



17 October 2011

Submissions  
Electricity Authority  
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### **Criteria for assessing alignment against the Information Disclosure Guidelines and Pricing Principles – Consultation Paper 5 September 2011**

As previously submitted by Contact Energy (“Contact”), and consistent with the consultation paper, “the principles are defined at a relatively high level with the consequential potential to result in a wide range of pricing approaches consistent with them” i.e. not “more standardisation of distribution pricing”.

Contact notes that the two key principles of most value to retailer stakeholders, acting as agents for consumers, are:

*(d) Development of prices should be transparent, promote price stability and certainty for stakeholders, and changes to prices should have regard to the impact on stakeholders; and*

*(e) Development of prices should have regard to the impact of transaction costs on retailers, consumers and other stakeholders and should be economically equivalent across all retailers*

and neither of these principles has been adequately considered, or their intent captured, in the consultation paper (review of distribution principles or alignment assessment criteria).

These principles affect two information disclosure guidelines, namely

*(b)(i) how the methodology links to the pricing principles and any non-compliance; and*

*(b)(v) an explanation of the derivation of the tariffs to be charged to each consumer group and the rationale for the tariff design*

Contact has previously provided some suggested lower level principles to give context to the key concerns that Contact considers are intended to be captured in principles (d) and (e). Given that the consultation paper has rejected any additional or lower level principles, and the fact that all distributors within the assessment trial have stated they comply with the principles,

it appears to Contact that any assessment against principles (d) and (e) using guidelines (b)(i) and (b)(v) will be ineffective.

Key issues for Contact captured at a high level in the above principles, but which do not appear to be considered in the guidelines and assessments, include:

- Prices that do not enable transparency to consumers, or reflect the full cost of line function services relevant to each ICP, do not in Contact's view comply with principle (d) with respect to "transparent" and "certainty". Typically a line pricing/charging methodology that includes an unpredictable UFE or scaling element, or includes charges that require repackaging to recover effective costs, is inconsistent with principle (d).
- Line prices based on annual consumption, without a regulated requirement to do so, do not in Contact's view comply with principle (d) with respect to "promoting price stability" or "certainty", and principle (e) with respect to "transaction costs". We consider price categories should be based on consumer class, type of consumer installation, consumer's demand profile or capacity requirements, but not on annual consumption which presents high transaction costs for retailers and practical management issues. The costs primarily arise from annually processing and sending letters to affected customers, and call centre costs generated by consequential customer queries.
- Pricing that requires wash-up billing does not appear to be consistent with principle (d) with respect to "certainty", or principle (e) with respect to "transaction costs".

Contact is concerned that as smart meters are widely deployed distributors will develop new pricing methodologies that have good intentions (to incentivise changes in customer behaviour to defer network investment), but which result in unnecessary complexity, pricing instability (from continual tweaking of tariff design) and high transaction costs. We are hopeful that the Electricity Networks Association's more cost reflective pricing initiative will produce results in this regard.

If the above issues were taken into account in amended principles and assessment criteria Contact would be more confident that the pricing principles would in fact deliver long term benefits for all stakeholders and not just consumers. Without this, Contact is not confident that benefits can be realised.

Yours sincerely

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***Manager Networks & Reconciliation***