

Overall Rating 2.8/5

## Distribution pricing principles - Scorecard 2020: Network Tasman

### Summary

Current State



Strategy



Outcomes



### Status - detail

Circumstance



Principles



Strategy



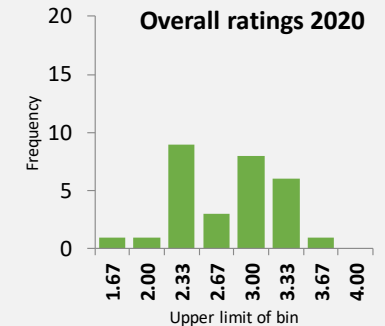
Roadmap



Efficiency



Consumer impact



#### Current State

- Reasonable discussion of network features. Would benefit from material on cost drivers – e.g. demand growth and capacity pressures – where efficient pricing could play a role.
- Standard approach to cost allocation. Seems reasonable and is explained well. Has a policy of no regional differences in pricing (except for connection costs in uneconomic areas).

#### Strategy

- Aims to increase the share of revenue from fixed charges to 50% over time, and in 2019 shifted non LFC customers off the LFC rate.
- No current roadmap. LFC a barrier and sees less urgency given current uptake of small-scale solar generation and EVs but notes it as a future issue.

#### Outcomes

- Recognises the need to reduce the reliance on \$/kWh prices and that these do not reflect the marginal cost of using the network. For larger consumers the pricing structure seems more efficient
- Does not seem to leverage network pricing in the context of network growth and the planned capacity upgrades.
- Summarises detailed assessment of bill impacts for different consumer groups.

#### Key messages

- Thoughtful and comprehensive discussion of pricing vs. principles. This shows awareness of the strengths and weaknesses of its current pricing methodology.
- Could be more transparent on the extent of cross-subsidies to customers groups outside of urban areas (incl remote customers). This will assist in keeping the costs of departing from cost-reflective prices front-of-mind, are facilitate efficient network investment decisions.
- Network Tasman should make pricing reform a higher priority – current inefficient pricing is influencing consumers and suppliers behaviours now. One area to work on is whether variable charges and price ratios reflect the economic cost of network use (or perhaps are set to recover revenue in a least distorting manner given limits on fixed charges).
- A roadmap could set out how Network Tasman intends to: test if its signalling prices are proportionate; reach its 50% revenue from fixed charges target; determine how it could recover remaining revenue in a least distorting manner; and respond to anticipated regulatory and technology changes.

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