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Submissions  
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To whom it may concern,

## **Voluntary consultation guidelines for proposed changes to distributors' tariff structures**

### **Introduction**

1. Vector welcomes the opportunity to submit on the Electricity Authority's (Authority) consultation paper "Voluntary consultation guidelines for proposed changes to distributors' tariff structures", dated 10 April 2012.
2. No part of our submission is confidential and we are happy for it to be publicly released.

### **Authority's statutory objectives**

3. Vector considers it reasonable to require EDBs to consult on proposed changes to pricing methodologies. A consultation requirement could help ensure pricing methodologies are robust and efficient. The extent to which consultation will add benefits will depend on the extent and quality of submissions.
4. The Authority is drawing a very long-bow though to suggest adoption of consultation guidelines will reduce barriers to entry and expansion faced by traders/retailers and promote competition. Vector is not aware of any evidence or grounds for believing the way network utilities would otherwise consult on pricing methodology changes impacts on the degree to which barriers to entry exist. It may be that the Authority does not mean the consultation guidelines per se will result in greater competition but that consultation will lead to better pricing, with removal of barriers to competition from existing pricing methodologies. This is quite a different proposition. The potential improvement in competition (if any) will clearly depend on the extent to which existing pricing inhibits competition.
5. An outcome the Authority is seeking is greater consistency in distribution pricing methodologies across EDBs. There may be a trade-off between administrative simplicity for retailers (if common pricing methodologies are adopted) versus tailoring pricing to the specific circumstances of individual networks eg some EDBs face challenges from seasonal load variation, network capacity issues etc.
6. The Electricity Authority may want to consider encouraging smaller EDBs to work together to develop consistent approaches and consult on a consolidated basis. This could have parallels with the approach smaller EDBs take to provision of joint submissions, presently co-ordinated by PricewaterhouseCoopers.

## **Proposed guidelines**

7. Vector has no objection to the Consultation Guidelines, subject to the comments provided below. The Guidelines generally reflect a common sense understanding of what consultation means.

### **Clause 5**

8. The Authority provides no evidence that "the development phase for a next-year tariff change project ... may need to start within weeks following the implementation date of the most recent change." At most, this would only be the case for a complete change in pricing methodology, rather than just fine-tuning. Vector doubts traders/retailers and other interested or affected parties would welcome a perpetual review of any EDB's pricing methodology. The discussion on good practices under clause 5 should be amended by the deletion of the sentence "the development phase for a next-year tariff change project ... may need to start within weeks following the implementation date of the most recent change" to avoid unrealistic and undesirable expectations.
9. Vector notes though that the appropriate form of consultation can depend on the extent to which an EDB is proposing to amend its pricing methodology. If an EDB is proposing a complete change in pricing methodology, rather than just fine-tuning the methodology, it may be important to ensure "effective engagement ... during the early stages of the tariff structure development process". This could include a number of consultation steps, such as: (i) canvassing a range of options considered, (ii) then narrowing those options to a preferred option and (iii) then consultation on implementation.
10. If these steps are all bundled together, with the EDB consulting on a fully developed methodology (along with "a comprehensive schedule of proposal tariff rates, including qualification criteria"), in a form ready to implement, submitters may have concerns the process includes an element of premeditation. This risk would be heightened if the timeframe for implementation did not allow for the possibility of a change in proposed methodology, with the additional time that could entail.

### **Clause 7**

11. Vector believes clause 7 should be amended to reflect that the distribution pricing principles are voluntary and EDBs may consider adopting pricing methodologies which are not 100% consistent with them (and should also adopt an open-mind to submitters' proposals which may conflict with the pricing principles, if the proposals can be shown to be in the long-term interests of consumers).
12. Strictly speaking, if an EDB adopts a pricing methodology that is not in full compliance with the voluntary pricing guidelines, it will not be able to fully comply with clause 7. It is not possible to show "how" changes are consistent with the pricing principles if they are not consistent with them.
13. Vector suggests clause 7 be amended to "~~how~~ the extent to which the proposed changes are consistent with the distribution pricing principles, including the rationale for any inconsistencies". It should also be noted that not all pricing methodology changes will be made to adhere to the pricing principles, or will impact on compliance with the pricing principles. The response to clause 7, in these circumstances, may simply be to state "Not applicable".
14. Bullet 4 of "good practices" under clauses 6 and 7 should be amended require "a comparison of the proposed new price tariffs with existing tariffs", rather than "an assessment of the impact of the proposed option(s) on end-users". It should be the EDB's responsibility to provide sufficient information for retailers to assess the impacts on their customers, not to undertake this job on their behalf. Electricity retailers are in a better place to determine the impact of pricing changes on their

end-consumers (particularly as it depends on how the retailers repackage any distribution tariff changes). It is reasonable to assume, given different retailers will have different mixes of customers, that some distribution tariff changes could positively impact on a particular retailer's customers in aggregate, while negatively impacting on another retailer's customers.

15. Bullet 5 goes on to suggest "the distributor should provide guidance so that traders may identify the optimal option of individual customers at the proposed effective date of the change." The EDB should only be required to provide sufficient information for the trader/retailer to determine (in their opinion) the most appropriate tariff rate option from those available. In most cases the retailer will have better and/or more relevant information on which is the best option for consumers. In this respect it is not appropriate for the EDB to provide guidance on the most appropriate option when ultimately this will be at the discretion of the retailer. Bullet 5 should be deleted.

#### **Other comments**

16. Paragraph 2.5.2 incorrectly depicts clause 12A.7(3) of the Participation Code as listing "what is material" whereas the clause details what "may materially affect" traders or consumers.

#### **Concluding remarks**

17. If the Authority has any queries regarding Vector's submission or would like further information please contact Robert Allen, Senior Regulatory Advisor, on 09 978 8288 or [robert.allen@vector.co.nz](mailto:robert.allen@vector.co.nz).

Kind regards



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