



MAJOR ELECTRICITY USERS' GROUP

29 October 2009

Kate Hudson
Electricity Commission
By email to submissions@electricitycommission.govt.nz

Dear Kate

Submission on Draft distribution pricing principles and methodological requirements

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Commission (EC) Discussion Paper – Draft distribution pricing principles and methodological requirements,¹ published 30th September 2009¹ (the "Discussion Paper").

The proposal

2. The Discussion Paper proposes:
 - a) The EC publish voluntary pricing principles for electricity distribution businesses (EDB) and voluntary guidelines (methodological requirements) by the end of 2009;
 - b) At a date yet to be announced the EC² "proposes to publish a relatively detailed model distribution pricing methodology"
 - c) The EC's³ "preliminary view is that the level of reporting on the pricing methodology should be in line with the obligations on distributors under the relevant Commerce Act 1986 information disclosure requirement." Reporting timelines would also align with Part 4 of the Commerce Act requirements.
3. In parallel to consulting on the Discussion paper the EC established a week ago the Distribution Pricing Administrative Issues Working Group⁴ to consider a number of administrative issues relating to the interface between retailers and distributors.
4. Separately the Commerce Commission is implementing Part 4 of the Commerce Act including Input Methodologies. The final form and detail of these may materially affect the level and approach EDB approach pricing their services.

MEUG comments

5. MEUG welcomes the approach by the EC since the last consultation round in July 2009⁵ to use workshops and the Distribution Pricing Administrative Issues Working Group to get to the heart of the issues and if possible facilitate industry agreed protocols. We also welcome better

¹ Refer <http://www.electricitycommission.govt.nz/pdfs/opdev/transmis/distrib-pricing/discussionpaper-Sep09.pdf>

² Ibid, paragraph 1.2.2

³ Ibid, paragraph 1.3.1

⁴ Refer <http://www.electricitycommission.govt.nz/advisorygroups/pjtteam/distribution-pricing/distribution-pricing-workinggroup>

⁵ Refer <http://www.electricitycommission.govt.nz/submissions/subtransmission/distrib-pricing>

alignment with the Commerce Commission implementation of Part 4. The latter is consistent with MEUG submissions to the EC in July.

6. The package of policies reflects a cautious approach and preference not to regulate. It remains unclear how EDB that elect not to comply with the proposed principles-based approach will have an incentive to become compliant. To overcome this problem of ensuring compliance, MEUG and CC93 in the previous consultation round proposed a mandatory default approach be considered, ie the onus would be on EDB to prove any variations from a mandated approach better achieved the purpose statement of Part 4 of the Commerce Act. The EC needs to consider how compliance will be achieved and we suggest a mandatory default approach be one of the options considered.
7. Two comments on the detail of the proposal follow:
 - a) Proposed pricing principle (f) states:

“Prices and pricing structures should promote efficient usage of electricity and encourage investment in distributed generation (including renewable generation), distribution alternatives and technology innovation.”

MEUG suggests this principle is redundant because principle (a) requires “Prices are to signal the economic costs of service provision.” Promotion or encouragement of efficient use practices, distributed generation or technology innovation starts with economically efficient prices and that is covered by principle (a). Any suggestion that promotion or encouragement might include tilting the playing field in favour of those options is contrary to principle (a) (i) to be subsidy free.
 - b) On the guidelines it would be useful to include time requirements for EDB giving notice of price changes with such notice being sufficient to allow retailers to amend their prices. Similarly a requirement to respond within a certain time to inquiries from parties seeking information on EDB prices and opportunity for customised charges to particular sites would be an improvement on the status quo.
8. MEUG looks forward to the EC consultation on the relatively detailed model distribution pricing methodology following final decisions on the proposed principles based approach.

Yours sincerely



Ralph Matthes
Executive Director