

Overall Rating 2.3/5

Distribution pricing principles - Scorecard 2020: Waipa Network

Summary

Current State



Strategy



Outcomes



Status - detail

Circumstance



Principles



Strategy



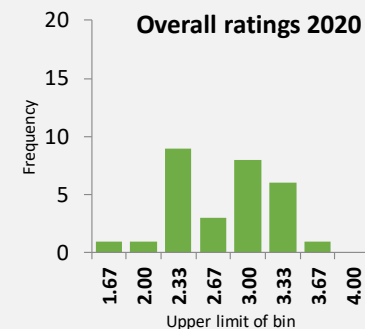
Roadmap



Efficiency



Consumer impact



Current State

- Methodology would be improved with a fuller overview of network characteristics and trends relevant to pricing design, including the extent of any capacity issues.
- Variable charges comprise 85% of Waipa Networks' total charges, driven by LFC regulation.
- Assessment is against outdated pricing principles.

Strategy

- From 1 April 2016, Waipa Networks has gradually introduced TOU pricing. The process will complete by 1 April 2021.
- The next steps toward more efficient pricing are not clearly set out, though we understand review work to refine the strategy is being commissioned.

Outcomes

- Cost reflective allocation of cost at high level. Waipa's research said to show the community prefers no price differentiation for rural connections.
- Articulates a basis for consumer charges (matching fixed costs with fixed charges and variable with variable, constrained by LFC). The pricing methodology would benefit from an explanation of the economic basis for the differentials between peak, shoulder, offpeak and controlled rates.

Key messages

- All residential consumers are on 15c fixed daily charge – this suggests an opportunity for more efficient pricing for those who are not low users.
- Applying residential consumers variable charges also to general customers drives the latter's 30c fixed charge. This approach seems arbitrary:
 - Are low users' variable charges reflective of economic costs of network use?
 - Could they exacerbate the incentives for inefficient investments in new technologies that Waipa Network is concerned about?
- Similarly, by focusing on fixed charges first for larger customers, it is unclear that variable charges are efficiently calibrated. As such there is scope to demonstrate whether peak prices send the appropriate economic signals about the cost of network use when there are capacity issues.
- We note that the pricing principles indicate setting the right economic signals first, before determining fixed charges (or mark-ups on variable charges) for non-distorting revenue recovery.

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