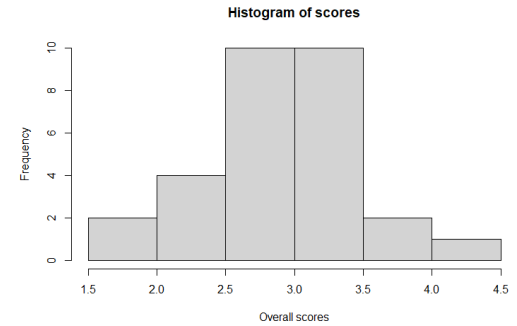


Summary



Status-detail



Current state

- Methodology raises key characteristics that are important for pricing. In particular, notes limited congestion pressures, low growth and associated investment and urban/rural cost-to-supply differences. These factors are reflected in pricing.
- Discussion of pricing principles notes the high proportion of costs recovered via fixed charges. The simple variable price does little signalling. This seems generally appropriate given the network circumstances described.

Strategy

- High level statement of direction since 2011. Has been progressing pricing reform: e.g. cost of supply model, DG injection code, rebalancing cost toward rural customers, and moving more medium-sized customers to face network maximum demand prices.
- Roadmap has broad exploratory tasks e.g. pricing trials and analysis. Intends to introduce opt-in TOU pricing for 2022, to prepare for future pressures (e.g. solar and EVs), and a power factor charge.

Outcome

- Approx. 56% of revenue from fixed charges (based on Table 8), or 73% excluding the low user category. This is high, and matches the absence of the need to send a strong signal of the economic cost of use.
- We note that while transmission charges are also treated as fixed (as they will be in future), historically interconnection costs and ACOT have been variable.

Key messages

- The amendments made to the pricing methodology have been useful to highlight the network circumstances relevant for pricing.
- The current emphasis on fixed charges (to recover revenues in a non-distorting way) seems appropriate. We understand that when Horizon introduces opt-in TOU pricing it intends to send a weak signal about the economic cost of network use at peak, relative to the cost at off-peak times. This seems appropriate at this time.
- The approach to passing through transmission costs is currently inconsistent with how those costs are generated for the network, and thus not strictly cost-reflective. We note that this may not need adjusting now given the new TPM due in 2023.
- There may be scope to increase the fixed charges for general capacity groups. This consideration could start with a clear view of what economic costs need to be signalled by variable charges. We also understand Horizon is looking to streamline the categories. Horizon could also consider addressing any unnecessary differences in variable charges between categories.

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

