WEL Networks – Distribution pricing scorecard 2023

Overall score: 4.1/5

Summary: Current state: 3.8/5

Strategy: 4.3/5

Outcomes: 4/5

Status detail:

Circumstance

Principles

Strategy

Roadmap

Roadmap implementation

Efficiency

Consumer impact

Focus areas

Current state:

The pricing methodology briefly describes the circumstances of the network and presents information about the forecast constraints until 2032, showing the expected system demand is expected to increase moderately. More could be said about which trends in terms of demography or technology will affect network pricing in the future. LV constraints are more common in more affluent areas because of EV uptake.

The document provides a reasonable explanation of how the methodology is consistent with the pricing principles.

Strategy:

We note that WEL plans to modify the TOU rate. WEL intends to phase out the shoulder rate and bring the peak and off-peak rates closer together, with WEL targeting a fixed daily charge unless there is congestion, where a single signalling rate will also apply. WEL plans to transition towards a cost recovery methodology based on long-run marginal cost.

Roadmap implementation was successful as WEL accomplished each of the targeted actions for the year.

The updated roadmap describes the ongoing and future actions for more cost-reflective pricing with clear timeframes. WEL plans to review and update the pricing strategy for next year's disclosure.

Key messages:

Continue the transition towards fixed charges. We welcome the low off-peak charge.

WEL could improve the pricing methodology by providing a quantitative analysis of the network's circumstances related to peak signal strength and a clear calculation of a subsidy free range for consumer groups from incremental and stand-alone costs.

Outcomes:

We notice that the implied LRMC from the load control discount is much higher than that implied from the TOU differential. We expect to discuss this further with you in due course. There seems to be a discrepancy between the controlled tariffs and peak signals, which may result in inefficient price signals. Pricing methodology could be improved by including a quantitative analysis of the network circumstances linking to the peak signal strengths and by clearly calculating a subsidy-free range from incremental and stand-alone costs.

The methodology contains a clear identification of consumer impacts and their management. The Authority welcomes WEL utilising deprivation analysis as one of the tools to assess customer impacts.

Regarding the five specific expectations of progress shared in September 2022 in the Open Letter:

- Focus area 1: Roadmaps responding to future network congestion: The pricing roadmap responds to near and future congestion and shows efforts to understand better what is required in terms of cost recovery and price signalling.
- Focus Area 2: First mover disadvantage in new and expanded connections: the FMD issue is discussed in the new methodology.
- Focus Area 3: Pass-through of new transmission charges: TPM pass-through is consistent with Authority guidance.
- Focus Area 4: Phase-out of low fixed charge (LFC) regulations: Price methodology follows guidance for the phase-out of the LFC tariff.
- Focus Area 5: Recovery of fixed costs through use-based charges: Summer peak and winter peak consist of each customer's six highest demand points during the peak period. This is a coincident peak demand charge that WEL Networks is planning to phase out.