MAJOR ELECTRICITY USERS' GROUP

12th June 2015

Graeme Peters
Chief Executive
Electricity Networks Association
By email to submissions@electricity.org.nz

Dear Graeme

Distribution Pricing Issues Paper

1. The Major Electricity Users' Group (MEUG) welcomes the initiative by the Electricity Networks Association (ENA) to tackle what are important and complex topics in[1] "Distribution Pricing: a discussion paper" dated 11th May 2015.

2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.

3. MEUG appreciates you and EDB representatives attending a discussion with MEUG members, other consumers and retailers on 19th May 2015.

4. Responses to questions in the discussion paper follow:

Question			MEUG response
1.	a)	Should distribution charges be separated from retail charges to preserve distributor price signals, or as an alternative should retailers be required to pass on distribution price signals to consumers? If not, why not?	Depends on what the problem definition is and the relative merit of this option compared to other options. This paper will help uncover problems but ENA has no decision making role to play in considering substantial options such as this. That is a responsibility of the Electricity Authority (EA).
	b)	What alternative options exist for ensuring consumers receive efficient distribution pricing signals?	See answer to question 1 a).

[1] Document URL http://www.electricity.org.nz/includes/download.aspx?ID=139097 found at http://www.electricity.org.nz/Site/Reports/default.aspx

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Question			MEUG response
	c)	Do the issues discussed above accurately reflect your views of the pricing challenges and opportunities facing the sector?	In addition to the items discussed in section 3 of the paper MEUG would add: • Who should bear asset stranding risk; and • Regulated cost reflective pricing to an individual consumer needs to be capped at the maximum value the consumer attributes to the service. In workably competitive markets consumers chose not to acquire and pay for services where the market set price exceeds the utility they derive. The same should apply to regulated line charges.
	d)	What issues do you consider are the most important?	Have not estimated materiality of the items discussed in section 3 of the paper or MEUG's additional items in response to question 1 c) but agree that should be part of defining and ranking the possible problems.
	e)	Are any there any other issues that should be considered?	See response to question 1 c).
2.	a)	Do the current pricing principles provide the appropriate guidance for distributors in establishing cost reflective distribution prices? If not, what changes do you suggest, and why?	The pricing principles should consider the additional two items listed in response to question 1 c) and the EA decisions and reasons paper[2] "Decision-making and economic framework for distribution pricing", 5th March 2013.
	b)	Which principles do you consider are the most important, and why?	See response to question 2 a).
	c)	How should trade-offs between principles be reflected in distributors pricing methodologies?	Consistent with the purpose of Part 4 of the Commerce Act and the objective of the EA the trade-offs need to be estimated in terms of the long-term benefit of consumers. Estimating the long-term benefit of consumers includes estimating changes to dynamic efficiency and static efficiency. Where possible those should be as granular as possible, ie even to the level of individual consumers. Smart meters and the ability for large databases and models to estimate value and costs of supply to individual consumers of line services are making these calculations more feasible. If end consumers are provided prices that are economic then they will make the trade-offs rather than the current practice where distributors decide trade-offs on an aggregated customer class basis.

[2] Document URL http://www.ea.govt.nz/dmsdocument/14453 found at http://www.ea.govt.nz/development/work-programme/transmission-distribution/distribution-pricing-review/development/

Question			MEUG response
	d)	Could distributors improve their approaches to setting charges consistent with the pricing principles, and if so, how?	Yes improvements could be made. Why EDB do not is a question they should answer.
3.	a)	Do you consider that the current LUFC regulations impose barriers to cost reflective distribution pricing?	Yes the regulations do impose a barrier. The Minister should take advice from the EA, MBIE and the Ministry of Social Development. The EA in turn should be informed by consultation with interested parties including ENA and the responses to this discussion paper.
	b)	Do you consider that the current Part 6 pricing principle for DG imposes barriers to cost reflective distribution pricing?	Yes. The EA should follow through with its preliminary view in the ACOT working paper[3] of 19th November 2013 (paragraph 1.18) "... that a review of the provisions of Schedule 6.4 is therefore warranted with a view to ensuring a stronger link between ACOT payments and efficiency benefits". MEUG supported this finding by the EA.
	c)	Do you consider that the current rural network price constraint imposes barriers to cost reflective distribution pricing?	No. Clause 113(2) of the Electricity Industry Act (EIA) is an option to regulate rate of price change to rural consumers. To exercise that option the Minister would need to consult and publish a cost-benefit-analysis. We doubt a positive NPV could be demonstrated. Times have changed since this option was enacted and user pays is now the default rather than the exception. For example the Government last month on budget day, 21st May 2015, enacted changes to the Biosecurity Act 1993 and the Customs and Excise Act 1996 to create an obligation on arriving and departing air and sea passengers plus crew to pay a border clearance levy. It would be difficult to reconcile such a user pay approach with exercising the option in cl. 113 (2) although an explicit subsidy could be paid provided it was funded from General Account and not paid for by other electricity consumers.
	d)	Should these be addressed? If so how and why?	MEUG response is covered in Q. 3 a) to c).

[3] EA, Working paper – Transmission pricing methodology: Avoided cost of transmission payments for distributed generation, 19th November 2013, document URL https://www.ea.govt.nz/dmsdocument/16327 found at https://www.ea.govt.nz/development/work-programme/transmission-distribution/transmission-pricing-review/consultations/#c7428

Question			MEUG response
4.	a)	Do you agree that distribution and retail pricing structures and options need to respond to changing consumer needs and demands? If not, why not?	Agree.
	b)	What are your key concerns and observations in addressing these challenges? Please provide examples and evidence where possible to support your views.	In addition to the topics covered in section 5.1 of the paper MEUG suggest two further items will need to be considered by decision makers: • Whether line companies should bear asset stranding risk; and • Advice, as appropriate (eg refer response to question 3 a), from the Ministry of Social Development.
5.	a)	Do you support consideration of more cost reflective forms of pricing for the mass market (eg TOU/demand based, demand response), which are facilitated through advanced meter data/platforms?	Yes.
	b)	What are the barriers to implementing more time based pricing structures for mass market consumers?	Apart from the matters covered in the discussion paper and the additional possible policy issues suggested by MEUG in response to questions 2 c) and 4 b), this is best answered by line companies.
	c)	How can distributors, retailers and other stakeholders address these barriers?	This paper is a useful start particularly on the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004.
	d)	What consumer considerations need to be taken account of?	The impact on and ability for response by individual consumers given changes in technology and mentioned in response to question 2 c).
	e)	What information protocols are required to protect privacy?	The policy in the EA[4] "Retail data project: access to consumption data – Decision and reasons paper", 19th December 2014 (paragraph 19) is relevant - "Retailers are expected to make sure that the privacy of consumer data is protected. Consistent with the requirements of the Privacy Act 1993, each request for data will require the consumer's written (which may include electronic) authorisation."

[4] Document URL http://www.ea.govt.nz/dmsdocument/19025 found at http://www.ea.govt.nz/development/work-programme/retail/retail-data/development/decisions-and-reasons-paper-published/

Question			MEUG response
	f)	What issues would it create for you if more cost reflective distribution pricing approaches were mandated?	Mandatory requirements risk impeding innovation and can tend towards averaging rather than be adaptable for be-spoke situations. Mandatory default monopoly line service pricing frameworks with an option for parties to negotiate be-spoke arrangements provided those do not affect any other party and are made public is a better way forward.
6.	a)	What impact do you expect technological advances (including solar PV, EVs) to have on your organisation, and how soon will this occur?	Potentially a large impact to large TOU consumers that cannot rely on Small Scale Distributed Generation (SSDG) in a scenario where households and SMEs exit from using and paying for monopoly line services and there is no relief in terms of line companies having to take the write down for unused assets.
	b)	What changes to distribution pricing structures and options are required to meet these technological advances?	Changes to line pricing structures and Input Methodologies to address asset stranding need to be implemented ahead of consumers investing in emerging technologies.
7.	a)	Do you consider that there are issues with the current range of distribution tariff structures?	Yes there are too many.
	b)	If so, how should they be assessed against pricing efficiency objectives? What is more important and why?	See response to 5 f) on trade-off between mandatory versus mandatory default with an option for be-spoke pricing arrangements.
	c)	Are there examples of distribution pricing approaches which you consider work well?	No view.
	d)	Conversely, which approaches are more difficult, and why?	MEUG suggests GXP pricing is not appropriate for scenarios whereby individual consumers choose the level of line services they want, are prepared to pay for and are charged accordingly.
8.	a)	Are you aware of and do you use distribution pricing methodologies? If so, which pricing methodologies do you rate as best practice, and why?	Yes.
	b)	Are you aware of and do you use distribution tariff schedules? If so, which ones do you prefer and why?	Yes.
	c)	Are you aware of and do you use distribution price notifications? If so, which ones do you prefer and why?	No.

Question			MEUG response
	d)	What information is of most interest to you about distribution prices? Do you have access to this information?	MEUG work on detailed distribution pricing for a selection of EDB is still work-in-progress and hence cannot at this stage respond in detail to this question.
	e)	What information, if any, about pass-through cost components (eg: transmission costs), are you interested in receiving from distributors?	All pass-through components are of interest.

5. We look forward to ENA publishing all submissions and announcing next steps.

Yours sincerely

Ralph Matthes
Executive Director