Overall Rating **2.3/5**

Distribution pricing principles - Scorecard 2020: **WEL Networks**

Summary

Current State	Strategy	Outcomes
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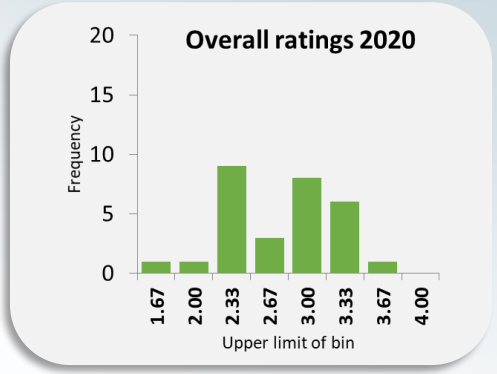
Status - detail

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



Current State

- Brief overview of network characteristics that impact costs and pricing. WEL considers it can meet most expected growth over the next 10 years.
- Notes that low fixed charges regulations prevent residual charges being allocated to residential connections in a way that does not distort network use.
- Capital contributions for connecting used to signal locational cost differences.

Strategy

- In 2020 continued to make improvements to pricing, and in 2021 will complete its gradually- introduced ToU pricing for mass market consumers. TOU price structure gives it the option to increase the price differentials across times when the network faces capacity constraints.
- No roadmap toward improving the efficiency of WEL's price structure.

Outcomes

- Pricing methodology explains cost allocation but not the basis for fixed prices or differences in variable charges by TOU or for controlled load, though states these reflect economic costs.
- As such, with peak prices 2-4 times higher than off-peak prices, there is a risk electricity demand is inefficiently dampened during peak times, given no capacity constraints (though this risk seems to be acknowledged).

Key messages

- WEL intends to increase the price differentials across ToU periods when the network approaches capacity constraints. This seems a good approach as it may avoid over-signalling the cost of network use while there is capacity. Even so, its description of its network raises questions about whether the current ratio of peak to off-peak sends an efficient price signal.
- Reasonable cost allocation alone does not ensure prices signal the economic cost of network use – there remains a choice on how to set prices to recover the allocated costs efficiently, via prices that signal economic costs to influence behaviour, or prices that are free of signal as they only seek to gather revenue.
- From an efficient pricing perspective it should now focus on:
  - ensuring the variable charges reflect the economic cost of network use at different times to avoid inefficient demand suppression or inefficient investments in technologies to avoid peak charges
  - setting out its plans for the 'next generation' of cost allocation and pricing reform.

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