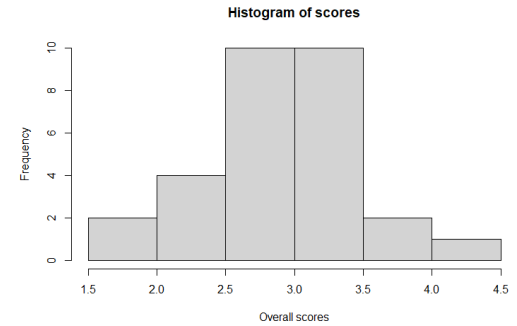


Summary



Status-detail



Current state

- Good outline of context with a supporting link to more detail in AMP. Highlights GXP vs ICP billing and differences in network density. Could be improved by drawing out explicitly the implications for efficient pricing design.
- Powerco presents a reasonable discussion of pricing principles. A2 and B in table on p33 would be improved if Powerco set out the extent that current pricing falls short of its target.

Strategy

- Powerco’s strategy is consistent with more efficient pricing: e.g. use TOU pricing to signal future investment (and variable) costs and increased use of fixed prices to recover fixed costs.
- Powerco’s roadmap has a reasonable horizon and is aligned with Powerco’s pricing strategy. Key steps over the next years are the billing system upgrade and introducing ICP based pricing in the Western region.

Outcome

- Powerco’s pricing structure offers a good foundation. Positives include the signalling of locational cost variations and the pricing for Eastern Region’s commercial and industrial customers.
- The efficiency score would be improved when Powerco addresses the heavy reliance on revenue from variable charges in the mass market (including those not captured by LFC regulations in the Western region) and for some commercial categories (including demand-based charges for Western commercial consumers).

Key messages

- Powerco’s pricing methodology is well-written and clear, as is the AMP.
- The Authority looks forward to the improvements in the efficiency of pricing, and in particular those that will be made possible by Powerco investing in a new billing capability and introducing ICP billing in the Western Region (noting limits imposed by LFC regulations).
- While primarily a presentational point to assist the reader (because the approach described is not currently common among distributors), it would be beneficial if Powerco could clarify in its methodology that:
  - it is the controlled rate that signals the impact of network use on economic cost (being based on ‘differences in long term costs associated with investment in additional capacity in the distribution network’ (p20)
  - the difference between TOU peak and off-peak prices largely reflects interconnection charges (p9-10), and is not used to signal the economic costs of using the distribution network at peak.

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

