Submission on
Voluntary Consultation Guidelines for
Proposed Changes to
Distributors' Tariff Structures

From the Electricity Networks Association

8 May 2012

Electricity distribution businesses supporting this submission

The electricity distribution businesses listed below support this submission.

Alpine Energy Ltd
Aurora Energy Ltd
Buller Electricity Ltd
Centralines Ltd
Counties Power Ltd
Eastland Network Ltd
Electra Ltd
Electricity Ashburton Ltd
Electricity Invercargill Ltd
Horizon Energy Distribution Ltd
Mainpower NZ Ltd
Marlborough Lines Ltd
Nelson Electricity Ltd
Network Tasman Ltd
Network Waitaki Ltd
Northpower Ltd
Orion New Zealand Ltd
OtagoNet Joint Venture
Powerco Ltd
Scanpower Ltd
The Lines Company Ltd
The Power Company Ltd
Top Energy Ltd
Unison Networks Ltd
Vector Ltd
Waipa Networks Ltd
WEL Networks Ltd
Wellington Electricity Lines Ltd
Westpower Ltd

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1. Introduction

1. The Electricity Networks Association (ENA) appreciates the opportunity to submit on the Electricity Authority's (EA's) Draft Consultation Guidelines[1]. These Consultation Guidelines are intended to relate to when an electricity distributor business (EDB) consults on proposed material changes to its tariff structures.

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2. Comments

2. In general the ENA supports the proposed Draft Consultation Guidelines, subject to the following comments. The clauses referred to below relate to those in Table 1 of the consultation paper.

Clause 5

3. The second paragraph under "good practices" related to Clause 5 includes a sentence "*At times, dates driven by regulation or law change may impact on project plans*". While we agree with these points, we consider this sentence should be expanded to also include the implementation of regulation (e.g. the timing of changes to default price paths or the issuing of a customised price path by the Commerce Commission) as well as changes to regulations and law.

4. Thus we recommend this sentence read "*At times, dates driven by the implementation of regulation, or changes to regulation or law ~~change~~ may impact on project plans*"

5. The third paragraph includes a sentence "*In practice, the development phase for a next-year tariff change project (particularly if significant changes are*

[1] *Voluntary Consultation Guidelines for Proposed Changes to Distributors' Tariff Structures: Consultation Paper*, Electricity Authority, 26 March 2012

envisaged) may need to start within weeks following the implementation date of the most recent change.". The paper does not provide any evidence or discussion on this point. We consider this timeframe suggests a much longer consultation process than normally will be the case and its inclusion is likely to encourage unrealistic expectations. We suggest this sentence be removed. The remaining "good practice" related to Clause 5 deals adequately with process and timing issues without this sentence.

Clause 7

6. Clause 7 implies an EDB's pricing will always be consistent with the EA's distribution pricing principles (we assume the pricing principles referred to in this Clause are those issued by the EA). However, these principles are not mandatory and EDBs may consider pricing methodologies which are not 100% consistent with them (and an EDB should also adopt an open-mind to submitters' proposals which may conflict with the pricing principles but can be shown to be in the long-term interests of consumers). The ENA also notes that some regulatory requirements, such as the low fixed user charge requirements, may impede an EDB to implement pricing consistent with the EA's distribution pricing principles.

7. In order to reflect this flexibility, we recommend Clause 7 read "*Reference should be made to the Electricity Authority pricing principles, ~~and~~ the extent to which ~~an explanation provided of how~~ the proposed changes are consistent with those ~~distribution pricing~~ principles, and the rationale for any inconsistencies with those principles.*"

8. Bullet point 3 of "good practices" related to Clause 6 & 7 includes the phrase "*a comprehensive schedule of proposed tariff rates*". We wish to make two points. First, early in the process of changing tariff structures it is usual to be able to provide indicative tariffs only, as some of the information to calculate final tariffs is not normally available until close to the point in time to when they apply (e.g. once information on transmission prices and CPI out-turns is available).

9. Second, it is not clear what the term "*tariff rates*" means relative to "*tariffs*". The term "*rates*" appears redundant and should be removed; alternatively if something else is meant it should be defined.

10. We recommend this phrase be replaced by "*a comprehensive schedule of indicative proposed tariffs*".

11. Bullet points 4 & 5 of "good practices" related to Clauses 6 & 7 imply an obligation on the EDB to undertake end-consumer analysis in terms of rate shock, and where there is a consumer-elected tariff option, to provide guidance on the optimal option for individual consumers. The ENA considers this

implied obligation misconstrues the relative roles of the retailer and the EDB in circumstances where the retailer determines the prices faced by end-consumers for both the distribution service and the supply of energy (which is the circumstance in which this requirement to consult applies). In these circumstances the retailer has the ability to package end-consumer prices as it considers appropriate. The retailer is better placed than the EDB to assess the impact of any changes in distribution tariffs on end-consumers as any such analysis needs to take into account the way in which the retailer intends to pass on such changes. This analysis requires information on end-consumers' consumption patterns which the retailer routinely gathers but the EDB may not. Further, some EDB tariff structures (e.g. GXP pricing) do not relate to particular end-consumers.

12. However, we do consider it reasonable and useful for an EDB to identify the impact of any proposed changes relative to its existing tariffs. A retailer could then use this information to undertake its end-consumer analysis relative to its intentions as a retailer. We recommend these two bullet points be replaced with a single bullet point that reads "*an assessment of the impact of the proposed option(s) relative to the existing tariffs*".

Scope of consultation

13. Paragraph 2.5.2 attempts to summarise clause 12A.7 of the Code but does not do so accurately, as it states that the listed types of tariff changes are a materiality test. This list of changes is included in 12A.7, but an EDB is not required to consult on one of more of these changes if "*the change will not materially affect traders of consumers*" (12A.7 (4)).

14. We recommend the Guidelines simply refer to 12A.7 without modification.

15. Also, in terms of presentation, the topic of this section, "*Scope of the consultation process*" would fit better as a Clause 8 in Table 1, rather than as a separate section after the Table.

16. The other points made in Section 2.5 that are pertinent to the consultation principles and good practices are already covered in Table 1. If the scope of consultation were included in Table 1 as a Clause 8 the existing Section 2.5 could be deleted, leaving Table 1 as the complete "Voluntary Consultation Guidelines".

3. Answers to questions

Our answers to the specific questions in the consultation paper are as follows.

	Question	Response
1	Do you agree with the proposed consultation principles and good practices? If not what changes do you suggest and why?	The ENA agrees with the proposed consultation principles and good practices except for the issues outlined in this submission.
2	Do you agree with the proposed scope of consultation process by distributors? If not what changes do you suggest and why?	The scope of this consultation requirement is set out in Rule 12A.7 of the Code and the ENA considers this scope should be adopted in these Voluntary Consultation Guidelines without modification.
3	Do you agree that the Authority has taken appropriate factors into account in developing the consultation guidelines?	Yes
4	Are there any other factors the Authority should also take into account? If so please provide details.	The points raised in this submission. .