

# Distribution Pricing Scorecards 2020

An Interpretation Guide



## Interpretation of Distribution Pricing Scorecards

### Purpose

- 1.1 This report explains how to interpret the Distribution Pricing Scorecards produced in 2020.
- 1.2 We have developed a scorecard approach to monitor and comment on distributors' pricing structures and pricing reform.
- 1.3 The pricing scorecards evaluate distributors' pricing plans against the Authority's distribution pricing principles. The scorecards are a basis for regular, constructive engagement with distributors on their price reform aspirations, efforts, and roadblocks.
- 1.4 The assessments draw on information already being disclosed by distributors. The scorecards will be updated annually after distributors have disclosed their pricing methodologies and roadmaps. Much of this information is provided by distributors to meet disclosure obligations under the Commerce Commission's *Electricity Distribution Information Disclosure Determination 2012*.
- 1.5 We welcome feedback on the format and content of the scorecards and will update the scorecards in light of this feedback and our experience in implementing them.

### Pricing principles

- 1.6 The Authority updated the following distribution pricing principles in June 2019. Distributors should evaluate their pricing methodologies and plans against these principles.

- (a) Prices are to signal the economic costs of service provision, including by:
  - (i) being subsidy free (equal to or greater than avoidable costs, and less than or equal to standalone costs);
  - (ii) reflecting the impacts of network use on economic costs;
  - (iii) reflecting differences in network service provided to (or by) consumers; and
  - (iv) encouraging efficient network alternatives.
- (b) Where prices that signal economic costs would under-recover target revenues, the shortfall should be made up by prices that least distort network use.
- (c) Prices should be responsive to the requirements and circumstances of end users by allowing negotiation to:
  - (i) reflect the economic value of services; and
  - (ii) enable price/quality trade-offs.
- (d) Development of prices should be transparent and have regard to transaction costs, consumer impacts, and uptake incentives.

### Distribution Pricing Scorecards Summary

- 1.7 Each year we will publish a *Distribution Pricing Scorecards Summary* that summarises and highlights pricing developments and trends across the sector. From 2020 this report is

accompanied by the scorecard for each distributor. The scorecards will be discussed annually with distributors, covering progress, local context, plans, and issues to resolve.

- 1.8 In 2019 we published a baseline *Pricing Scorecards Report*. This baseline assessment was based on 2019 disclosures – recognising that the 2019 pricing plans were not informed by the update pricing principles released in June 2019.
- 1.9 The next assessment, with a scorecard for each distributor, has been completed following the 2020 pricing disclosures.
- 1.10 The *Distribution Pricing Scorecards Summary* contains an industry summary detailing overall outcomes for each distributor, and a qualitative description of findings.

### **Individual distributor assessments**

- 1.11 From 2020, the individual assessments for each distributor will be published. Figure 1 shows a mock-up of the scorecard for a single distributor. The scorecards have five components:
  - (a) overall rating – overall status indicator (a summary of the summary)
  - (b) summary – status indicators reporting current state, pricing strategy, and outcomes<sup>1</sup>
  - (c) status ratings – indicator ratings (from one to five) for each summary area
  - (d) comparative performance – a histogram of distributors' overall scores
  - (e) commentary – written summary of pricing management status.
  - (f)

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<sup>1</sup> The 'Outcomes' assessment focuses on the efficiency of current pricing and management of consumer impacts. We are interested in additional dimensions that should be considered as part of this assessment.

**Figure 1: Individual distribution pricing scorecard**



## Roadmaps

- 1.12 The scorecards include an assessment of distribution pricing roadmaps.
- 1.13 Distributors have made progress, with support from the Electricity Network Association, at standardising the presentation of these roadmaps. Some distributors publish these separately and others within their pricing methodology.
- 1.14 We would like distributors to continue to update their roadmaps for the implementation of cost-reflective distribution prices.

## Assessment criteria for ratings

- 1.15 The following tables set out draft assessment criteria for each of the rating areas. Ratings range from one to five. The interpretation of scores, one, two and three depend on the dimension being assessed, but indicate room for improvement (see table 1 below). A score of four represents good practice, and a score of five denotes leading practice.
- 1.16 Distributors need to strike a balance between covering issues in depth and communicating succinctly and clearly. Tangible examples and milestones, and illustrating forward-looking planning helps to inform scoring, particularly for roadmaps and consumer impacts. Illustrating how network circumstance drives efficient pricing can inform circumstance, strategy, and efficiency scoring. Distributors should also consider what (if any) price signals are required to drive optimal network use and should consider how to minimise price signalling if capacity constraints are not a concern.

**Table 1: Assessment criteria for *current state* ratings**

<i>Assessment of current state of the Pricing Strategy.</i>	
<p><b>Circumstances</b>  <i>Distributor’s assessment of local circumstances relevant to pricing strategy.</i></p>	Data source: published pricing strategy (or pricing methodology). Asset management plans if methodologies refer to relevant material.
●○○○○○	Not addressed.
●●○○○○	Limited assessment. Incomplete, or not clearly explained.
●●●○○○	Some gaps or communication unclear.
●●●●○○	Complete and clear assessment of relevant network circumstances.
●●●●●●	Leading practice.
<p><b>Principles</b>  <i>Distributor’s assessment of consistency with pricing principles, and explanation of reasons for any inconsistencies.</i></p>	Data source: published Information Disclosures.
●○○○○○	Not addressed.
●●○○○○	Limited assessment. Incomplete, or not clearly explained.
●●●○○○	Some gaps or communication unclear.
●●●●○○	Complete assessment of consistency. Inconsistencies identified and explained.
●●●●●●	Leading practice.

**Table 2: Assessment criteria for *strategy* ratings**

<i>Assessment of future-focused Pricing Strategy.</i>	
<p><b>Strategy</b>  <i>Distributor’s strategic direction for pricing reform.</i></p>	Data source: published pricing strategy and pricing methodologies.
●○○○○○	Not addressed.
●●○○○○	Incomplete.
●●●○○○	Gaps in description of direction or rationale, or horizon too limited.
●●●●○○	Clear direction with suitable horizon and linked to circumstances and principles.
●●●●●●	Leading practice.
<p><b>Roadmap / implementation of strategy</b>  <i>Planned activities and timeframes linked to strategy.</i>  <i>Research activities: data acquisition, pricing trials, cost modelling, consumer impact, monitoring.</i>  <i>Transition planning, communication and risk management.</i>  <i>Success at uptake of most efficient pricing structures.</i></p>	Data source: published pricing strategy, pricing methodology, roadmap or other publications
●○○○○○	Not addressed.
●●○○○○	Limited evidence of planning, or activities appear <i>ad hoc</i> or poor fit with strategy.
●●●○○○	Planning incomplete; not consistent with strategy; activities partially successful.
●●●●○○	Activities identified, coherent, well implemented, linked to strategy/implementation.
●●●●●●	Leading practice.

**Table 3: Assessment criteria for *outcomes* ratings**

<i>Assessment of pricing structures in place.</i>	
<p><b>Efficiency</b> <i>Implemented price structures are designed to signal the economic cost of network services, be subsidy free, and least distort use.</i></p>	Data source: Pricing Principles consistency assessment, pricing methodology.
	Major unaddressed efficiency issues or information gaps.
	Unaddressed efficiency issues or gaps.
	Minor unaddressed efficiency issues.
	Reasonably efficient in context of pricing strategy. Strategy connects to network circumstance.
	Leading practice.
<p><b>Consumer impact</b> <i>Implemented price structures account for consumer impacts and manage change.</i></p>	Data source: Pricing methodology, roadmaps.
N/A	Not applicable
	Major change management issues or consumer impacts.
	Unaddressed change management issues or consumer impacts.
	Minor change management issues or consumer impacts.
	Effective management of change and consumer impacts, clearly communicated.
	Leading practice.

**Assessing summary status**

1.17 The assessments above are summarised using a status indicator as show in the table below.

**Table 4: Assessment criteria for summary status**

Summary	Criteria
	Major unaddressed issues or information gaps.
	Unaddressed issues or gaps.
	Minor unaddressed issues.
	Complete and clear assessment. Inconsistencies identified and explained.
	Leading practice.

**Assessing overall status**

1.18 The status indicators for the three summary assessments are then summarised in a single overall rating which is an average of the summary scores.