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Carl Hansen
Electricity Authority
2 Hunter Street
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By email: submissions@ea.govt.nz

Dear Carl

Value in initial review but stronger measures required for distributor-retailer contracting environment

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Electricity Authority (“the Authority”) on the consultation paper “Criteria for assessing alignment against the information disclosure guidelines and pricing principles” dated 5 September 2011.

Endorse an initial review of the guidelines and principles

We support the Authority’s decision to undertake an initial review of the alignment of a sample of distributors with the Information Disclosure Guidelines (“the Guidelines”) and of their consideration of the Pricing Principles (“the Principles”). We consider that the Concept Consulting report¹ provides a number of useful insights that will enable the Authority to refine its approach to the Guidelines and Principles prior to the first formal review.

The variation in distributors’ alignment with the Guidelines demonstrates the importance of the Authority clearly articulating the outcomes that it seeks through this work stream and how distributors will be assessed. We consider that the Authority’s criteria for assessing alignment with the Guidelines (as set out in

¹*Assessment of selected distributors’ alignment against the Information Disclosure Guidelines, and their consideration of the Pricing Principles*. Concept Consulting Group Limited, 6 July 2011.

Appendix A of the consultation paper) seems appropriate and should assist distributors in preparation for the first formal review.

Insufficient time for distributors to consider proposed assessment criteria

As distributors are currently consulting with retailers on their pricing methodologies for next year (with prices to be confirmed by 1 January 2012), we question whether distributors will have sufficient time to align with the Guidelines and Principles. This is the first time that distributors have seen the specific assessment criteria that the Authority intend to apply in the March 2012 review and we consider that it is unlikely that distributors will have time to fully consider this new information and reflect it in their approach to pricing methodologies and information disclosure.

We recommend that the Authority treat the March 2012 review as a baseline assessment. A subsequent review should then be undertaken in 2013, thus incentivising distributors to improve upon their baseline assessment. Establishing a baseline for all distributors will also allow the Authority to measure progress against this voluntary intervention and assess whether stronger measures are required in the future.

Questions regarding process for the 2012 review

The consultation paper says that the first formal review will commence in March 2012 and the Authority intends to publish a summary of the independent reviews by November 2012.² We query whether this review could be completed more quickly than the eight-month timeframe indicated. This would provide distributors with more time to consider the results and implement changes prior to the next review.³

We encourage the Authority to seek feedback from consumers and other interested parties (such as retailers) on whether the information disclosed by distributors is providing a clear picture of how pricing methodologies are set for each distribution network. It is important that this information is easy to understand and meets the intended users' needs.

As a retailer, we have clear needs for this pricing information but for most consumers, retailers act as an intermediary and bundle distribution charges into their retail offering. We recommend the Authority seek input from consumer

² Table 1, page 6 of the consultation paper.

³ The consultation paper does not explicitly state if there will be a further alignment review in 2013.

groups to determine what information would actually be of interest to the end-users.

Authority's interventions in the distribution market

The Guidelines and Principles are one of a number of work streams currently underway to address the two “new matters” relating to standardisation of the distributor-retailer contracting environment.⁴ Given that alignment with these Guidelines and Principles is only voluntary, we question how effective this work will be in incentivising improvements to distributors’ pricing methodologies. As noted previously,⁵ voluntary measures are likely to be ineffective within a natural monopoly market.

We consider that if significant progress is to be made on the two “new matters” relating to distribution standardisation, the Authority should focus on:

- establishing the model use-of-system agreements (“model UoSAs”) as the default agreements that distributors must offer any retailer. A default agreement would assist new entrant retailers (or existing retailers entering into new areas) by providing them with an “off-the-shelf” contract, while preserving the scope for innovation via bilateral negotiations. This approach would improve consistency across regions, lower entry costs and reduce overall transaction costs in the market;⁶
- investigating the benefits of ICP versus GXP-based pricing. We consider that mandating ICP-based pricing would be in the long-term interest of consumers;⁷
- investigating the most effective network billing methodologies. We strongly support the use of the Reconciliation Manager (RM) normalised approach over the as-billed normalised approach, as it provides the most accurate data

⁴ Section 42(2)(e) and 42(2)(f) of the Electricity Industry Act 2010.

⁵ *More Standardisation of Distribution Arrangements: Proposed amendments to the Code*, Genesis Energy submission to the Electricity Authority, 23 June 2011.

⁶ *Finalising model agreements worthwhile but further work required to address underlying market failure*, Genesis Energy submission to the Electricity Authority, 5 October 2011.

⁷ *Importance of addressing retailer-distributor contracting environment*, Genesis Energy submission to the Electricity Authority, 7 September 2011.

a retailer should have and the data files are subject to the Authority's rules and auditing;^{5, 7,8} and

- mandating liability provisions within the Electricity Industry Participation Code ("the Code"), rather than through the model UoSAs, as we consider that this will be the most effective way of addressing the market failure.⁶

Until work in these areas is progressed, we consider that the Authority's work on distribution standardisation will fail to meet the intent of the two "new matters", as set out in the Ministerial Review of Electricity Market Performance 2009.

Support consolidation with Commerce Commission's information disclosure regime

The Concept assessment report recommended that the:

"Authority and [the] Commerce Commission should work to ensure consistency of regulatory disclosure requirements, and potentially consider a single disclosure requirement relating to electricity distribution pricing that would cover both their needs."⁹

We support the introduction of a consolidated information disclosure requirement for electricity distribution pricing and we consider that this should reduce the transaction costs associated with complying with both the Commerce Commission and Authority's regimes. In addition, we consider that there would be value in the Authority and the Commerce Commission publishing consolidated reports on distributors' alignment with the two regimes. This would improve transparency of a natural monopoly market and would enable consumers and other interested parties to understand:

- the "price and quality of distribution services they are receiving from their distributor";¹⁰
- the relative performance of the distributors across New Zealand; and

⁸ *Support clarification of network billing methodologies*, Genesis Energy response to the Electricity Authority's Support clarification of network billing methodologies, 4 October 2011.

⁹ Recommendation number 5, page 12, *Assessment of selected distributors' alignment against the Information Disclosure Guidelines, and their consideration of the Pricing Principles*, Concept Consulting Group Limited, 6 July 2011.

¹⁰ *Information disclosure requirements for Energy: Sector briefing on emerging views*, Commerce Commission, 7 October 2011, <http://www.comcom.govt.nz/part-4-review-of-electricity-information-disclosure-requirements/>

- if distributors are “striving to achieve efficiencies in all aspects of their business, and sharing these with consumers”.¹⁰

Need to consider the efficiency impacts of the low-fixed charge regulation

The consultation paper notes that several distributors commented that they felt “constrained [from] introducing more efficient pricing approaches” due to restrictions arising from the low-fixed charge regulations.¹¹ We agree that this is an issue and recommend that the Authority consider the efficiency impacts of these regulations on distribution and retail pricing.

If you would like to discuss any of these matters further, please contact me on 04 495 6354.

Yours sincerely



Karen Collins
Senior Regulatory Advisor

¹¹ Paragraph 3.2.10 of the consultation paper that refers to the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004.