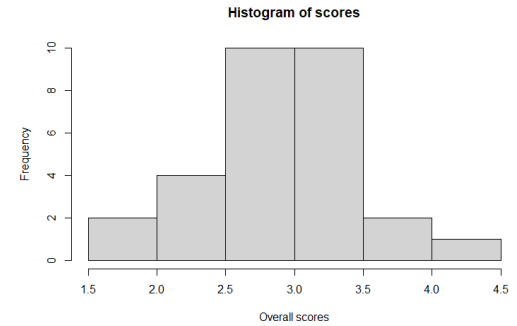


Summary



Status-detail



Current state

- Good description of circumstances with relevance to pricing, including a useful table with relevant AMP material. The network has significant capacity with only isolated areas of potential congestion.
- Total network costs – through transmission costs – are highly variable depending on maximum demand in summer from local irrigation vs South Island winter peaks.
- Controlled load rates and AMD charges give price signals that will affect peak demand.

Strategy

- EA Networks’ (EAN) direction for pricing reform is to align fixed and variable prices to costs, noting in practice this does depend on clarity on TPM and LFC reform.
- Roadmap is clearly aligned, with timebound preparatory analytical tasks and capability building.

Outcome

- Recovers revenue through fixed or capacity charges where possible. However, the majority of general consumers have LFC tariffs for simplicity, even if they are not low users – EAN has acknowledged this must change.
- Industrial users are charged on the basis of AMD, which could be (inefficiently) avoided.
- Transmission charges for irrigators are passed on through (fixed) capacity charges rather than peak demand. This reflects a focus on managing bill shock for this group.

Key messages

- There is an opportunity to improve the price efficiency for larger residential (and commercial) consumers in the 20 kVa group, whose fixed charges are currently the same as LFC consumers.
- The pricing methodology can be improved by providing a clear economic rationale for what are (acknowledged) legacy differences between controlled and uncontrolled variable rates. Same for the capacity charge for larger consumers in the ‘general’ group.
- EAN considers that industrial users would find it hard to avoid their share of distribution network costs by reducing their AMD. The Authority notes there is a risk of inefficient avoidance, and EAN may wish to link industrial consumers’ AMD rate to the economic cost of network use, and recover the remaining revenue using another, less distorting charge, such as a capacity-based charge.
- Transmission charges are currently a major cost driver for irrigation customers. This group does not directly face RCPD charges, but it does not seem fruitful to address that between now and 2023 when the new TPM (which assigns transmission costs as fixed charges) is scheduled to commence.

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

