Overall Rating 3.2/5

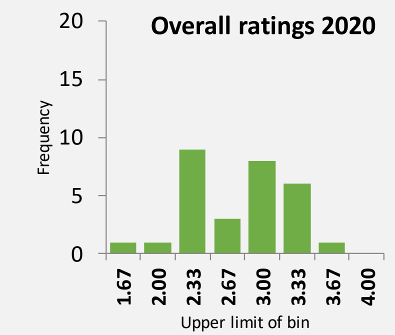
Distribution pricing principles - Scorecard 2020: **Marlborough Lines**

Summary

Current State		Strategy		Outcomes	

Status - detail

Circumstance		Strategy		Efficiency	
Principles		Roadmap		Consumer impact	



Current State

- Challenging network for pricing with numerous uneconomic remote connections and low (55%) smart meter penetration. Could expand discussion of network capacity or incremental demand and the implications for pricing.
- Fairly conventional approach to pricing (c/kWh + c/day, and capacity charges for larger customers). Three phase and remote area connections are exempt from low fixed charges, and remote customers do not qualify for discounts.
- In broad terms, consistency with principles is well-explained, but presumptions about the efficiency of pricing seem overstated/lack evidence.

Strategy

- Relatively high level of PV penetration (twice the national average) is driving price changes from variable to fixed – LFC is currently a constraint.
- Investigating TOU (for 2023) and location-based pricing (2022-2025), but sees no great urgency and subject to Trustpower's smart meter roll-out to lift penetration to 90% of ICPs.

Outcomes

- Inefficiency indicated by reliance on c/kWh for the mass market, exacerbated by high rates of PV growth.
- Marlborough Lines is taking an incremental approach to manage transitions.

Key messages

- Methodology could be improved by explaining the economic basis for price differentials between night or controlled tariffs relative to standard variable charges.
- Not clear that TOU tariffs will materially improve the efficiency of pricing – high reliance on c/kWh suggests efficiency gains from raising fixed charges. Marlborough Lines will need to ensure the peak-to-off-peak price ratios are proportionate to the economic cost of network use.
- Marlborough Lines could tighten up the interpretation and application of the "least distorting' pricing principle. This principle is not about mechanical differences between target consumer group revenue and allocated costs. It relates to the amount to be recovered after having set variable charges to reflect the economic cost of network use. The residual amount is likely to account for the majority of revenue, recovered through fixed charges or (less efficient but achievable) flat, broad based variable charges.

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