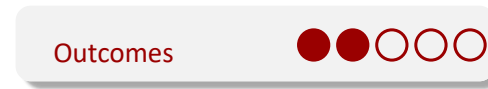
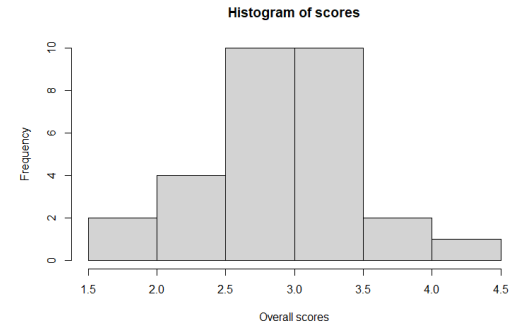
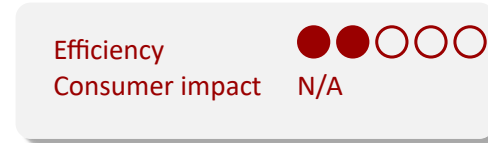
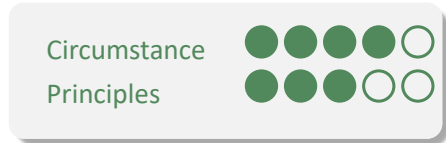


Summary



Status-detail



Current state

- Useful context. EIL’s network is generally unconstrained with low demand growth – no system growth capital expenditure is expected over the next 3 years.
- Reasonable discussion of pricing principles. Could be improved by explaining how variable prices are set to send an efficient signal (and then setting fixed charges, rather than the other way around).

Strategy

- EIL will introduce capacity-based fixed and TOU variable pricing by 2022 (subject to announcements on LFC regulations). The focus is on improving price signals and reducing distortions in the recovery of sunk network costs.
- Roadmap reports progress has been made on consumer impact analysis and TOU billing system.

Outcome

- The pricing methodology could be improved by being clearer about the implications of a lack of network constraints on the efficiency of the difference between day and night variable charges. Some of the cost-allocation approaches also risk inefficient outcomes.
- EIL concluded TOU pricing would have the least impact on consumers’ bills. We will assess the consumer impact category when pricing changes are being implemented.

Key messages

- EIL has a clear approach to pricing (an in-principle recovery of 50% of revenue from fixed charges, a variable daytime charge, a zero night rate and controlled load rates). The approach would be improved if it started with setting economically efficient variable price signals, and then setting the level of the fixed charge to recover the rest of the revenue requirement.
- Aspects of the cost allocation methodology could be improved:
  - annual cost allocation based on a mix of winter peak demand, winter peak energy use and winter day energy use smooths cost allocations (avoiding high variability) but risks consumers adjusting behaviours to inefficiently avoid charges.
- We note EIL has made much progress in assessing new pricing structures and developing the systems for capacity-based and TOU pricing in a GXP-based setting, and the roadmap indicates improvements in pricing can be expected from 2022.

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

