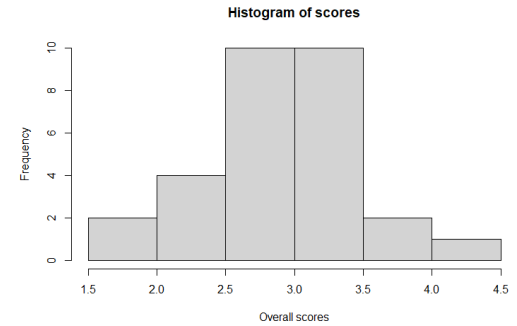


Summary



Status-detail



Current state

- Nice description of network and circumstance. Discussion could be improved by drawing out the implications for pricing. For example, can pricing help resolve seasonal congestion?
- Given network circumstance, most prices appear to be for recovering residual revenue rather than signalling to optimise network use. Low, broad-based variable charges may be appropriate for revenue recovery when constraints exist on fixed charges.
- Discussion of standalone costs & subsidy-free test could provide clearer evidence.

Strategy

- TOU pricing to respond to evolving market and consumer demands. Variable prices are expected to decrease, while fixed charges and time-of-use pricing differentials are both expected to increase (pp 4-5).
- The discussion of pricing strategy could be improved with more detail on the 'but for' approach to pricing and the role of capital contributions.
- Roadmap is well-considered. (p.6)

Outcome

- The methodology could discuss how long-run marginal costs are estimated & translated into variable charges or time-of-use price differentials.
- Northpower has a five year plan for pricing to manage consumer impacts of change in target revenue from industrial consumers and rebalancing of fixed and variable revenue from other consumers.

Key messages

- Northpower has a very well-written, accessible methodology.
- Strategic intentions are clearly detailed, with a clear roadmap of future activities. Time of use is a central component of the strategy, with signals that can be tuned to network demands.
- More detail on the timing and trajectory of Northpower's five-year pricing plan might assure that the transition is 'Goldilocks'.
- Methodology could also be improved by expanding the rationale for the choices that are made – connecting pricing choices to circumstance, the choice of cost allocators, the calibration of prices, and the choice of future activities.
- Methodology suggests (p.12) that variable tariffs are being set to recover a given proportion of revenue. Consideration should first turn to the pricing signals required and second to least-distorting revenue recovery. Northpower has indicated this approach will be explored in the next pricing methodology.

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

