



Unison Pricing Consultation

Unison Networks Limited

Version Number 1.0

December 2009

TABLE OF CONTENTS

1	PURPOSE	3
2	BACKGROUND	3
4	PROPOSED PRICING STRUCTURE	7
4.1	General	7
4.1.1	Tariff structure	7
4.1.2	Simplification of tariff groups	7
4.1.3	Smart Meter Tariff (domestic)	7
4.1.4	Demand based charges (commercial and industrial)	8
4.1.6	TOU Tariff AMPs threshold change (Commercial and Industrial)	9
4.1.7	Temporary Disconnections	9
4.1.8	Industrial Pricing	10
4.1.9	Billing Platform Upgrade	10

1 PURPOSE

Unison includes, as one of the principles upon which its pricing methodology is based, that any changes to the pricing methodology (and the rationale for those changes) should follow consultation with interested parties and be widely publicised, transparent, and easily understood. This document is part of the consultation to meet the Company's pricing principles.

The purpose of this document is to present the findings from the analysis work undertaken by Unison's revenue and pricing group with the objective of delivering the following outcomes from the 2010-2011 tariffs:

- (a) An enhanced tariff structure that improves the transparency and effectiveness of the allocation of costs to consumer groups
- (b) A simplification of the number of tariff groups for the small to medium commercial customers as per feedback received during the year from retailers
- (c) The introduction of an advanced metering tariff for residential customers in line with the developing technology and part of Unison's Smart Grid deployment.
- (d) The merging of the summer on peak demand ("SOPD") and winter on peak demand ("WOPD") charges into one, on peak demand charge ("OPD")
- (e) The introduction of a specific tariff to ensure consumers who utilise the network assets intermittently, share proportionately in the allocation of costs, e.g. holiday homes and seasonal load equipment. Capacity charges for the full period will be payable even if seasonal load equipment is disconnected and reconnected within 12 months.
- (f) Pricing that is aligned to the network architecture and sends strong efficiency signals where the network system is congested and where the transmission system is constrained
- (g) A phased reduction to the TOU metering amps threshold (currently greater than 500 amps) to improve the network's ability to allocate costs and send price signals to large consumers to incentivise reduction of peaks and improvements to power factor.

The intent of this document is to initiate consultation with Unison's retailers, consumers and other interested parties, on the proposed changes that will improve Unison's existing pricing structure.

2 BACKGROUND

Unison supplies Consumer in the Hawke's Bay, Rotorua and Taupo regions. The company is 100% owned by the Hawke's Bay Power Consumer' Trust, which holds the shares on

behalf of the Consumer connected to Unison's network in Hawke's Bay. The Rotorua and Taupo networks were acquired from United Networks Limited and Vector Limited on 1 November 2002 as part of the contemporaneous sale of a number of networks owned by United Networks Limited.

Following the acquisition of the Rotorua and Taupo network assets, Unison undertook significant changes to the pricing methodology across all its regions in 2004. The changes implemented in 2004 effectively moved the Hawke's Bay pricing methodology towards that used in Rotorua and Taupo. The changes effected in 2004 represented only a partial step towards an integrated and consistent pricing approach for all regions.

As part of Unison's administrative settlement offer with the Commerce Commission, Unison rebalanced tariffs on 1 December 2006 between regions and customer groups in accordance with the allocation of costs in Unison's new Cost of Supply model, thereby resulting in consistent rates of return contributed by each customer group in each regional network. The cost-reflective pricing principles underpinning Unison's cost of supply model are largely derived from the 2005 issues paper prepared by the industry-led Pricing Approaches Working Group (PAWG), which consisted of distributors, retailers and consumers. Similarly, Unison's cost allocation methodology generally follows the key steps outlined by PAWG.

Along with the rebalancing of rates on 1 December 2006 the following pricing methodology changes were made:

- (a) Larger Consumer were allocated to customer groups based on the voltage that connected them to the network rather than the type of metering they had
- (b) Hawke's Bay region 20 load groups H-L40 to H-L59 were merged into one load group H-L40 with an assessed capacity charge applied
- (c) The introduction of new tariff options for mass market consumers to provide an incentive for load control, differentiate between a single meter with load control versus one without load control, and have different rates for day and night to better reflect the costs to Unison
- (d) The introduction of power factor charges to encourage TOU commercial customers to manage their power factor

Unison continues to review pricing to meet consumer, company, industry, legislative and regulatory requirements. The pricing methodology will be disclosed in accordance with the regulatory requirements imposed by the Electricity Distribution (Information Disclosure) Requirements 2008 (New Requirements) administered by the Commerce Commission. The New Requirements came into force in October 2008, and contained transitional provisions for the continuation of some provisions of the Electricity Information Disclosure Requirements issued 31 March 2004 (consolidating all amendments to 31 October 2008) (Original Requirements). Requirement 22 of the Original Requirements continues to apply, and requires lines companies to publicly disclose the methodology used at the beginning of each financial year to determine the

line charges payable or to be payable by customers connected to the distribution network.

Requirement 23 states that every disclosure under requirement 22 must:

- (a) Describe the methodology used to calculate the prices charged or to be charged; and
- (b) Include the key components of the revenue required to cover costs and profits of the disclosing entity's line business activities, including cost of capital and transmission charges, which must include the numerical value of each of the components; and
- (c) State the consumer groups used to calculate the prices charged or to be charged, including:
 - i. The rationale for the consumer grouping; and
 - ii. The method by which the disclosing entity determines which group Consumer are in; and
 - iii. For each of these consumer groups, the statistics relating to that group which were used in the methodology; and
- (d) Describe the method by which the disclosing entity allocated the components of the revenue required to cover the costs of its line business activities amongst consumer groups, which must include the numerical values of the different components allocated to each consumer group and the rationale for allocating it in this manner; and
- (e) Describe the method by which the disclosing entity determined the proportion of its charges which are fixed and the proportion which are variable, and the rationale for determining the proportions in this manner.

During 2009, the Commerce Commission has been working towards determining input methodologies, which includes a pricing methodology, for electricity lines services regulated under Part 4 of the Commerce Act 1986. The Electricity Commission also has a role in setting pricing methodologies, and has simultaneously been consulting with the industry. The Commerce Commission must take into account any decision made by the Electricity Commission that relates to or affects pricing methodologies. The Electricity Commission has formed the following view on a voluntary approach to a distribution pricing methodology:

- (a) a principles-based approach to a distribution pricing methodology should be adopted;
- (b) information disclosure guidelines will be published to assist distributors with the preparation of the information disclosure of their distribution pricing methodology and to assist an independent expert reviewer to assess distributors' compliance with the pricing principles; and

- (c) the Electricity Commission will initiate periodic independent expert reviews to measure distributors' compliance with the pricing principles.

The Electricity Commission proposes to publish the final pricing principles and information disclosure guidelines in February 2010. The Commerce Commission, will use the output of the Electricity Commission's Distribution Pricing Project for the Final Determination on Pricing Methodologies, due to be published in December 2010.

However, on the 9 December 2009, the Minister of Energy and Resources announced a number of changes to the electricity industry. The majority of the changes announced by the Minister are contained in the Electricity Industry Bill, and include an amendment to Part 4 of the Commerce Act to clarify that the Commerce Commission should not develop pricing methodologies (as an input methodology) where an industry-specific regulator has a mandate to do so. Should this legislative amendment be made, the new Electricity Authority (once established) will have responsibility for setting pricing methodologies for electricity distribution services. The Commerce Commission will continue to develop its input methodology for pricing methodologies until the legislation has passed.

3 TIMEFRAME AND CONSULTATION PROCESS

Unison has actively participated in the submissions to both the Commerce Commission on the input methodologies, and the Electricity Commission on the distribution pricing methodology process. These have only now reached a point that Unison can reasonably judge the appropriateness and compliance of its pricing and proposed changes.

Unison now wishes to consult with retailers and consumers on the proposed changes to pricing. Unison welcomes comments on the process or details outlined in this document.

Unison is open to suggestions from retailers, consumers as to the desired processes and timeliness for change. However, Unison wishes to make progress as quickly as possible in order to meet its regulatory obligations for tariff and pricing methodology disclosure, as outlined in the timeline below.

- (a) 24 December 2009 to 13 January 2010 - Consultation with retailers, consumers and interested parties on methodology changes
- (b) 14 January 2010 to 20 January 2010 - Receipt and collation of retailers, and consumers and interested parties input. Unison will produce draft tariff tables for feedback
- (c) 21 January 2010 to 31 January 2010 - Analyse retailer, and consumer feedback on draft tariff tables and notify final charges incorporating any changes in transmission charges
- (d) By 3 March 2010 – publicly notify new tariffs
- (e) 1 April 2010 – implementation of the revised line charges.

4 PROPOSED PRICING STRUCTURE

4.1 General

4.1.1 Tariff structure

Unison has invested significant resources into improving and refining the cost allocative principles underpinning the Cost of Supply model. As part of this, Unison has revisited the PAWG principles and taken into account the Electricity Commission's Distribution Pricing Principles and Information Disclosure Guidelines to refine the tariff structure with particular focus on the allocation of costs to consumer groups.

An example of the type of improvement to the cost allocation methodology is in the area of network assets, which were allocated by asset groups, by region, and by voltage by consumer groups. Unison's approach this year has been to adopt a granular asset trace of all assets associated with an ICP, to identify the actual assets utilised by the consumer that provide that service. Assets and load dependent costs for each consumer are then aggregated and allocated to the relevant consumer groups to calculate a resulting tariff.

Care has been taken to mitigate price shocks, however over time this approach will result in more efficient allocation of costs to consumers.

4.1.2 Simplification of tariff groups

Unison currently has varying tariff levels for small, medium and large commercial customers. Unison has observed a common theme in forums attended by Unison coming from retailers, that tariff structures need to be reduced and require simplification. Having reviewed the options in the number of tariffs Unison is now considering the option of creating one tariff group to incorporate the S Load groups and the L40 Load group. The intention would be to recognise the varying capacity of these consumers by way of separate fixed daily capacity charge and have one consistent anytime variable charge, controlled charge and TOU tariff for these combined groups.

Unison would appreciate feedback regarding the amalgamation of these varying tariff groups into one tariff level.

4.1.3 Smart Meter Tariff (domestic)

During the pricing consultation period in 2006/2007 certain retailers requested Unison to consider the introduction of pricing options that are tailored for smart meters. This was not actioned by Unison at that time. However, Unison is implementing its smart grid capability which includes a smart meter at each ICP. The smart meter is part of the smart grid with the capability of providing the functionality required for grid management

as well as retailer AMI requirements. Unison now intends to provide a smart meter tariff for residential customers.

The approach developed by PAWG would result in a tariff based on demand, and calculated as an average of the 100 highest demands during congestion periods over a 12 month period. However, with the frequent movement of consumers this is impractical. Also for the average consumer it is probably better to keep charges simple and use familiar concepts. Therefore, it is almost certainly better to maintain c/kWh charges, with high rates for peak periods, and reduced rates to reflect when the network is not constrained. This tariff will include a fixed charge to reflect a portion of the installed capacity and fixed costs associated with each connection.

The introduction of this tariff will be a further step for Unison in allocating costs to those consumers (previously non TOU consumer) who cause demand at Unison's network congestion points and to incentivise more efficient use of the network.

In taking this approach Unison is seeking to effectively allocate and signal costs to encourage efficient usage in a way that aligns with current consumer understanding and existing retailer offerings. In order to achieve the desired outcomes for consumers it will be important to maintain alignment of the distributor's and the retailer's pricing offer. Unison requests feedback on:

- Whether retailers support the implementation of smart metering tariffs effective 1 April 2010 for consumers, and if so what load groups to introduce them in, i.e. mass market (domestic load groups) or other load groups?

4.1.4 Demand based charges (commercial and industrial)

Unison is reviewing the on peak demand charges that apply between the hours of 7am and 11am, and 5pm and 9pm on any working day. Currently this tariff is charged via two pattern classes namely WOPD for the winter period and SOPD for the summer period. The main reason for this change is to reduce confusion between the terminologies and to have a consistent monthly on peak demand charge.

Unison would appreciate feedback regarding the merging of these two on peak demand charges.

4.1.5 New tariff (holiday homes and seasonal load)

During the 2009 year Unison undertook a data review of submitted consumption from retailers including checking the applicability of the consumer's tariff. From this review it has become apparent that Unison has a large number of holiday homes within the network which are occupied intermittently. The structure of the current tariffs does not provide for a fair recovery from these consumers. Unison intends introducing a domestic tariff for connections that are utilised intermittently. Similarly, Unison deploys significant

network assets to serve seasonal loads including irrigators and frost protection. Unison intends introducing a commercial tariff for connections used intermittently.

Unison would appreciate feedback regarding the proposed charges for holiday homes and seasonal load.

4.1.6 TOU Tariff AMPs threshold change (Commercial and Industrial)

Power factor charges tariff has been included in Unison's pricing policy from 1 March 2004, although implementation of billing for these was delayed until 1 April 2007. The analysis undertaken by Unison indicates that there are large consumers that are not currently on TOU metering due to the current 500 amps threshold level that may have poor power factor. It is proposed to lower the amps threshold between 50 amps and 100 amps. Unison envisages that all consumers will eventually be operating on a TOU equivalent meter.

These customers are contributing to network congestion and peaks. The impact is difficult to measure and there is currently little incentive to encourage these consumers to manage their impact without TOU Metering. Unison proposes to supply to each retailer a list of these consumers with the objective of discussing the TOU requirements and plan a phased change to occur no later than 31 July 2010. These 1800 consumers will remain on their existing tariff structure for the 2010/2011 year. However Unison would require the monthly TOU data from the installation date of the TOU meter. This will facilitate forecasting each consumer's profile to be incorporated into the tariffs for the 2011/2012 financial year, at which time the consumer will be required to be on TOU tariffs. Additionally consumers could use the TOU data to understand the impact of their behaviour and make preparations to manage their cost prior to the TOU tariff introduction.

Unison would appreciate feedback regarding the change in amp thresholds and the timeline for the phased change to meters for these consumers.

4.1.7 Temporary Disconnections

Unison has made significant investment into new infrastructure for new connection customers in the last four years. Like all new investments these installed assets are based on an expected rate of return on the capital deployed. With the changing economic climate there appears to be a growing pattern where seasonal type commercial consumers are either downgrading fusing to minimise their off season costs or disconnecting for the period that they are not fully operational. Unison is considering a charge for these consumers that fairly recover the costs of the specific assets installed for these consumers.

This type of consumer behaviour creates added administration and field service costs to both the retailers and the network company. Unison intends this charge to allocate the

full costs of the assets deployed and to provide a disincentive for those consumers to disconnect.

Unison would appreciate feedback regarding the proposed charges for seasonal consumers.

4.1.8 Industrial Pricing

There are no changes to methodology planned for 1 April 2010. Unison has a number of consumers with whom it has entered into direct relationships for service levels and charges and is continuing with this strategy. Rates may change to reflect changes in transmission costs, changes to assessed demand, and any CPI adjustment.

4.1.9 Billing Platform Upgrade

Unison has commissioned the upgrade of its current billing platform from version 3.4 to Gentrack Velocity. The go live date is scheduled for 20 February 2010 with a number of material enhancements to the way the processing of retailer's consumption data is currently performed which should ensure more effective billing of line charges for retailers, consumers and Unison.

Unison would like to take this opportunity to advise that as part of this upgrade there are a number of processes will be implemented to identify consumption data that does not match Unison's tariff structure and associated tariff codes. As these exceptions are identified they will be advised to the retailer with the objective of improving the data exchange between Unison and the retailer.

Responses

Would you please forward your responses electronically to;

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