

Overall Rating 3.3/5

Distribution pricing principles - Scorecard 2020: Top Energy

Summary

Current State



Strategy



Outcomes



Status - detail

Circumstance



Strategy



Principles



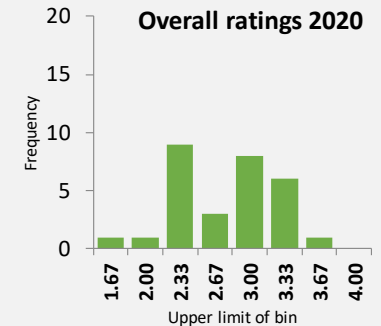
Roadmap



Efficiency



Consumer impact



Current State

- Useful summary of characteristics of region; includes many rural areas where supply is uneconomic, and areas with potential growth pressures (incl from large scale exporting DG).
- Top Energy's policy is not to differentiate prices by region, despite cost differences.
- Introduced TOU pricing for residential and general commercial connections, which it considers is more cost-reflective and improves consumer incentives.

Strategy

- Has increased the proportion recovered from fixed charges – reduced the variable charges when Commerce Commission reduced allowable revenues.
- Has an up-to-date roadmap – implement demand/capacity-based pricing for larger commercials, and review smart meter data requirements.
- Further progress e.g. to adapt to deal with new technology, seen as contingent on LFC reform.

Outcomes

- Methodology could be improved by explaining how the chosen TOU tariffs (and other variable price differentials) relate to economic costs of network use, given the still heavy reliance on income from variable charges.

Key messages

- Top Energy has made progress with pricing reform. Uptake of TOU pricing is constrained by smart meter penetration, which tends to impact lower income customers more. It has taken steps to encourage retailers to roll out more.
- Top Energy adopted TOU tariffs to be broadly in line with industry practice and to avoid bill shock in the transition. It would be useful for the pricing methodology to link the variable prices (or ratios) to the economic cost of network use at different times and places of use.
- Top Energy's cost of supply model shows there are differences in cost by region, indicating cross-subsidies. Pricing methodology would benefit from clarifying the scale of implicit transfers or discounts. Is it a significant matter that could result in efficiency costs from distorting location decisions?
- Approach to cost allocation between customer groups seems reasonable otherwise. Top Energy could consider whether allocation of overheads on Regulatory Asset Base values is most cost-reflective. Others use broad-based allocators such as per ICP or share of energy use.

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