

Overall Rating 3.0/5

Distribution pricing principles - Scorecard 2020: Mainpower

Summary

Current State



Strategy



Outcomes



Status - detail

Circumstance



Principles



Strategy



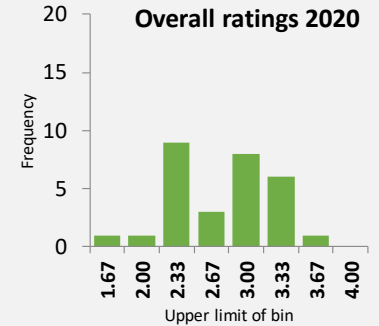
Roadmap



Efficiency



Consumer impact



Current State

- Pricing methodology offers minimal detail on network context and trends that are relevant to pricing choices. We understand Mainpower does not have significant capacity issues, except possibly with respect to irrigation.
- In general, (in)consistency with principles is well-explained. For example, acknowledges that c/kWh charges are a crude proxy for capacity utilisation.

Strategy

- Clear on themes and reasons for change to pricing over the next years.
- Currently increasing share of revenue from fixed charges and addressing cross-subsidies. The materiality of cross-subsidies is not clear.

Outcomes

- Appears to have significantly increased revenue from fixed charges – from around 10% according to past disclosures, to 58% (\$33m from \$57m revenue).
- Pricing does not start from considering what incremental costs to signal (except through capital contributions), before moving to how best to recover revenue. Unclear if variable prices, and relativities between them, are proportionate.
- Mainpower has identified customers impacted (e.g. irrigators) by recent changes and has a comms process to manage impacts.

Key messages

- Mainpower's documentation shows the presence of considerable analysis of costs and their drivers for allocation, providing a relatively strong foundation for its strategic direction for pricing.
- The increased reliance on fixed charges is a strength. Pricing appears to be becoming increasingly cost-reflective. Its cost-of-supply model allocates costs to fixed and variable revenue categories, which then determine fixed and variable prices. A key step would be to first consider whether the variable prices appropriately signal the economic cost of network use, and then determine how to recover cost in the least distorting manner. Addressing this would lift the efficiency assessment.
- Could be clearer on the basis for, or appropriateness of, differences between variable charges, for example, for controlled and uncontrolled load, and how differences in the cost of supply between high and low density areas are taken into account.

For scoring, see practice note and methodology at <https://www.ea.govt.nz/operations/distribution/pricing/>