

Overall Rating 2.3/5

## Distribution pricing principles - Scorecard 2020: Horizon Network

### Summary

Current State



Strategy



Outcomes



### Status - detail

Circumstance



Principles



Strategy



Roadmap

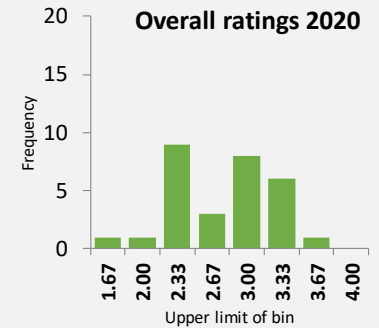


Efficiency



Consumer impact

N/A



#### Current State

- Provides only a cursory description of circumstances. Would benefit from material on network trends and features that are important for pricing.
- Pricing principles could address the efficiency reasons for ratios between variable charges, that is whether these are linked to the cost of network use.

#### 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 network maximum demand prices (rather than just capacity + use charges).
- Roadmap has broad exploratory tasks e.g. pricing trials and analysis. Intends to introduce opt-in TOU pricing for 2022 to prepare for future (e.g. solar and EVs).

#### Outcomes

- Approx 50% of revenue from fixed charges – likely more efficient if that proportion were higher, but Horizon considers it cannot justify raising it.
- A simple flat \$/kWh consumption charge may be the next best (yet inferior) option to recover remaining revenues in absence of any economic costs to signal. Could be clearer on the reasons for the selected rates and why they vary by load group.

#### Key messages

- Simple pricing structure would be rated higher if a greater proportion of revenue were to come from fixed charges, and with a clear efficiency-based rationale for variable charges.
- When Horizon introduces TOU pricing it should take care to avoid sending inefficient signals about the economic cost of network use at peak, relative to the cost at off-peak times.
- Current interpretation of pricing principles is not always aligned with Authority's – for example, argues variable charges are non-distorting because they indirectly reflects people's willingness to pay. But this does not account for the unnecessary cost of consumer choices and investments made to avoid variable charges if the latter are too high relative the incremental cost of network use.

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