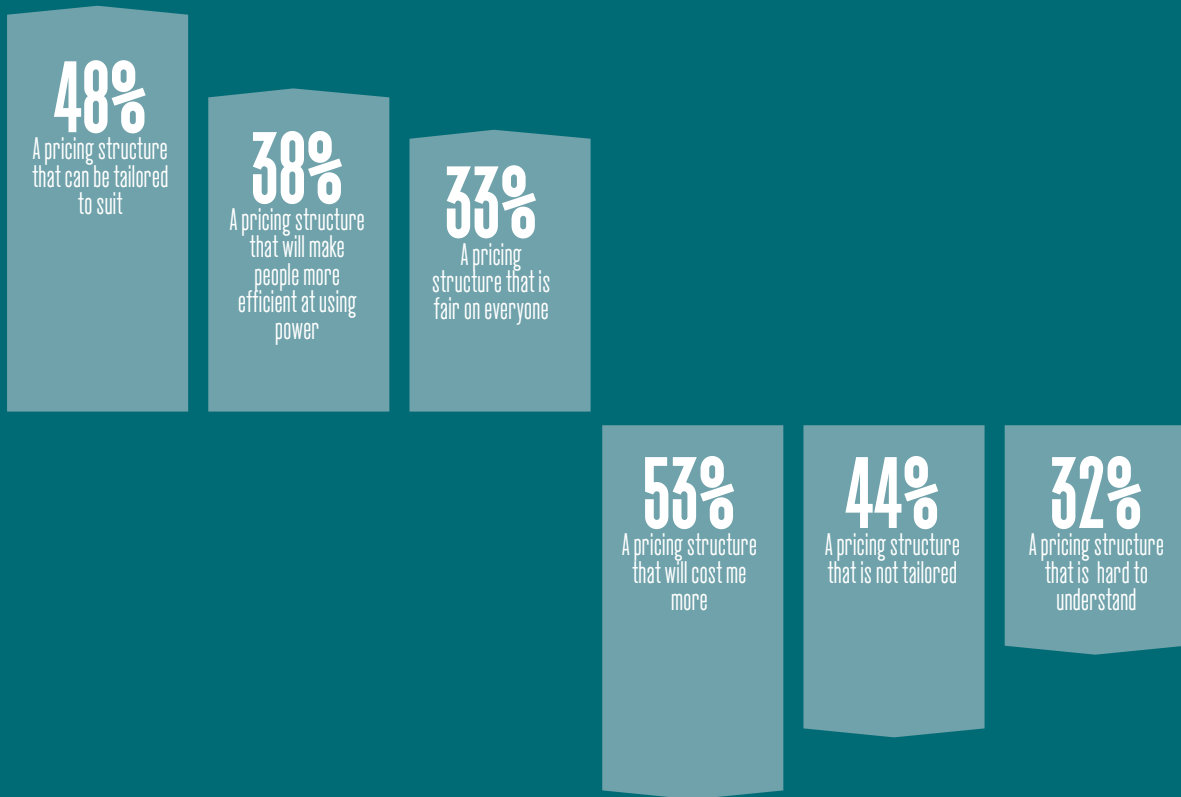
- | **Fixed Price:** Customers are charged the same daily charge for use of the network, irrespective of the volume of electricity they use or the time that they use it.
- | **Volume:** Customers are charged on the amount of electricity they use, irrespective of when they use it.
- | **Time Of Use:** Customers are charged a different rate at different times of the day. This typically means you pay less during off-peak times and more during peak times.
- | **Peak Consumption:** Customers are charged based on their maximum level of electricity consumption on any day of their billing cycle regardless of what they use on days where they did not reach this maximum.

What is your preferred price structure?



Residential customers with higher monthly bills preferred Fixed Price and Time Of Use more than Volume and Peak Consumption. Residents with lower monthly bills preferred Volume and Time Of Use more than the other two options. Peak Consumption is the least preferred option and Volume and Time Of Use are the most preferred.

Key benefits sought and downsides to avoid in a price structure



The key benefit nearly half of respondents are looking for is a tailored* approach, followed by a price structure that supports efficiency and fairness. The main downsides customers want to avoid from a pricing structure are electricity costing more, followed by a structure that is not tailored and hard to understand. Customers were least concerned about others benefiting more than themselves, although 15% do want fairness for all.

Comments

Based on the comments section in the survey, customers want a price structure that will work best for their living circumstances and will save them money. Secondary is a desire for fairness. Peak Consumption is regarded as the least fair option and Volume as the most fair, followed by Fixed Price. Time Of Use was considered an antiquated approach by many, and an inconvenience in terms of trying to find ways to adjust ones living to benefit from it. People requested that the price structures be kept simple and easy to understand, so that they could find ways to save money. There was also a desire to have bespoke pricing, or to be able to tailor a pricing structure to suit an individual household by using a combination of all four pricing methods. The ultimate goal for most people seems to be to find ways to reduce their power bill, without having to cook dinner at 3am, or live in a cold house over winter.

How does each pricing structure stack up against the other?

**EASIEST TO
UNDERSTAND**

88%
Time Of Use

**SEEMS
FAIR**

74%
Volume

**IS MOST
APPEALING**

57%
Volume

**WILL USE
LESS POWER**

34%
Volume

**WILL USE
MORE POWER**

16%
Fixed Price

**WILL COST
MORE**

51%
Peak

**WILL SAVE
ME MONEY**

35%
Time Of Use

**LIKE PRICE
STRUCTURE**

45%
Volume

Volume pricing is seen as offering the greatest benefits to customers, including being seen as fair, appealing, likely to result in more efficient use of power, and the most liked. Time Of Use pricing stood out for the benefits of being easy to understand and appealing because it is likely to save the customer money. Peak Consumption and Fixed Price structures are viewed less desirable as customers see them as likely to result in higher power use and costing the consumer more money.

There were strong themes around social good and quite a number of comments about people on low incomes huddled in front of heaters to stay warm while power companies profit. There were equally as many comments about the cost of electricity, and how the price 'just keeps going up'.

When weighing up all the comments, Peak Consumption is by far the least desirable pricing structure and also the least understood, and Volume seems to nudge out in front of Fixed Price as the most preferred approach.

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mainpower^{.nz}

Need more information?

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Email feedback@mainpower.co.nz

Or visit www.mainpower.co.nz

Have your say

If you would like to have your say, contact corpcomms@mainpower.co.nz and we can let you know what consultation we currently have open.