

15 June 2012

Electricity Authority
PO Box 10041
WELLINGTON 6143

By email to: submissions@ea.govt.nz

Dear Sir/Madam

Submission on Consultation Paper – Decision-making and economic framework for distribution pricing methodology review dated 7 May2012

Our Submission

1. Marlborough Lines Ltd (MLL) appreciates the opportunity to comment on the Electricity Authority's (EA) consultation paper, "Decision-making and economic framework for distribution pricing methodology review" dated 7 May2012, (the consultation paper).
2. We generally support the views expressed in the submission by PricewaterhouseCoopers (PWC) on the same matter. The latter is made on behalf of 22 EDBs, of which we are a party.
3. In addition to the views expressed in the ENA and PWC submissions referred to above, we wish to express views on a number of points that are particularly relevant for MLL.
4. This submission sets out our particular views on a number of general issues under broad headings of ...
 - **Significant difference between Transmission and Distribution not recognised in proposal for a common framework**
 - **Efficiency Issues**
 - **Need for stability and regulatory certainty**

Significant difference between Transmission and Distribution not recognised in proposal for common framework.

5. One of the primary reasons provided by the Electricity Authority, (the Authority), for introducing an Economic framework for distribution pricing is to align distributor and transmission decision making frameworks. The consultation paper prepared by the EA on this topic appears to us to be a reapplication of some of the Authority's recent work on Transmission pricing. It would seem that now the Authority has undertaken the work stream for transmission pricing they have reflected that one of the outputs, the Economic Framework, may be a good add-on to the already complex distribution pricing regulatory regime.

6. The Authority suggests “an equivalent approach can be adopted for distribution services given the similarities in characteristic of transmission and distribution services.”¹. We submit that in fact if you truly consider and include the practical aspects of transmission and distribution pricing their characteristics are quite dissimilar. E.g. The transmission system has one asset owner/price setter, Transpower, where as there are a moderate number of EDBs in NZ. The one transmission organisations in the country is a large sophisticated organisation whereas there is a range of scale and sophistication within the distribution sector in New Zealand. Transpower has a relatively small number of customers, all corporate entities with understanding of electricity systems, where as the distribution sectors price signals, at least to some degree, go to a large number of end use consumers.
7. Furthermore Transpower has a greater number of options for dealing with uneconomic lines than most distributors: in many cases Transpower has been able to transfer/sell spur lines to the regional distributor.
8. We also note that Transpower primarily charges on a capacity provided approach. Although Distributors’ costs are also largely based on the capacity provided, these sorts of charges are not well suited to a large number of our end use consumers. Residential and most small business customers generally view capacity charges as being inherently unfair and/or incomprehensible. Consumers have for many years been conditioned to use as few units as possible. Even if education programmes addressed the issue of capacity based charges truly reflecting costs, this method of charging is generally inconsistent with statutory obligations around energy efficiency.
9. We recognise that on the face of it there are similar characteristics with both sectors being natural monopoly network owner operators of assets related to the provision of electricity within New Zealand. However we submit that to jump from there to an assumption that an “equivalent economic framework” needs to be put in place for distribution as for transmission is not recognising the very different business structures that are currently in place.

Efficiency Issues

10. The other reason provided for introducing the additional economic framework was to promote efficiency.
11. The current regulatory environment has many barriers to distributors having a perfectly efficient pricing structure. The low user regulations, together with the obligation to maintain supply to consumer serviced by extremely uneconomic lines require distributors to implement significant cost sharing within their pricing methodologies.
12. Our Marlborough Network in particular has 80% of the lines servicing just 20% of the customers. These lines were built in line with the legislation prevailing at the time. However we have ongoing obligations to maintain supply. Whilst there are alternatives to grid supply generally customers have not chosen to pursue those alternatives as they are more comfortable with the convenience that a grid supply provides.

¹ Decision-making and economic framework for distribution pricing methodology review, Electricity Authority May2012, Pg 18.

Need for stability and regulatory certainty

13. We believe that there is potential for improvements in distributors pricing methodologies and that the principle based approach may ultimately achieve the very worthwhile objectives proposed. However in order for the vast majority of distributors to make those improvement a simpler rather than more complex regulatory framework is required. The current framework with the pricing principles, and other subsequent parts, as the guide is just bedding in. Many distributors have made significant efforts to work with the Authority and its predecessor in getting the current framework in place yet after less than a year a further significant change has been proposed.
14. We urge the Authority to reconsider and allow further time for the current framework to be worked into distributors' methodologies and disclosures.

General

15. We thank the Authority for the opportunity to comment on these proposals. We intend to submit on the remaining standardisation matters for which the consultation period has been extended.
16. We would be happy to assist the Authority further if there are any queries with respect to the matters raised in this submission.

Yours sincerely

Katherine Hume-Pike
Commercial Manager