Buller Electricity – Distribution pricing scorecard 2023

Overall score: 2.5/5

Summary:	Current state: 2.5/5	Strategy: 2.3/5	Outcomes: 2.6/5

Status detail:

- Circumstance: 3/5
- Principles: 2/5
- Strategy: 3/5
- Roadmap: 3/5
- Roadmap implementation: 1/5
- Efficiency: 2/5
- Consumer impact: 3/5
- Focus areas: 3/5

Current state:

Buller Electricity Ltd (BEL) is not currently experiencing any immediate network constraint, indicating that its pricing strategy does not require conveying signals of economic costs associated with the network. The Authority will welcome more information about the uptake of solar PV, batteries or EVs and its implications in future pricing.

Strategy

BEL has decided on a 50/50 fixed/variable revenue split, despite having identified that the economic cost of use is near zero. This proportion is said to be required to keep incentives for load control and off-peak consumption and future network implications. The roadmap needs to establish specific and attainable goals and tasks for the next five years. Regarding roadmap implementation, BEL did not achieve most of the activities proposed for the year.

Key messages:

It would be helpful for Buller to have a clear TPM pass-through methodology established. We note that a lower profit has been accepted to smooth changes in transmission charges. The Authority recommends updating the pricing roadmap. Buller could improve its pricing methodology by providing more quantitative information about network circumstances. Additionally, a more detailed calculation of incremental and stand-alone costs is essential to determine the subsidy-free range accurately. It is also recommended it remove demand charges or reduce the proportion of revenue recovered through them. We note the moderate off-peak charge.

Outcomes:

Regarding efficiency, it has been observed that Buller is recovering over 22% of its revenue through AMD charges, which is too high. There is no quantitative analysis that connects network circumstances to peak signal strength. It is important to have more quantitative information available on how the subsidy-free range is calculated. The cost of network usage during off-peak times is higher than expected. Furthermore, the Authority was unable to determine the percentage of customers assigned to non-uniform distribution tariffs (day volume/night volume) from the provided material. The methodology mentions the latest consumer survey undertaken in mid-2021. However, evidence of consumer impact analysis of the current pricing methodology should be evident.

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

- Focus area 1: Roadmaps responding to future network congestion: Buller has significant spare capacity on the network, and there are no congestion issues. However, Buller is considering introducing TOU pricing as a likely next step in its pricing reform within its strategy of preparing for future scenarios.
- Focus Area 2: First mover disadvantage in new and expanded connections: Capital contribution policy has in place a refund mechanism which partially addresses the issue.
- Focus Area 3: Pass-through of new transmission charges: TPM pass-through is based on energy charges, not fixed charges, creating unnecessary incentives for consumers to reduce demand.
- 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: Significant presence of AMD charges. However, the Authority acknowledges that Buller is targeting a 7% reduction on AMD charges for the next year. We would recommend a larger reduction in future years.