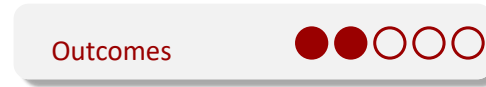
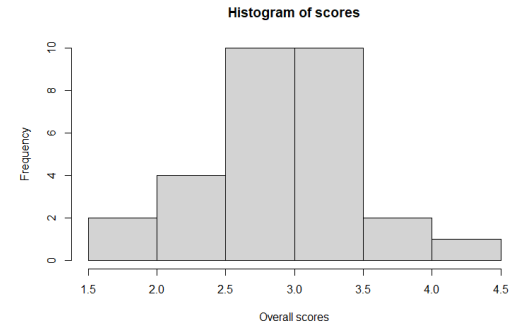
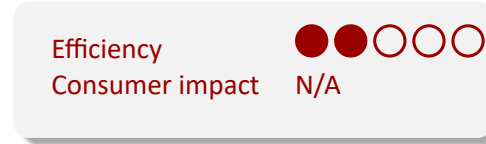
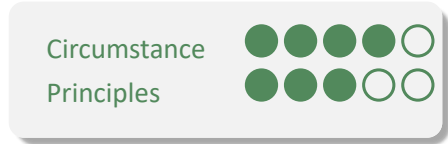


Summary



Status-detail



Current state

- Provides useful context – most network investment is for asset replacement and renewal, and some to accommodate growth in the Lakelands network. This and potential for EV uptake are said to justify a variable price to signal economic cost.
- Reasonable discussion of pricing principles. Could be improved by being clear on how charges are derived. It seems variable daytime prices are not set to be efficient signal but derived after setting the fixed charge to recover 50% of allocated costs.

Strategy

- OtagoNet will introduce capacity-based fixed and TOU variable pricing from 2022 (subject to announcements on LFC regulations). Aim is to improve price signals and reduce distortions in the recovery of sunk network costs.
- Roadmap reports progress has been made on considerable consumer impact analysis and TOU billing system.

Outcome

- The pricing methodology could be improved by being clearer on aspects of the cost allocation approach and explaining how variable prices reflect the economic cost of network use. Some of the cost allocation approaches also risk inefficient outcomes.

Key messages

- OtagoNet has a clear approach to pricing (an in-principle recovery of 50% of revenue from fixed charges, a variable daytime charge, and a winter/summer distinction and controlled load rates in Lakeland). Its methodology would be improved by starting with setting economically efficient price signals, and then setting the level of the fixed charge to recover residual revenue.
- OtagoNet may wish to review aspects of cost allocation, to ensure they are cost-reflective and do not risk consumers seeking to inefficiently avoid charges:
  - the recovery of transmission connection by averaging these across GXP and allocating them on annually assessed peak demand and energy use – even though they are a fixed/sunk cost
  - for some other categories, annual cost allocation based on peak demand and energy use means that fixed charges are not strictly fixed.
- The Authority notes OtagoNet has made 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.
- Note that the Electricity Industry Act does not say line charges for small rural and urban customers should be consistent.

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

