



# MAJOR ELECTRICITY USERS' GROUP

23<sup>rd</sup> October 2015

Bruce Rogers  
Pricing Manager  
Orion New Zealand Limited  
By email to [pricing@oriongroup.co.nz](mailto:pricing@oriongroup.co.nz)

Dear Bruce

## **Pricing proposals consultation**

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Orion consultation paper "Proposed changes to Orion's Pricing to apply from 1 April 2016" dated 16<sup>th</sup> September 2015.
2. MEUG congratulates Orion on conducting an inclusive and transparent process. It is rare for distributors to take the effort to ask MEUG for feedback on proposed pricing changes. We welcome the opportunity to make submissions.

### **Proposal to remove the distribution/transmission split in delivery prices**

3. Question 1 in the consultation paper asks "Do you agree that the elimination of the distribution/transmission split in published and applied prices would be a useful simplification? If not, why not?"
4. MEUG do not agree with the proposal because it will lead to less efficient outcomes compared to continuing to include on customer invoices separate transmission and distribution charges. Customers benefit from "eye-balling" each month the portion of their delivered power bill relating to transmission charges in two ways:
  - Some customers will follow up with Transpower and or the Commerce Commission as to why some charges have changed; and
  - Some customers will follow up with Orion on any differences between Transpower's charges paid by Orion and any subsequent re-bundling by Orion.
5. The actions of a few customers on both of the above provides useful tension on Transpower and Orion to justify the level of expenditure on transmission and that tariff structures truly reflect transmission pricing signals. Publishing a total line tariff without separating transmission and distribution components leads to an additional information barrier to effective consumer participation in ensuring an efficient transmission service compared to the status quo. Less participation by customers will lead to less efficient transmission investment decisions by Transpower; more likely over than under investment

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in transmission. And if transmission charges are not passed through cleanly then the resulting distorted price signals will lead to inefficient decisions by end customers either by under or over-investing to avoid transmission charges and future transmission investments.

6. An important outcome from any change to the Transmission Pricing Methodology (TPM) will be ensuring transmission pricing signals are passed through to end consumers. There has always been a risk retailers may not pass those charges through cleanly. That risk has been diminishing as retail competition has intensified because new entrant retailers can offer clean pass through of transmission charges if incumbent retailers distort transmission prices in re-bundled tariffs. The proposal by Orion to remove the distribution/transmission split in delivery prices might similarly lead to Orion re-bundling transmission price signals in a manner that is different from the price signal intended for end consumers in a revised TPM. Unlike the retail market where consumers can shift to a supplier that passes transmission charges cleanly through; consumers cannot shift away from Orion. In absence of that market mechanism to ensure transmission prices are cleanly passed through then Orion should publish on the invoices for all customers the split between transmission and distribution.
7. The consultation explains the rationale for proposing removal of the split between distribution and transmission in delivery prices as follows:

“The distinction between the two parts is becoming unclear, with transmission pricing now including allowances for transmission costs that we have avoided following our purchase of Transpower assets. New regulations now focus on “pass through prices” which include allowances for other uncontrollable costs such as rates and industry levies.”
8. There is added complexity in charges invoiced by Transpower in relation to Orion’s recently acquired Transpower assets. The average consumer or for that matter even sophisticated consumers are unlikely to be able to unpick that complexity to ensure cost allocations are appropriate. Therefore it is imperative that Orion front foot how those costs have been allocated across different consumer classes in different parts of the network by publishing transmission charges on individual customer invoices. Orion may save the cost of publishing this detail on the invoices for each customer but that needs to be weighed against the uncertainty and undermining of confidence in Orion because customers will have less information to judge if they are paying too much for transmission or not. Lack of transparency and lifting barriers for consumers to understand their share of transmission costs will lead to uncertainty and mistrust. It’s better to have more not less information for customers to understand their share of transmission charges.
9. Similarly MEUG sees no reason why Orion cannot advise each customer of their share of other pass through costs such as Electricity Authority levies and Christchurch City Council rates.

#### **Proposal to introduce a major customer nominated capacity charge**

10. Question 3 in the consultation paper asks “Do you support the introduction of a nominated capacity and excess demand charge to replace the distribution part of our assessed capacity charge?”
11. Yes MEUG supports this approach because it is an improvement on the status quo subject to Orion providing more detail on how the approach will work such as when customers can elect and change nominated quantities and the formula by which charges may change. One area where additional information would assist is the reasoning for proposing an excursion of a nominated capacity in a single month will incur an excess demand charge for the following 3 months. An excess demand charge the month after an excursion would be appropriate but a penalty for three months seems excessive.

12. The proposal is an incremental change to the existing overall Orion suite of tariffs. At a more fundamental level we have a concern that the suit of tariffs incentives or penalises some customer classes but not others. In a more fundamental review of Orion's tariffs the proposal to use nominated quantities should be considered for all customer classes so that all consumers face the same marginal cost should their actual demand exceed their nominated capacity. In other words in an ideal world the discipline on paying for a nominated capacity should also apply to households. In the absence of each customer class facing equivalent marginal costs to modify behaviour there is a risk one class of customers will have a disproportionate incentive to react to distribution pricing signals and in effect subsidise other classes that may also be exacerbators for the need for network enhancement.

**Future work planned by Orion**

13. MEUG looks forward to participating in the future consultation on pricing design "beyond the specific incremental proposals in this consultation paper" with any changes resulting from that future consultation applying to pricing years starting 1<sup>st</sup> April 2017 and beyond.

Yours sincerely



Ralph Matthes  
Executive Director