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Submissions
Electricity Authority
WELLINGTON

To whom it may concern,

Decision-making and economic framework for distribution pricing methodology review

Introduction

1. Vector welcomes the opportunity to cross-submit on the Electricity Authority's (Authority) consultation paper "Decision-making and economic framework for distribution pricing methodology review" (Distribution Framework Paper), dated 7 May 2012. No part of this cross-submission is confidential and Vector is happy for it to be publicly released.
2. Vector's contact person for this cross-submission is:

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General opposition to the Authority's proposals

3. There is a high degree of commonality of views in the submissions on most issues. Consistent with Vector's own submission, this includes:
 - a. **Problem Definition:** The Authority has not identified a problem with the status quo (Pricing Principles, Information Disclosure etc) to justify further regulation of distribution pricing methodologies e.g. "The existing distribution pricing principles and guidelines have not been proven to be deficient";¹
 - b. **Cost Benefit Analysis:** The Authority has not undertaken a cost-benefit analysis to support the introduction of the proposed Distribution Pricing Framework, e.g. "If inefficiencies are identified, then Mighty River Power would support more detailed analysis of the costs and benefits of any proposed reforms, consistent with good regulatory practice";²

¹ Page 1, Mighty River Power, Decision-making and economic framework for distribution pricing methodology review, 22 June 2012.

² Page 1, Mighty River Power, Decision-making and economic framework for distribution pricing methodology review, 22 June 2012.

- c. **Role of the Framework:** The proposed Distribution Pricing Framework should (at most) be used to confirm the Pricing Principles are consistent with the Authority's statutory objective (MEUG and TrustPower may support a wider role, but this is not clear from their submissions);
 - d. The Pricing Principles³ are consistent with the Authority's statutory objective e.g. "We agree with the Authority's assessment that neither the existing pricing principles nor the information disclosure guidelines contain any elements that are inconsistent with, or would hinder, efficient distribution network use and investment";⁴
 - e. "Requiring distributors to specifically demonstrate alignment with the decision-making framework is ... unnecessary and will add complexity to the Authority's assessment process";⁵
 - f. **Application of the Distribution Pricing Framework:** There were concerns that the Authority "does not actually consider "market-like" approaches at all"⁶ and if it has "the Pricing Principles would be found to be "market-like", rendering the future steps in the Framework redundant";⁷
 - g. **Distinction between transmission and distribution:** There are substantive differences between transmission and distribution, which means that even if it is appropriate to introduce a Pricing Framework for transmission, it would not necessarily be appropriate to introduce a Pricing Framework and/or the same Pricing Framework for distribution; and
 - h. **Prioritisation:** There are alternative priorities that would deliver greater benefits for consumers e.g. "There are higher priorities for regulatory reform that would improve cost recovery for retailers and distributors, such as reviewing the Low Fixed Charge Tariffs".⁸
4. The widespread lack of support for EDBs adopting the Distribution Pricing Framework would pose some practical difficulties with its application.
 5. If the Authority introduces its proposals, EDBs would find themselves consulting, on application of a Distribution Pricing Framework to their EDPMs, with retailers that do not support the application of the Framework. If the consultation were to be meaningful it is difficult to see how EDBs could then (despite agreement with the opposition to the Distribution Pricing Framework) apply the Framework directly to their EDPM reviews.
 6. It is also apparent from the submissions that there are differing interpretations of how the Distribution Pricing Framework is consistent with the Pricing Principles, with differing views such as: the Pricing Principles are consistent with the market-like approach, different Pricing Principles are consistent with different parts of the Framework (e.g. Ramsey Pricing is consistent with beneficiary pays) and that the Pricing Principles align with an administrative approach to the EDPM.

³ Excluding the Distributed Generation Pricing Principles.

⁴ Page 2, Meridian, Consultation on Decision-making and Economic Framework for Distribution Pricing Methodology Review", 22 June 2012.

⁵ Page 4, Genesis Energy, Question value of framework for distribution pricing methodology review, 14 June 2012.

⁶ Paragraph 12, Orion, Submission on decision-making and economic framework for distribution pricing methodology review, 22 June 2012.

⁷ Page 1, Electricity Networks Association, Submission on the EA's proposed Decision-making and Economic Framework for Distribution Pricing, 22 June 2012.

⁸ Page 1, Mighty River Power, Decision-making and economic framework for distribution pricing methodology review, 22 June 2012.

7. Vector also acknowledges Genesis Energy and Mighty River Power's observation that the Distribution Pricing Framework seems inconsistent with pricing principle six that EDPMs should "promote price stability and certainty for stakeholders, and changes to prices should have regard to the impact on stakeholders".⁹ This is an important point as the review of EDPM regulation came about from retailer concerns about the diversity and complexity of some EDPM practices. It is clear from the various submissions that the application of the Framework could result in greater complexity of EDPMs which would be entirely inconsistent with retailer concerns about the lack of standardisation of EDPMs which resulted in the introduction of the Pricing Principles in the first place (a point that is clear from Genesis, Meridian and Mighty River Power's submissions).

Minority views

8. In our view, the only submissions that could be seen as supportive of the Authority's proposals are those of MEUG and TrustPower. Both of these parties limited their responses to the Authority's questions so it is unclear whether they consider that: (i) there is a problem with the existing distribution pricing regulation; (ii) the Framework should be the same for transmission and distribution; or (iii) the benefits outweigh the costs (and whether these need to be considered). It is unclear what views these respondents hold on these important issues. Vector noted in its submission that the Authority omitted these important issues from its questions.
9. It is also unclear how far MEUG and TrustPower consider the role of the Distribution Pricing Framework should be extended. Question 17 comes closest to dealing with this point, asking whether the Authority should use the Distribution Pricing Framework to assess EDBs' application of the Pricing Principles, but does not ask (explicitly) whether EDBs should be required to apply the Framework as well as the Pricing Principles.

Concluding remarks

10. On the basis of the submissions on the proposed Distribution Pricing Framework, Vector believes the Authority should limit its application of the Framework to confirming the current general Pricing Principles and distributed generation Pricing Principles are appropriate (with potential amendment¹⁰).
11. If the Authority further pursues its proposal to require EDBs to apply the Distribution Pricing Framework, the Authority should:
 - a. Identify the problems with current EDPM regulation;
 - b. Provide an assessment of the costs and benefits of the proposals;

⁹ Page 5, Genesis Energy, Question value of framework for distribution pricing methodology review, 14 June 2012. Page 4, Mighty River Power, Decision-making and economic framework for distribution pricing methodology review, 22 June 2012.

¹⁰ This included: (i) the ENA's proposal for the Authority's statutory objective to be integrated into the Pricing Principles, (ii) Vector's proposed amendments to the Ramsey Pricing Principle, and (iii) Vector's proposal to review the distributed generation Pricing Principles to remove exclusion of contributions towards common costs. The wording in the definition of TSLRIC in the Telecommunications Act 2001 could be used to address contributions to common costs. Clause 2(a) in Schedule 6.4 would then read "(a) subject to paragraph (i), connection charges in respect of **distributed generation** must not exceed the incremental costs of providing connection services to the **distributed generation plus a reasonable allocation of common costs**" where "Common costs means those costs incurred by in providing the service that are not directly attributable to providing an additional unit to that service".

- c. Respond to the comments about the differences between transmission and distribution (and/or amendment of the proposed Distribution Pricing Framework to recognise these differences); and
- d. Provide an opinion on how EDBs could or should deal with differing interpretations of the Distribution Pricing Framework and general opposition from retailers.

Kind regards

A handwritten signature in blue ink that reads "R. B. Girdwood".

Bruce Girdwood
Regulatory Affairs Manager