Overall Rating 2.8/5

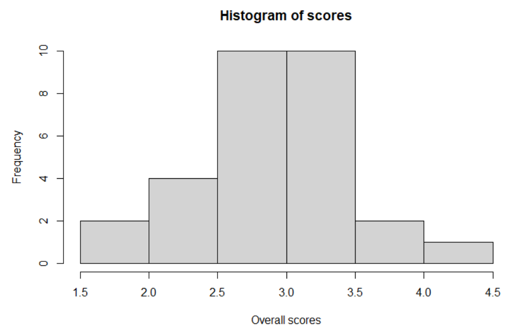
Distribution pricing principles – Scorecard 2021: Counties Power

Summary

Current state	Strategy	Outcomes

Status-detail

Circumstance	Strategy	Efficiency
Principles	Roadmap	Consumer impact N/A



Current state

- Counties Power (CP) provides a good outline of relevant context. Would be improved if it drew out explicitly the different implications for pricing of meeting high growth in the East vs mainly paying for replacement investment in the slower growing West.
- CP is aligning its pricing with the distribution pricing principles. The explanation and application could be improved. Some suggestions follow in the 'key messages'.

Strategy

- With a TOU structure in place, CP intends to: rebalance its pricing so more revenue comes from fixed charges; prepare for the impact of EVs; and investigate regional pricing, an 'all-you-can-eat' plan, and fixed price + winter peak charging.
- CP's latest roadmap sets out its plans with high level timeframes. This also states CP will take steps to increase the uptake of its TOU tariffs from 2023.

Outcome

- Pricing structure seems reasonable. Could be improved by showing how variable charges signal the economic cost of network use, and following through on TOU pricing.
- As CP has identified, revenue from fixed charges could be lifted as they recover only around 25% of distribution costs (ex. transmission costs); e.g. while four industrial customers face 100% fixed charges, others face none.

Key messages

- CP has invested in smart meters, pricing analysis, and TOU pricing, with all mass-market consumers switched over to these tariffs on 1 April 2019. In practice, CP's requirement on how retailers submit use details for invoicing means that the bulk of mass market consumers are effectively on the default uncontrolled rate. CP indicates steps to improve uptake of its TOU tariffs by 2023, which is a positive.
- CP could be clearer on how its variable charges are determined. CP describes a marginal cost pricing model, but p16 and table 1 suggest this cost includes not just new capacity, but also the costs of existing assets and overheads. CP may wish to compare its approach with Orion's or TLC's. It could also be clear (on p16 and p35) that residual revenue is to be recovered in a way that does not influence demand one way or another.
- CP's cost allocation approach seems broadly sensible. The methodology could provide an extra table or two to better show the link between target revenues, allocators, allocations by consumer group, and tariffs.

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