

Overall Rating 2.7/5

Distribution pricing principles - Scorecard 2020: Network Waitaki

Summary

Current State



Strategy



Outcomes



Status - detail

Circumstance



Principles



Strategy



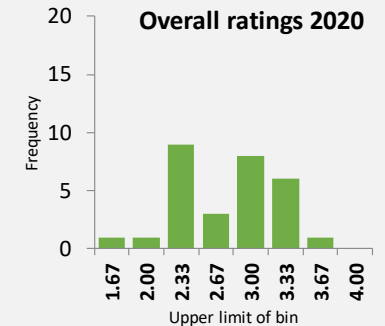
Roadmap



Efficiency



Consumer impact



Current State

- Dispersed network. Non-trivial growth in irrigation connections. Pricing methodology would benefit from discussion of network features and trends that are relevant to pricing.
- Reasonable assessment of consistency with principles. Could focus more on performance of current pricing, and back up claims about efficiency of pricing.

Strategy

- Incremental rebalancing existing tariffs from c/kWh prices to capacity charges to make more cost-reflective and improve the efficient use of the network.
- Progress on roadmap delayed in light of pending LFC and TPM reform. However, we understand a significant amount of work has been done on pricing strategy and options, with next steps under active consideration.

Outcomes

- The current pricing structure is likely inefficient given heavy reliance on c/kWh charges for revenue, and no detail on whether variable prices signal the economic cost of network use or are pitched to be least-distorting.
- Emphasis on limiting negative consumer impacts. Would benefit from some detail on the scale of issue being managed and so the efficiency trade-offs involved.

Key messages

- We understand that the current pricing methodology does not reflect the extent of work underway on pricing, and the intent is to significantly rebalance sources of revenue to be more cost-reflective for different consumer groups, to improve the efficiency of prices. The length of any change process is likely a number of years, with an emphasis on limiting any negative consumer impacts.
- As we commented last year, the ratios between day and night rates and uncontrolled to controlled rates are quite sharp. The discussion of consistency with the pricing principles would benefit from material to support the statement that these prices reflect the economic costs of network use.
- The 'least distortionary recovery' principle may relate to the majority of revenue if there is no need to signal the (marginal) cost of network use (rather than the minority as indicated in Network Waitaki's discussion of consistency with pricing principles).

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