

6 May 2022

## Subject Distribution Pricing Reform

I am writing to follow up on our engagement last year with distributors on distribution pricing reform, which resulted in the Authority publishing the 2<sup>nd</sup> edition of the Distribution Pricing: Practice Note in December.

The Authority is committed to promoting the ongoing reform of distribution pricing. More efficient pricing will contribute to better investment in and use of distribution networks, provide appropriate signals to consumers as they consider investing in their own distributed energy resources, and better ensure that New Zealand's transition to a low emissions economy is on the lowest cost path.

With this goal in mind, the Authority has reassessed its distribution pricing work programme for 2022, and is particularly focused on:

- Assessing and addressing any pricing issues, such as first mover disadvantage, for new and expanded connections (as flagged in the 2<sup>nd</sup> edition of the Practice Note in discussing capital contributions)
- Supporting distributors with pass-through of new transmission pricing to distribution pricing
- Progressing analysis of possible regulatory options to drive faster reform, including listening to your thoughts and ideas on how reform should be progressed.

At the same time, we also intend to engage with you directly on pricing reform, including on the Practice Note, and on your specific pricing methodologies. We expect these conversations and our guidance to evolve over time. Consistent with this approach, the Authority has now produced further guidance on the permissibility of locational pricing. This guidance has been included in an update to the 2<sup>nd</sup> edition of the Distribution Pricing: Practice Note (version 2.1), which can be [found here](#). Locational pricing is consistent with the pricing principles (cost-reflective pricing).

The Authority will also be considering how best to work with the sector on the merits (or not) of pass-through by retailers of price signalling for both transmission and distribution pricing, as flagged during the Practice Note consultation last year.

Noting these priorities, and that the 2<sup>nd</sup> edition of the Practice Note was only settled in December, the Authority has decided not to undertake a formal scorecards assessment of distributors' recently published 2022/23 pricing methodologies. Instead, our preference is to give you more time to understand and implement the guidance within the updated Practice Note before we assess a further iteration of your pricing methodologies.

This pause in the scorecards process reflects our view, consistent with some of the feedback we have received from distributors, about how we can most effectively engage with you this year to promote reform. We will continue the reform conversation with you in more targeted one-to-one meetings (including discussing specific aspects of your 2022/23 methodologies where useful), or workshops. We will also be sharing best practice (eg, we have updated our website to highlight strong performers from the 2021 scorecard assessments). We expect to then restart the scorecards process for your 2023/24 pricing methodologies.

If you have any questions, please contact me, or [Harpreet Singh](#) in our Network Pricing team.

Ngā mihi

A handwritten signature in black ink, appearing to be 'Rob Bernau', with a long horizontal flourish extending to the right.

Rob Bernau  
Director, Network Pricing