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Distribution Pricing Administrative Issues Working Group 9 November 2009

Electricity Commission
Board Room
Level 7 – ASB Tower
2 Hunter Street
Wellington

Members Present

Rod Crone
Tracey Kaio
Merv Mitchell
Lindsay McLennan
Paul Goodeve
John Van Brink
Brett Butler
Stephen Peterson
Anne Herrington

Also in Attendance

Peter Smith	Senior Adviser Transmission, Electricity Commission
Ron Beatty	Senior Adviser Retail, Electricity Commission, part meeting
Laurie Dupont	Assistant Adviser, Electricity Commission

1. Apologies

John Van Brink apologised for being late to the meeting.

2. Terms of Reference

The Members agreed to the DPAIWG terms of reference.

3. Discussion

- A retailer commented that it was considering pulling out of some areas because of the complexity of distribution pricing used by some small distributors. The effort required for a small amount of customers does not seem to make sense commercially.
- A retailer noted the number of pricing regions was far greater than the number of distributors given there is multiple regions with some distributor's networks, plus there were now around 30 embedded networks.
- A member commented that retailers pulling out of some areas was good in a way as it created commercial pressure for small networks to reconsider their approach to distribution pricing. A member noted that over time such an approach might get distributors to reconsider their pricing but over the shorter term, customers would be disadvantaged.

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- It was mentioned that the key issues on small networks are the quirks of the networks and the number of tariffs for a fairly small number of customers.
- A member commented that some large distributors also had fairly complex distribution pricing but because of the number of customers on their networks, the retailers had little choice but to trade on them and had therefore already dealt with any issues with line pricing risk and complexity. Accordingly reducing complexity would make little difference to the trading decisions of these retailers. The group noted that there should be more representation from small distributors on the DPAIWG to discuss this issue.
- Retailers noted that it was important for retailers that distribution prices were predictable and provided certainty for retailers when passing through to end-use customers in retail prices. In this context it was noted that retailers should not have to manage line pricing risk as well as energy pricing risk.
- A distributor noted that they as a group were providing capacity and the current risk profile was reflected in the rates of return allowed by the Commerce Commission. Any change in the risk profile due to amended pricing should be reflected in the rate of return allowed by the Commerce Commission.
- Members discussed loss factors. In particular it was noted that retailers were primarily concerned to have reconciliation loss factors set by distributors that reflected recent trends in total losses (technical plus non-technical losses), as loss factors affected energy pricing and the pricing at retail level for the pass through of line charges for GXP priced networks. A suggestion was made that distributors could set technical loss factors only, and the reconciliation manager establish and publish non-technical and reconciliation loss factors.
- Small distributors seem to be working in isolation while large retailers/distributors tend to be engaged and discuss issues.
- A retailer noted that most pricing methodologies had an underlying rationale which were dependent on the objectives of the distributor.
- Members discussed the three EIEP1 network reporting options (As Billed, As Billed Normalised, NRM Normalised) but no agreement was reached. It was noted that most distributors currently required As Billed Normalised, but that there was a push by several distributors and retailers towards NRM Normalised so that volumes reported to distributors aligned with those reported to the reconciliation manager. It was noted by Rod Crone that a change to NRM Normalised was problematic for Contact with both existing and proposed new systems, and that in any event it considered NRM Normalised would add a lot of additional line charges reconciliation processing and cost for retailers with little benefit. There are also significant transitional issues to change from one option to another. Accordingly Contact preferred to see As Billed Normalised retained, or alternatively distributors accepting both given the total volumes reported would be identical over the complete lifecycle of an ICP with any retailer.
- It was noted a retailer that although the EIEP1 options and protocols have been published on the Electricity Commission website for several years, not all distributors were using them creating problems for retailers reconciling line charges at ICP level. Furthermore there were some issues with different interpretations that needed to be addressed by the SDFG. Two retailers agreed to provide a summary matrix by distributor identifying the variations in pricing methodologies, basis of line charges and information exchange.
- Members noted:
 - that there was tension between number of tariffs and cost reflectivity;
 - advanced metering may ameliorate the problems created for retailers by the number and complexity of distribution tariffs.

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- Recommendation**
- The Standing Data Formats Group (SDFG) should convene again and progress work on the EIEPs. SDFG recommendations should be ready within 3 months of the SDFG first meeting.
 - The latest versions of EIEP 1 and 3 should be used by the industry with participants having 6 months to comply from the time the Commission require them to do so.
 - If costs outweigh benefits, distributors will not be required to adopt it but would need to provide reasons to the Commission.
- Action point**
- Tracey Kaio and Rod Crone to provide a matrix summarising file exchange and pricing used by distributors.
- Action point**
- Consideration about the need for a second meeting involving the smaller distributors. John van Brink to discuss with other distributors and the ENA
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- A member commented that networks with high long term unaccounted for electricity are a barrier to new entrants and that the Commission needs to publish information about UFE so that participants can understand it.
 - There was a suggestion that differential interest rates could be applied so that it provides an incentive to retailers to report more accurate initial submission data to the reconciliation manager.
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- Recommendation**
- When using reconciliation volumes to prepare distribution invoices, wash-ups should align with the market timeline for energy wash-ups. It was noted that the market wash up cycle is 1, 3, 7 and 14 months with potential “special” revisions after that period where a participant disputes an invoice.
 - The UFE in % from the 14 month wash-ups for unaccounted for electricity should be published by the Commission for each GXP.
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- Members discussed the definition of domestic consumer. There was some discussion that suggested where a primary place of residence was also used for the operation of a small business it should still qualify as a domestic premises/ICP.

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Recommendation Adopt the definition of domestic consumer as used in the Electricity Act 1992:

Domestic consumer means any person who purchases or uses electricity in respect of any domestic premises

Domestic premises means any premises that are used or intended for occupation by any person principally as a place of residence; but does not include any premises referred to in paragraphs (a) to (i) of section 90 of the Electricity Industry Reform Act 1998

Definition of **domestic premises**

For the purposes of section 88, the term domestic premises means any premises that are used or intended for occupation by any person principally as a place of residence; but does not include—

- (a) Premises that constitute part of any prison that is a Corrections prison or a police jail:
- (b) Premises that constitute part of any hospital, home, or other institution for the care of sick, disabled, or aged persons:
- (c) Premises that constitute part of police barracks, or police cells and lock-ups:
- (d) Premises that constitute any barracks conducted by the Armed Forces for the accommodation of persons subject to the Armed Forces Discipline Act 1971:
- (e) Premises that constitute part of any hostel, barracks, dormitory, or other similar type of premises providing accommodation for any persons or class of persons:
- (f) Premises that constitute part of a building occupied by a club and used by the club for the provision of temporary or transient accommodation to members of the club:
- (g) Premises that constitute part of any hotel in respect of which there is in force an on-licence under the Sale of Liquor Act 1989:
- (h) Premises that constitute part of any hotel, motel, boardinghouse, or lodginghouse used for the provision of temporary or transient accommodation:
- (i) Premises that constitute part of any camping ground, motor camp, or marina.

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- A member commented that for larger customers it was important to have transparency. Some large customers have contracts with retailers for fixed energy prices but the line charges are subject to change. Therefore, when receiving a bill with a price increase it is not possible to ascertain whether it is the energy charge or the line charge which has increased. In addition, there is a similar issue with rebates for customers in trust owned networks.

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- Members noted that domestic and small commercial consumers are not always getting strong pricing signals. For instance, during dry year there are no changes to retailers' tariffs as they are kWh based nor is there a change to reflect network peaks. This might be improved by the introduction of advanced meters.

4. Concluding comments

The Chair thanked Members for their participation and attendance.