



MAJOR ELECTRICITY USERS' GROUP

22 June 2012

Dr John Rampton
Electricity Authority

By email to submissions@ea.govt.nz

Dear John

Consultation Paper - Decision-making and economic framework for distribution pricing methodology review

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority consultation paper "Decision-making and economic framework for distribution pricing methodology review" dated 7th May 2012¹.
2. Responses to the questions in the consultation paper follow:

Question	MEUG response
Q1. Do you agree with the Authority's interpretation of its statutory objective with respect to distribution pricing? If you agree, please explain why. If you do not agree, please explain how you consider the statutory objective should be interpreted with respect to distribution pricing and the reasons for your interpretation.	Agree with the discussion in paragraphs 4.1 to 4.2.9. Do not understand the reference to the views of some EDB mentioned in paragraph 4.2.7.
Q2. Do you agree with the above application of the three limbs of the statutory objective to distribution pricing? If not, why not, and are there other examples of how distribution pricing can influence competition, reliability and efficiency?	Table 3 is helpful. In addition to supporting workable competition in generation and retail mentioned under the competition limb of the Authority's objective, an optimal distribution pricing methodology (DPM) will, compared to a less optimal DPM, support workable competition in wholesale energy,

¹ <https://www.ea.govt.nz/our-work/consultations/transmission/decision-making-economic-framework-distribution/>

Question	MEUG response
	ancillary services, wholesale market demand side management (DSM) (in addition to DSM to substitute for distribution line services already noted on table 3) and the market for transmission alternatives.
Q3. Do you agree that a market-based distribution pricing methodology would tend to promote efficiency in network use and in investment in distribution networks, generation, demand management and the electricity industry more generally? If so, what are your reasons? If you disagree, what are your grounds for disagreeing?	Agree.
Q4. Do you agree that market-based distribution pricing methodologies are likely to be more durable and stable than approaches involving administered charges? If so, what are your reasons? If you disagree, what are your grounds for disagreeing?	Agree.
Q5. Do you agree distributors should use pricing methodologies that give preference to market-based approaches to distribution charges wherever such charges will be efficient and implementation will be practicable? If so, what are your reasons? If you disagree, what are your grounds for disagreeing?	Agree, though in practice even implementing long-term contracts for dedicated assets as discussed in paragraphs 5.3.6 to 5.3.8 is unlikely to be a "normal" commercial contract. Inevitably EDB can exert monopoly power to set rather than reach negotiated terms. A targeted back-stop intervention to allow a more balanced environment for such long-term contracts may be useful.
Q6. Do you agree the second, third and fourth ranked preferences should be for administrative approaches to distribution charges of exacerbators pay, beneficiaries pay and other charging options wherever such charges will be efficient and implementation practicable? If so, what are your reasons? If you disagree, what are your grounds for disagreeing?	Agree and note the hierarchy of exacerbators then beneficiaries approach might be reversed depending on the specific cases.
Q7. Do you agree these actions can exacerbate investment? Are there other actions and, if so, what are they?	Agree.

Question	MEUG response
<p>Q8. Do you agree that exacerbators should be identified by determining which party or parties have the ability to act differently, thereby avoiding the need to augment the network? Is there an alternative approach? If so, please provide details.</p>	<p>Agree.</p>
<p>Q9. Do you agree with the assessment of the price that should apply to exacerbators? Do you agree with the assessment of how exacerbators pay should apply in practice? Do you agree with the proposed approach for identifying the preferred option or options for applying exacerbators pay? Please provide explanations in support of your answers.</p>	<p>Exacerbators should expect to pay and should pay for incremental costs so that the EDB recovers incremental investment over the lifetime of the investment.</p> <p>We do not accept that EDB should charge for any form of LRMC, LRIC or LRAIC basis ahead of that service being provided. This does not happen in workably competitive markets.</p> <p>EDB should signal and regularly update likely future price paths under different Asset Management Plan (AMP) build paths with and without specific new investment triggered by an exacerbator. On the basis of these forecast distribution price paths exacerbators can choose to proceed or not or modify their plans.</p>
<p>Q10. Do you agree these considerations should be taken into account under an exacerbators pay approach? Please provide an explanation in support of your view.</p>	<p>Agree these have to be taken into account. There may be other factors also, ie we see the discussion in paragraphs 5.5.24 to 5.5.26 as a useful starting point rather than conclusive.</p>
<p>Q11. Do you agree that these ways can be used to identify beneficiaries? Are there others? If so, please provide details.</p>	<p>Agree.</p>
<p>Q12. Do you agree with the assessment of the price that should apply to beneficiaries? Do you agree with the assessment of how beneficiaries pay should apply in practice? Please provide an explanation in support of your answer.</p>	<p>Agree.</p>
<p>Q13. Are there other alternative pricing options? Do you agree with the assessments of how incentive free and postage stamp pricing should be applied in practice? Please provide reasoning in support of your answer.</p>	<p>No comment.</p>

Question	MEUG response
<p>Q14. Do you agree that the guidelines are consistent with the proposed decision-making and economic framework and therefore do not require any changes? If you agree please explain why and, if not, please explain why not.</p>	<p>The information disclosure guidelines in table 2 on page 7 could be improved by:</p> <ol style="list-style-type: none"> 1. Defining "prices" to refer to both current tariff structures and forecast future tariffs. 2. The pricing methodology disclosed should require explicit disclosure of subsidies and the impact on prices due to legislative and policy constraints such as: <ol style="list-style-type: none"> a. Grandfathered subsidies of remote rural consumers in terms of s62 of the Electricity Act 1992 subsumed into s105 of the Electricity Industry Act 2010; and b. The Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) regulations 2004. 3. Forecast price forecasts should be consistent with AMP published pursuant to regulation under Part 4 of the Commerce Act.
<p>Q15. Do you consider that the pricing principles and guidelines are consistent with the proposed decision making and economic framework? If you agree, please explain why. If you disagree please explain why not and how the principles should be changed.</p>	<p>Agree no changes are needed.</p>
<p>Q16. Do you agree that pricing principle (b) should be interpreted as implying that where an alternative charging option is required prices should be set in a manner that minimises the impact of the charge on the use of the asset? If you agree please explain why. If you disagree please explain why not and please state how you consider this principle should be interpreted.</p>	<p>Agree.</p>
<p>Q17. Do you agree with the Authority's proposal to use the economic framework for distribution pricing as criteria for assessing distributors' application of the pricing principles? If you agree, please explain why and, if not, please explain why not.</p>	<p>Agree.</p>

Question	MEUG response
Q18. Do you have any comments on the proposed process for confirmation of the decision-making and economic framework and the Authority's review of distributors' pricing methodologies?	No.
Q19. Do you have any comments on how the Authority intends to take into account the timing implications of this consultation and the Authority's review of distributors' pricing methodologies?	Agree (paragraph 8.3.3) "that its (the Authority's) review of distribution pricing methodologies is an ongoing process." A degree of pragmatism is needed but that is secondary to pushing hard to facilitate speedy alignment of DPM's with the pricing principles and if necessary using other regulatory approaches to achieve that outcome. In workably competitive markets suppliers that have price structures out of sync with market conditions must change quickly or go out of business. The same time pressure should be applied to align EDB pricing.

3. We look forward to viewing the submissions of other parties.

Yours sincerely



Ralph Matthes
Executive Director