



**Submission to the Electricity Authority on
Criteria for assessing alignment against the
Information Disclosure Guidelines and Pricing
Principles Consultation Paper**

17 October 2011

CONTENTS

1. INTRODUCTION.....	2
2. ASSESSMENT OF CONSISTENCY.....	3
3. CRITERIA FOR ALIGNMENT.....	4

1. INTRODUCTION

Horizon Energy Distribution Limited (“Horizon Energy”) welcomes the opportunity to submit to the Electricity Authority (“Authority”) on the *Criteria for assessing alignment against the Information Disclosure Guidelines and Pricing Principles Consultation Paper* (“Pricing Consultation Paper”) issued 5 September 2011.

We appreciate the requirements placed upon the Authority under section 42(2) of the Electricity Industry Act 2010 (“the Act”) to amend the Electricity Industry Participation Code 2010 (“the Code”). In particular to:

- a) include requirements for distributors that do not send accounts to consumers directly to use more standardised tariff structures (section 42(2)(e)); and
- b) include requirements for all distributors to use more standardised use-of-system agreements (“UoSAs”), and for those UoSAs to include provisions indemnifying retailers in respect of liability under the Consumer Guarantees Act 1993 (“CGA”) for breaches of acceptable quality of supply, when those breaches are caused by faults on a distributor's network (section 42(2)(f)).

We also note the Authority's preferred approach to addressing the above requirement being:

- 1) Finalise ‘voluntary’ model use-of-system agreement approach
- 2) Amend code to make mandatory
 - i) Prudential security requirements;
 - ii) The data formats used for so-called ‘ICP-billing’ approaches;
 - iii) The data formats used for exchanging tariff rate information;
 - iv) A requirement for distributors to consult before making tariff structure changes; and
 - v) A requirement for distributors to indemnify retailers in respect of liability under the Consumer Guarantees Act 1993 for breaches of acceptable quality of supply, where those breaches were caused by an event or condition on a distributor's network.
- 3) Codify specific arrangements for negotiating UoSAs to mitigate disagreements, including acting in good faith, and entering mediation.
- 4) Continue to develop ‘voluntary’ application of pricing principles approach with Distributors, with the full review taking place next year.

As a part of the above approach, the Authority has noted there was a need to continue to address the efficiency of distribution tariff structures through the distribution pricing principles project. As such the remainder of this submission will focus on the above point (4), with comments directed at the Authority's questions 1 through to 12 as presented in the Pricing Consultation Paper.

We also note and support the Electricity Networks Association (“ENA”) and PricewaterhouseCoopers (“PwC”) submissions on the Pricing Consultation paper. In particular, we refer to the ENA's and PwC's “marked up” version of the criteria as stated in Appendix A of the Pricing Consultation Paper. We support the proposed changes within these submissions, and consider these to meet the purpose of information disclosure on pricing methodologies. In addition as noted by the ENA and PwC, we do not support the development of assessment criteria for pricing principles.

2. ASSESSMENT OF CONSISTENCY

QUESTION 1. Do you consider the type of analysis suggested is appropriate given the pricing principles, and are there important aspects which have been omitted?

Horizon Energy considers the disclosure of pricing principles is a useful exercise in that it requires distributors to set out how pricing can reflect costs in an equitable manner. However Horizon Energy is concerned the analysis requirements are being set with an unreasonable expectation as to the volume of indicators the Authority has included and questions the benefit of these for the purpose of information disclosure. We note the Commerce Commission's ("Commission") view of a pricing methodology in an economically efficient market would follow 'allocative efficiency', where businesses price their services to reflect the efficient costs of supplying those services. This suggests a less onerous approach to pricing principles, without the use of superfluous indicators being set as criteria to demonstrate the application of these efficiencies.

Pricing and tariff setting is as much about policy as it is numerical analysis. Horizon Energy submits the level of detail proposed imposes a cost on the industry beyond any potential benefit that might be achieved within the market let alone any practical gains to the consumers themselves.

QUESTION 2. Do you consider that the Commerce Commission's template for gas distribution businesses would be an appropriate guide?

Horizon Energy does not consider the Commerce Commission's template for Gas Distribution Businesses ("GDB") to be appropriate. We note the Commission's on-going review of information disclosure requirements, which includes disclosures on pricing methodology. We would prefer to see the Authority's and the Commission's requirements combined, so as to obtain a single set of disclosure requirements and pricing principles for distributor's pricing methodology.

QUESTION 3. To what extent do the constraints listed in paragraph 3.2.10 impact on your ability to align your pricing methodologies with the pricing principles?

As mentioned above, Horizon Energy supports any initiative that looks for consistency in regulatory disclosure requirements between the Commission and the Authority.

Horizon Energy submits to the Authority that the constraints referred to in paragraph 3.2.10 are real. Retailers have demonstrated their reluctance to see radical changes in the distributor tariff structures and even without resorting to legal action, their ability to hinder changes through the consultation process make it impractical for distributors to consider radical changes from the status quo unless they are prepared to spend considerable resources to impose their view and if necessary ultimately take legal action themselves.

Realistically, the ability to balance the lower quality of supply received by rural customers and the higher cost of supply to them makes the allocation of different prices for urban and rural customers difficult to defend. Generating around 30% of Horizon Energy's non-majors lines charges, low fixed tariff regulations undermine both the theory and practice of the requirement to apply prices in an economically efficient market.

The risk that distributors face under the Commission's default price-quality path is not symmetric within the market, where breaches under this regime are prohibitive to distributors.

3. CRITERIA FOR ALIGNMENT

QUESTION 4. Do you agree with the assessment criteria for Guideline (a)?

Horizon Energy considers that while the level of detail required within the proposed assessment criteria is not explicit, it will conceivably result in an abundance of documentation being produced by the industry with little benefit. There is already some agreement that the cost and complexity of providing extensive analysis is not warranted, as was the point made by Concept Consulting Group Limited within Appendix B of the Authority's Pricing Consultation Paper.

QUESTION 5. Do you agree with the assessment criteria for Guideline (b)(i)?

The criteria applied to Guideline (b)(i) effectively looks at the level of detail necessary to support the achievement of the overarching objectives. In practice this would not require the level of detail the proposed criteria envisages, and could support a robust approach to demonstrate linkage to the pricing principles using a simplified set of criteria.

The distributor may voluntarily supply all the detail as mentioned within 7(a) and 7(b) without the need to have these explicitly stated as criteria to be measured upon. Horizon Energy again raises concern as to the volume of detailed information expected, that will inadvertently become less useable to the average consumer and should be viewed as an inefficient use of industry resource.

We also refer to the ENA and PwC submissions where the "marked up" version of the guidelines has been strengthened, by simplifying the number of criteria to apply within this guideline.

QUESTION 6. Do you agree with the assessment criteria for Guideline (b)(ii)?

We refer to the ENA and PwC submissions where the "marked up" version of the guidelines has been strengthened, by simplifying the number of criteria to apply within this guideline.

QUESTION 7. Do you agree with the assessment criteria for Guideline (b)(iii)?

We refer to the ENA and PwC submissions where the "marked up" version of the guidelines has been strengthened, by simplifying the number of criteria to apply within this guideline.

QUESTION 8. Do you agree with the assessment criteria for Guideline (b)(iv)?

While Horizon Energy supports the general purpose of the criteria, there is concern of the outcome in presenting a rationale to meet the criteria within 13(b). At the extreme this could be used to pressure distributors to publish an economic evaluation of every possible cost allocation model, argue the relative merits of each, and defend the application at a very detailed level. The concern being that this will encourage an environment of spurious accuracy, at the expense of considerable resources with little potential benefit for consumers at large.

QUESTION 9. Do you agree with the assessment criteria for Guideline (b)(v)?

We refer to the ENA and PwC submissions where the "marked up" version of the guidelines has been strengthened, by simplifying the number of criteria to apply within this guideline.

QUESTION 10. Do you agree with the assessment criteria for Guideline (b)(vi)?

Horizon Energy agrees with the philosophy of the guideline but has reservations about the level of detail that the criteria looks to be expecting. Some of these arrangements may be commercially sensitive and the current economics may not reflect the commercial long term view. What might seem as non-compliant pricing in the short term maybe part of a longer term strategy based on a customer's expected future behaviour rather than existing contracts.

For example contractual or bypass arrangements might be put in place that would not seem equitable for a small load or generation scheme because the distributor has sensitive information about the customer's expansion plans and wishes to support or encourage that expansion in anticipation of higher future returns.

QUESTION 11. Do you agree with the assessment criteria for Guideline (c)(i)?

Horizon Energy considers the guideline to be appropriate as is the focus on the use of industry standard terminology. The providing of a glossary should only be required where necessary for understanding.

QUESTION 12. Do you agree with the assessment criteria for Guideline (c)(ii)?

Horizon Energy considers there is some duplication here with the proposed criteria under Guidelines (a) and b(i), and supports the ENA and PwC "marked up" version of the criteria for Guideline (c)(iii).

Thank you for considering this submission. Please find contact details below to discuss any of these matters further.

Kiran Watkins
Group Commercial and Regulatory Manager
Horizon Energy Distribution Limited
kiran.watkins@horizonenergy.net.nz
07 306 2923