Overall Rating 2.3/5

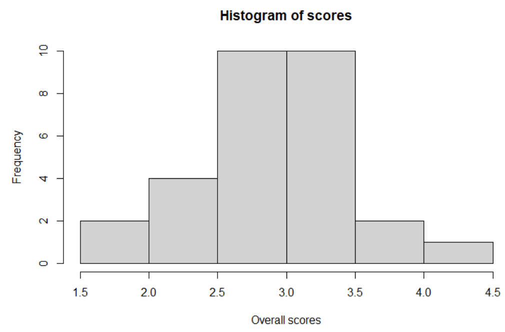
Distribution pricing principles – Scorecard 2021: Waipa Networks

Summary

Current state ●●●○○	Strategy ●●○○○	Outcomes ●●○○○

Status-detail

Circumstance ●●○○○	Strategy ●●○○○	Efficiency ●●○○○
Principles ●●●●○	Roadmap ●●○○○	Consumer impact N/A



Current state

- Methodology would be improved with a fuller overview of network characteristics and trends that would impact on pricing design. The appendix on alignment with pricing principles notes growth in connections and peak demand that is putting strain on the network and in maintaining power quality.
- Self-assessment against 2019 pricing principles notes (in)consistencies, including areas where further work is to be done.

Strategy

- In 2016 Waipa Networks gradually introduced TOU pricing (but recovers just 4% of revenue from residential consumers). Rollout has been delayed and is now subject to a pricing review underway.
- The current pricing review means there is no pricing strategy or roadmap.

Outcome

- Variable charges are around 85% of Waipa Networks' total revenue. This is likely to be too high a share to be efficient. LFC regulations are one reason, but that leaves opportunities to improve pricing structures for other consumer groups.
- The pricing methodology would also benefit from an explanation of the economic basis for the differentials between peak, shoulder, off-peak and controlled rates.

Key messages

- Waipa Networks has initiated a review of its pricing methodology in 2021 to improve its pricing models and align pricing strategy and structures more closely to pricing principles. This is why the methodology is unchanged at this point. We understand this also explains why progress has been delayed and it is not yet clear what comes next. This is reflected in lower scores this year.
- The allocation of costs seems cost-reflective, at least at a general level. Waipa's research is said to show the community prefers no price differentiation for rural connections. It would be useful to be transparent about how big or small a factor this is; as it would support the network in making trade-offs when investments are needed.
- General customers' 30c fixed charges are derived by using residential consumers' variable charges, which are unlikely to be the best benchmark:
  - It is unclear if low users' variable charges reflect economic costs of network use
  - Applying them to other groups could exacerbate incentives for inefficient investments in new technologies
  - the pricing principles promote setting prices with the right economic signals first, before setting fixed charges or mark-ups to fully recover the revenue target.

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

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