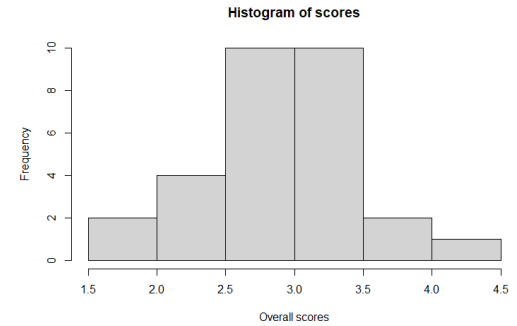


Summary



Status-detail



Current state

- Useful context. The Power Company’s network has the second lowest line density of the 29 networks. Eight of its 37 zone substations are at, or approaching, maximum capacity.
- Reasonable discussion of pricing principles. Variable daytime price is not set to be efficient signal but derived after setting the fixed charge to recover 50% of allocated costs. 50% was selected as a compromise of various considerations.

Strategy

- The Power Company will introduce capacity-based fixed and TOU variable pricing from 2022 within a GXP-billing context (subject to announcements on LFC). Focus is on improving price signals and reducing distortions in the recovery of sunk network costs.
- Roadmap reports progress on considerable consumer impact analysis (by socioeconomic status) to avoid bill shock and TOU billing system.

Outcome

- The pricing methodology could be improved by being clearer on aspects of the cost allocation approach and explaining how variable prices reflect the economic cost of network use. Some of the cost-allocation approaches also risk inefficient outcomes.

Key messages

- The Power Company has a clear approach to pricing. Its approach would be improved by starting with setting economically efficient price signals, and subsequently setting the level of the fixed charge to recover the rest of the revenue requirement.
- Aspects of cost allocation could be improved, as they may not be cost-reflective or risk consumers seeking to inefficiently avoid charges:
  - the recovery of transmission connection costs on the basis of annually assessed peak demand and energy use – even though they are a fixed/sunk cost
  - for some other cost categories, annual cost allocation based on peak demand and energy use means that fixed charges are not strictly fixed.
- We note the Power Company has made much progress in assessing new pricing structures and developing the systems for capacity-based and TOU pricing in a GXP-based setting, and the roadmap indicates improvements in pricing can be expected from 2022.

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

