



\* provided both a submission and a cross-submission

5. The PricewaterhouseCoopers (PwC) submission was made on behalf of 22 distributors; the Electricity Networks Association (ENA) submission was made on behalf of all 29 distributors in New Zealand. The parties represented by the ENA and PwC submissions are provided in Appendix A.
6. The Major Energy Users Group (MEUG) and Domestic Energy Users' Network (DEUN) represent large commercial/industrial consumers and residential consumers respectively.

## Summary of feedback in submissions and cross-submissions

7. This section provides a summary of the key comments and themes in submissions and cross-submissions.
8. Many submitters opposed the introduction of the economic framework, for a variety of reasons, including a perception that the economic framework would replicate or replace the existing voluntary pricing principles and that insufficient evidence exists to suggest that the existing pricing principles are inadequate. The key themes in submissions can be summarised as follows:
  - the Authority has not followed a robust decision-making process, has not undertaken a cost-benefit analysis, and has not established that the current pricing principles and information disclosure guidelines are inadequate
  - there are inherent differences between transmission and distribution and the economic framework developed for transmission is not suitable for distribution
  - the economic framework creates unnecessarily complexity, and the hierarchy of preferred approaches is not appropriate as assessment criteria for the review of distributor pricing methodologies
  - the hierarchy of preferred approaches, including market or market-like approaches, exacerbator-pays and beneficiary-pays may be desirable but may not be practicable to implement
  - existing regulations around distribution pricing are impediments to achieving the efficiency goals of the economic framework
  - any new framework should be implemented well in advance of utilising it to evaluate individual distributor pricing methodologies.

## Comments on the decision-making component of the economic framework

9. The May 2012 consultation paper outlined the regulatory framework for distribution pricing, the role of the Authority's statutory objective, and the application of the three limbs of the statutory objective (competition, reliability, and efficiency). The Authority indicated that the focus for distribution pricing should be overall efficiency of the electricity sector.
10. Many submitters agreed broadly with the Authority's interpretation of the statutory objective as it relates to distribution pricing although some submitters such as DEUN disagreed with the Authority's interpretation. In particular, DEUN rejected the notion that the statutory objective requires expansion of the economic pie'. They argued instead that wealth transfers to consumers should be taken into account as promoting the long term benefit of consumers.
11. Some submitters argued that the Authority should not be indifferent to wealth transfers where wealth transfers result in inefficient outcomes, particularly with respect to the achievement of dynamic efficiency.

## Comments on the development of the economic framework

12. The Authority proposed that the economic framework was necessary to provide a comprehensive and durable basis for making decisions that result in efficient distribution pricing arrangements. The Authority indicated that its focus for distribution pricing was overall efficiency in the electricity industry for the long-term benefit of consumers.
13. Some submitters stated that the Authority has not followed a robust decision making process in developing its arrangements for distribution pricing. Meridian expressed concerns over a lack of consistency in distribution pricing arrangements over time. PwC described a 'piece-meal approach' to regulation development whereby the pricing decisions are being 'recast' after only one full pricing year under the pricing principles (principles) and information disclosure guidelines (guidelines).
14. ENA, Vector and many other submitters supported the Authority's aim to align distributors' pricing methodologies with the Authority's statutory objective. Some submitters recognised a review of the principles could facilitate alignment of pricing principles with the statutory objective, and some submitters, such as Vector, considered that the pricing principles are broadly in line with the statutory objective. The ENA and Orion suggested that, rather than confirming the economic framework, the Authority could modify the pricing principles slightly to refer to the Authority's statutory objective.
15. PwC and many other submitters stated that the Authority had not identified a problem and that a clear case for change should be made before a change of regime is considered. Many submitters noted that a cost benefit analysis should be provided to support the economic framework. The general view was that once the problem with the existing regime has been identified, a cost benefit analysis is necessary to determine whether the proposed solution(s) are cost effective.

## Comments on the differences between transmission and distribution

16. The Authority based its framework for pricing of transmission services on an approach used in competitive transport markets. The rationale was that electricity transmission essentially involves transportation of a product. The Authority considered an equivalent approach could be adopted for distribution services as: electricity distribution also essentially involves transporting a product, there is a close economic relationship between transmission and distribution services, and the ultimate objective of the Authority for both transmission and distribution pricing relates to efficiency, both efficient use and efficient investment.
17. Although one submitter stated that the economic concepts that apply to transmission and distribution pricing are fundamentally the same, many submitters highlighted important differences between electricity transmission and electricity distribution to support an argument that a framework developed for transmission is not appropriate for distribution.
18. ENA and others highlighted the difference in the number of transmission connections compared to distribution connections, and that while parties connected to the transmission network were highly engaged in the market, parties connected to distribution networks were relatively less informed. PwC considered that due to the larger number of relatively uninformed customers, achieving efficiency for distribution pricing required a highly standardised approach. ENA considered that applying the transmission framework to distribution would 'drive a whole new layer of transaction costs'.
19. ENA considered that transmission investments were generally large and lumpy by nature whereas distribution investments were much smaller and did not require the level of individual scrutiny that

is inherent in the framework. ENA stated that 'due to the meshed nature of most distribution networks, the drivers and beneficiaries any single investment are diffuse'.

20. Powerco noted that an important consideration for transmission was whether generators or consumers should pay the charge, while in distribution it was generally accepted that customers should pay the charge, and therefore less allocation complexity was warranted.

### **Comments on the hierarchy of pricing approaches**

21. The Authority proposed a hierarchy of pricing approaches to guide efficient decisions about distribution pricing. The hierarchy is market-based approaches (market or market-like), then administrative approaches (exacerbator pays, beneficiary pays, and alternative options – in that order). An approach or package of approaches would need to be efficient, practicable to implement, comply with the Code amendment principles (CAPs) and recover the costs of providing distribution services.
22. The Authority also proposed that the hierarchy could be used as 'criteria' for assessing whether distributor's pricing methodologies and practices aligned with the principles and were efficient.

### **Hierarchy creating unnecessary complexity**

23. Many submitters, such as PwC and Genesis, argued that the introduction of the economic framework would create unnecessary complexity around the development of distributors' pricing methodologies by introducing new requirements which are additional to existing pricing principles, information disclosure guidelines, and other distribution pricing related regulations such as the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004. PwC stated that these regulatory requirements are becoming 'unwieldy and difficult to manage' and provide 'conflicting messages' to distributors as to whether to standardise pricing or align pricing to a market-like approach, which would arguably be non-standardised.
24. Orion considered that exacerbator-pays and beneficiary-pays had some relevance as concepts although it did not understand the ranking or its rationale, and the new language adds 'plenty of potential for confusion'.

### **Hierarchy is not practical**

25. Several submitters considered that the hierarchy of pricing approaches is not practical to implement, particularly the market-based and exacerbator-pays approaches.
26. Many submitters considered that a market based approach is not practical for the monopoly distribution services market, except in the case of very large loads. One submitter defined the identification of exacerbators as a 'triumph of vocabulary over common sense' and some submitters advised that it would be very difficult to both identify and measure exacerbators. Other submitters recognised the exacerbator approach is viable under certain situations, such as for irrigation.
27. Meridian advised it had concerns when applying a beneficiary-pays approach to addressing a request for a new spur line connection which may lead to a failure to recognise that recipients could be widely dispersed and change over time.
28. Unison agreed that the 'concepts of exacerbator-pays, beneficiary-pays are relevant to distributors, albeit in highly confined situations' although it considered that the Authority was incorrectly focused on 'who' to charge rather than 'how'. Unison recommended that the Authority 'completely revisit the need for the economic framework' and if the need was still there, the Authority should prepare a

consultation paper explaining how it sees the economic framework being practically applied by distributors.

### **Hierarchy not inappropriate as criteria**

29. Most submitters did not support the Authority's proposal to use the hierarchy as criteria for assessing distributor's alignment with the pricing principles and information disclosure guidelines. The ENA argued that the hierarchy is not useful as criteria as it does not add clarity or insight to the principles. The ENA also noted that the review should be undertaken bearing in mind guidance prevailing at the time distributors pricing methodologies were developed.
30. Vector submitted that the economic framework should only be used to assess the principles against the statutory objective, not to assess alignment of distributor's pricing methodologies with the principles. Trustpower suggested the Authority assess distribution pricing based on overall efficiency rather than using detailed criteria. Powerco supported having criteria to help understand how the Authority will interpret the principles, but suggested using the statutory objective rather than the hierarchy as criteria.

### **Comments on other barriers to efficient pricing**

31. Some submitters recommended that the Authority consider the implications of other regulatory arrangements affecting distribution pricing. Submitters highlighted inconsistencies between the economic framework and other regulatory arrangements, such as:
  - Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004
  - provisions relating to connection of distributed generation in Part 6 of the Code
  - the potential under section 113 of the Electricity Industry Act 2010 for the Government to make regulations about tariffs and other consumer issues, in particular, to regulate the rate of change in the prices charged by distributors to rural consumers on a network as compared with the rate of change in the prices charged to comparable non-rural consumers on the same network
  - the Commerce Commission price quality regulation applying to some distributors.
32. Mighty River Power suggested that addressing the above 'impediments' to efficiency should be given priority over the introduction of the economic framework.

### **Comments on implementation**

33. Many submitters, particularly distributors and some retailers, considered that the economic framework is unnecessarily complex and will cause increasingly granular pricing and higher transaction costs.
34. Some submitters cited a lack of guidance as to how the economic framework is to be applied, and that this will lead to uncertainty, particularly where the principles and the economic framework conflict. Another submitter advised that both beneficiaries and exacerbators require a 'point in time' assessment of which there is no clear guidance.
35. Some submitters stated that distributors should be provided with sufficient time to implement the framework before being reviewed against it. One submitter stated that retailers would not be in a position to respond to distributor price changes until at least April 2014. Another submitter advised that the implementation of the framework might result in a rate shock in 2014.

## Appendix A Parties supporting PwC and ENA submissions

PricewaterhouseCoopers	Electricity Networks Association
Alpine Energy Limited	Alpine Energy Limited
Aurora Energy Limited	Aurora Energy Limited
Buller Energy Limited	Buller Energy Limited
Counties Energy Limited	Centralines Limited
Eastland Energy Limited	Counties Energy Limited
Electra Limited	Eastland Energy Limited
Electricity Ashburton Limited	Electra Limited
Electricity Invercargill Limited	Electricity Ashburton Limited
Horizon Energy Distribution Limited	Electricity Invercargill Limited
MainPower New Zealand Limited	Horizon Energy Distribution Limited
Marlborough Lines Limited	MainPower New Zealand Limited
Nelson Electricity Limited	Marlborough Lines Limited
Network Tasman Limited	Nelson Electricity Limited
Network Waitaki Limited	Network Tasman Limited
Northpower Limited	Network Waitaki Limited
OtagoNet Joint Venture	Northpower Limited
Scanpower Limited	Orion New Zealand Limited
The Lines Company Limited	OtagoNet Joint Venture
The Power Company Limited	Powerco Limited
Top Energy Limited	Scanpower Limited
Waipa Networks Limited	The Lines Company Limited
Westpower Limited	The Power Company Limited
	Top Energy Limited
	Unison Networks Limited
	Vector Limited
	Waipa Networks Limited
	WEL Networks Limited
	Wellington Electricity Lines Limited
	Westpower Limited