

Powerco – Distribution pricing scorecard 2023

Overall score: 3.4/5



Current state:

There is a good outline of context with a supporting link to more detail in AMP. Highlights the use of GXP vs ICP billing in the different regions and the constraints that apply to pricing. Also highlights differences in network density. Could be improved by drawing out explicitly the implications for efficient pricing design. Powerco could improve the discussion around alignment to pricing principles. For example, some discussion of non-distortionary revenue collection would be useful.

Strategy

The continued implementation of TOU pricing is good to see. We would like to see the strategy address how to further reduce off-peak prices. Roadmap has relatively few discrete actions for upcoming years. We encourage Powerco to set up more targeted actions and timeframes for the coming years. Powerco achieved most of the targeted actions for the year.

Key messages:

To improve efficiency scores, more detailed information on subsidy-free consumer range would be beneficial. We note that off-peak charges are moderately high. As noted in previous scorecards, the Authority looks forward to Powerco improving its pricing efficiency, particularly by implementing ICP billing in the Western Region. The fixed charge for non-LFC residential customers in the Western region is considerably lower than for most other distributors. The Authority supports Powerco's transition towards entirely fixed transmission charges. To supplement the pricing roadmap, provide more detailed information on targeted activities for the upcoming years.

Outcomes:

We have noted that all regions are eligible for load control tariff discounts which is encouraged. Moreover, we note the material off-peak charge across some networks, which needs to reduce (except for Tauranga and Thames). Furthermore, we consider that more information is required on the subsidy-free range for consumer groups, i.e., a more comprehensive calculation of incremental and stand-alone costs. We are pleased to see an increasing number of ICPs adopting TOU pricing.

Although the methodology mentions some consumer impacts of the new pricing, those impacts need to be clearly identified and the management of such impacts needs to be discussed.

Regarding the five specific expectations of progress shared in September 2022 in the Open Letter:

- Focus area 1: Roadmaps responding to future network congestion: Powerco forecasts future congestion in the pricing methodology due to EV uptake and DG growth. The methodology correctly explains that network support services together with peak price signals are tools to respond to this expected future congestion.
- Focus Area 2: First mover disadvantage in new and expanded connections: FMD is addressed in capital contribution policy through reallocation and not charging the mover for anticipatory capacity.
- Focus Area 3: Pass-through of new transmission charges: The TPM pass-through is inconsistent with Authority guidance because the transmission charges are recovered via a charge that varies depending on the extent of the customer's use of the network, creating a significant incentive to reduce consumption. The Authority acknowledges that even though currently transmission costs are recovered largely via variable charges, Powerco is planning to transition to more fixed charges.
- Focus Area 4: Phase-out of low fixed charge (LFC) regulations: Price methodology follows guidance for the phase-out of the LFC tariff.
- Focus Area 5: Recovery of fixed costs through use-based charges: AMD charges are present in only one pricing area. Powerco is recovering under 1% of its revenue through AMD charges, which is appropriate. The proportion of revenue recovered through fixed charges is still relatively low.