

Overall Rating 3.3/5

Distribution pricing principles - Scorecard 2020: OtagoNet

Summary

Current State



Strategy



Outcomes



Status - detail

Circumstance



Principles



Strategy



Roadmap

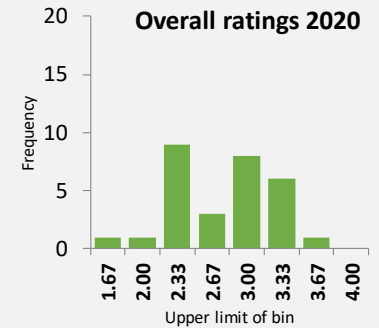


Efficiency



Consumer impact

N/A



Current State

- Provides a very good overview of circumstances relevant to pricing (physical characteristics, load and impending capacity constraints e.g. from irrigation on the Otago network and rapid urbanisation on the Lakelands network).
- Load control is used to manage Transpower charges, keeping demand within GXP capacity, and constraints on various feeders

Strategy

- Strategy is to improve signals at peak times likely to drive future investment, and to reduce distortions from the recovery of sunk costs.
- It is implementing TOU pricing to address the first of these matters but awaiting the outcome of LFC regulations reform before expending effort on the second.

Outcomes

- Locational price signals to larger consumers and use of capacity charges to recover residual costs contribute to more efficient pricing.
- Current price levels recover a large share of revenue (78%) from usage (kWh) charges, which likely distort consumer behaviour.
- Differences in day and night rates and (in Lakeland) winter and summer and controlled rates aim to signal the different economic cost (or value) of load (or DR) at different times. No explanation for economic basis for rate differentials.

Key messages

- OtagoNet has a tight approach to pricing (capacity-based fixed charge, uniform variable daytime charge, winter/summer distinction and controlled load rates in Lakeland). Would benefit, however, from a clearer economic foundation for the sharp ratio of day to night variable charges, which are used to gather near 78% of revenue (and more for standard consumers). Rather than setting these charges to signal the economic cost of network use, as indicated by the pricing principles, they are determined after setting the fixed charges, to meet the revenue requirement.
- The Authority is aware OtagoNet has made much progress in recent times in assessing new pricing structures, with a preference for capacity-based pricing plus a more finessed time-of-use component (to future-proof for rising EV uptake). This provides an opportunity to link the time-of-use charges to the economic cost of network use first, and then to determine the capacity-based charges (or any broad-based mark-ups on variable charges) second for least-distorting revenue recovery.

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