Nelson Electricity– Distribution pricing scorecard 2023

Overall score: 4.2/5

Summary: Current state: 4/5

Strategy: 4.3/5

Outcomes: 4.2/5

Status detail:

Circumstance

Principles

Strategy

Roadmap

Roadmap implementation

Efficiency

Consumer impact

Focus areas

Current state:

Good explanation of the current and future network condition, including how kwh consumption, peak demand, and number of connections is expected to change due to electrification of transport or industry located in the area in the mid and long term. There is no prospect of congestion in the short to medium term.

An in-depth conversation about the degree of consistency between current pricing and pricing principles.

Strategy:

We note that the roadmap notes the value of load management for eliminating constraints in the network and the advantages of cost-reflective pricing. We have observed that the roadmap is currently being put into action. The current roadmap includes specific activities planned for the next two years.

Key messages:

The movement toward 64% of revenue being recovered through fixed charges is to be encouraged. We welcome the low off-peak charge.

The Authority notes the progress on lifting the proportion of revenue recovered via fixed charges. Nelson Electricity could improve pricing methodology by providing more quantitative information about network circumstances and peak signal strength and more detailed calculation of incremental and stand-alone costs necessary for calculating the subsidy-free range for consumer groups.

Outcomes:

We note that the implied LRMC from the controlled discount is much higher than that implied from TOU differential, which may result in inefficient price signals. Nelson could improve pricing methodology by including a quantitative analysis linking network circumstances to peak signal strength. In addition, more information is needed about the subsidy-free range for consumer groups, especially the calculation of incremental and stand-alone costs. The Authority acknowledges the increasing percentage of ICPs assigned to TOU pricing. The methodology should clearly identify any consumer impacts of the new pricing and provide strategies for managing them.

Regarding the five specific expectations of progress shared in September 2022 in the Open Letter:

- Focus area 1: Roadmaps responding to future network congestion: The Nelson Electricity delivery prices will be based on no constraints at any level in the short term. Demand management will become more relevant as load increases in some areas of the low voltage network as the number of electric vehicles increases in the medium term. The pricing option considered is capacity charge and time of use.
- Focus Area 2: First mover disadvantage in new and expanded connections: the capital contribution policy is under review, where we would expect FMD to be discussed and addressed. The current policy has a reapportionment mechanism which partially addresses the issue.
- Focus Area 3: pass-through of new transmission charges: TPM pass-through is consistent with Authority guidance.
- Focus Area 4: phase-out of low fixed charge (LFC) regulations: Price methodology follows guidance for the phase-out of the LFC tariff.
- Focus Area 5: recovery of fixed costs through use-based charges: No presence of demand charges which avoids inefficient outcomes.

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