

Overall Rating **3.3/5**

Distribution pricing principles - Scorecard 2020: Electricity Invercargill

Summary

Current State



Strategy



Outcomes



Status - detail

Circumstance



Principles



Strategy



Roadmap

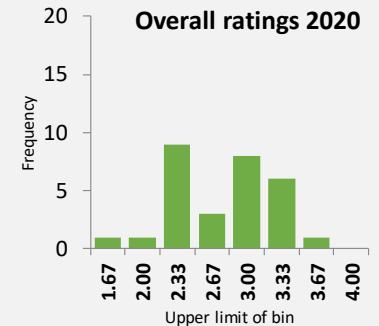


Efficiency



Consumer impact

N/A



Current State

- Provides useful network context. An urban network supplying Invercargill and Bluff. Network is generally unconstrained with low demand growth – no system growth capital expenditure expected over the next 5 years.
- Consumers are sent a strong price signal to use electricity overnight – the variable (kWh) network charge is set at zero between 11pm and 7am.

Strategy

- Electricity Invercargill seeks to improve peak time-of-day signals and to reduce distortions from the recovery of sunk costs.
- It is implementing TOU pricing to address the first of these matters but awaiting the outcome of LFC regulations reform before expending effort on the second.

Outcomes

- Electricity Invercargill considers that signalling anticipated network costs in advance of capacity constraints occurring is important for informing network users investing in longer-lived assets (eg, evolving technologies such as solar PV, EVs and batteries). The risk is that prices unnecessarily suppress demand.
- Electricity Invercargill has concluded TOU pricing will have the least impact on consumers' bills.

Key messages

- Electricity Invercargill has a tight approach to pricing (capacity-based fixed charge, uniform variable daytime charge, discount for controlled load). Would benefit, however, from a clearer economic foundation for the sharp ratio of day to night variable charges, which are used to gather near 67% of revenue. Rather than setting these charges to signal the economic cost of network use, as promoted by the pricing principles, they are determined after setting the fixed charges, to meet the revenue requirement.
- The Authority is aware Powernet has made much progress in recent times in assessing new pricing structures, with a preference for capacity-based pricing plus a more finessed time-of-use component (including 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) for least-distorting revenue recovery.
- Linking charges to economic costs is important given spare network capacity and the low growth anticipated in peak demand (0.4%). Too high a peak price risks inefficiently suppressing demand at times electricity is valued most.

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