

Overall Rating 3.3/5

Distribution pricing principles - Scorecard 2020: The Power Company

Summary

Current State



Strategy



Outcomes



Status - detail

Circumstance



Principles



Strategy



Roadmap

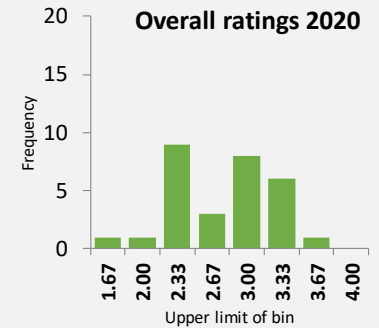


Efficiency



Consumer impact

N/A



Current State

- Useful context. The Power Company's network has the second lowest line density of New Zealand's 29 distributors (four ICPs/km²).
- Eight of The Power Company's 37 zone substations are at, or approaching, maximum capacity

Strategy

- Aiming to implement TOU pricing in 2022 to improve time-of-day signals at peak times. It is also seeking to reduce distortions from the recovery of sunk costs, but this is subject to reform of LFC regulations.
- Is considering consumer impacts from different price reform options.

Outcomes

- Accounts for differences in connection density in its urban/rural pricing and locational price signals to larger consumers. Fixed charges vary by capacity.
- Consumers are sent a strong price signal to use electricity overnight—there is no variable (kWh) network charge between 11pm and 7am, implying zero marginal cost of using the network at night.

Key messages

- The Power Company has a relatively strong approach to pricing (capacity-based fixed charge, uniform variable daytime charge, and an urban/rural distinction). Would benefit, however, from a clearer economic foundation for the sharp ratio of day to night variable charges, which are used to gather over 50% of revenue. 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, in meet the revenue requirement.
- The Authority is aware The Power Company has made 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/>