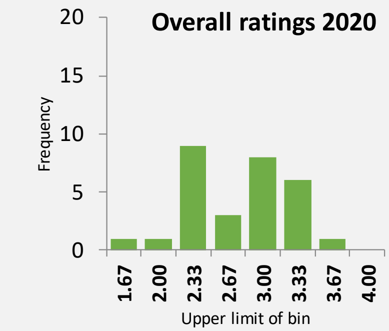
Overall Rating 2.8/5

Distribution pricing principles - Scorecard 2020: **Powerco**

Summary	Current State ●●●○○	Strategy ●●●◐○	Outcomes ●●○○○
Status - detail	Circumstance ●●●○○	Strategy ●●●●○	Efficiency ●●○○○
	Principles ●●●○○	Roadmap ●●●○○	Consumer impact N/A



Current State

- Powerco has two broad pricing regions. Cost allocation and pricing reflect the significant variations in network density in regions.
- Methodology could be improved with more discussion of network features and trends that affect pricing design.
- (In)consistency with pricing principles is generally well explained, though could be improved if clearer on whether and where variable prices are signalling the economic costs of network use or are primarily used to recover costs.

Strategy

- Powerco is continuing its incremental changes to pricing: better alignment of fixed prices with fixed costs, TOU pricing, and aligning the Western region's GXP-based pricing to ICP-based pricing in the Eastern region.
- Is clear LFC regulations must change to make progress on residential pricing.
- Billing system is the next cog. Roadmap could show longer horizon.

Outcomes

- Heavy use of c/kWh charges in the mass market is inefficient. Improved somewhat by increasing revenue from fixed charges from 12 to 14% of total.
- Pricing for larger commercial customers (about 25% of revenue) is better. Also, pricing-in of locational cost variations is a positive.

Key messages

- The pricing methodology is well-written.
- Mass market variable peak prices are said to be composed of transmission costs and some distribution costs. It would be useful to understand whether peak prices are to signal economic cost of network use (e.g. RCPD peaks in winter or when network capacity is an issue), or are just to recover costs.
- Variable prices carry much of the load in cost recovery, which is not ideal but a function of LFC regulations that impede increases in revenue from fixed charges. There is an opportunity to raise the fixed charge component for high users and non-residential consumers among the near 175,000 mass market connections in the Western region – an option we assume is made easier with ICP-billing and part of the planned pricing alignment.
- Proposed shift to TOU pricing risks over-signalling costs most of the time and under-signalling costs some of the time, so this warrants attention when considering peak demand signalling in future.