

Distribution Pricing Methodology - Summary of Submissions

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Glossary of abbreviations and terms

Act	means the Electricity Act 1992
ADR	means automated demand response
AMD	means “anytime maximum demand”, which is a load group’s after diversity anytime maximum demand calculated or assessed by using the average of 200 of the load group’s maximum half hour demands over a year (i.e. 100 hours)
AMI	means advanced metering infrastructure
Anytime maximum demand (TPM AMD)	means a network’s after diversity anytime maximum demand on the grid calculated or assessed by using Transpower’s transmission pricing methodology
Commerce Act	means the Commerce Act 1986 (as amended)
Commission	means the Electricity Commission
Consumer	(a) means any person who is supplied, or who applies to be supplied, with electricity; but (b) does not include any generator or distributor or retailer, except where the generator or distributor or retailer, as the case may be, is supplied with electricity for its own consumption and not for the purposes of resupply to any other person
Consumer-specific costs	means costs incurred by a distributor to provide equipment or services that it would not incur but for the exclusive requirements of that consumer
CPD	means “coincident peak demand “ which is a load group’s demand at the same time of the network’s peak demand
DG Regulations	means the Electricity Governance (Connection of Distributed Generation) Regulations 2007
Distributor	means any electricity industry participant who owns or operates a network (that is not an embedded network) other than Transpower (and includes a Distributor and an ELB)
Electricity distribution business (Distributor)	means a distributor
Electricity lines business (ELB)	means a supplier of electricity lines services

Electricity lines services	has the meaning set out in section 54C of the Commerce Act
Embedded network	has the meaning set out in part A of the Rules
ENA	means the Electricity Networks Association
General connection	refers to the connection category or load group category that is not 'large major connection' or 'major connection'
GPS	means the Government Policy Statement on Electricity Governance, released in May 2009
GXP	means a grid exit point as defined in part A of the Rules
ICP	means a point of connection on a local network or embedded network, having the attributes set out in rule 1 of schedule E1 of the Electricity Governance Rules 2003
Large major	refers to the connection category or load group category that is supplied from the sub-transmission network (and so is deemed to use the sub-transmission assets only)
Load-dependent costs	means costs incurred by a distributor to provide network capacity to supply the load on its network
Load group	means a category of consumers from which load-dependent costs will be recovered
Load-independent costs	means costs incurred by a distributor to provide distribution services but which are neither directly related to the network capacity nor consumer-specific costs
Long run average incremental cost (LRAIC)	the LRAIC is calculated by considering the incremental cost of providing the capacity to distribute to the existing maximum load over the life cycle of the network assets. This calculation involves consideration of the annualised load-dependent costs, generally calculated as the optimised replacement cost (ORC) of the assets multiplied by an annual capital recovery factor plus the annual operating and maintenance costs
Low Fixed Charge Regulations	means the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004
Major	refers to the connection category or load group category that is supplied from the 11kV network (and so is deemed to use the 11kV and all higher voltage distribution assets)
Network	means the lines, and associated equipment, owned or operated by a distributor in a contiguous geographic area or areas

Network asset group	means a group of shared network assets for which the costs may be distinguished from the costs of other groups of shared network assets and may be defined in terms of their location and/or voltage levels
Offtake	means the flow of electricity at a grid exit point
ORC	means optimised replacement cost
PAWG	means the Pricing Approaches Working Group, which was a consultative group formed by the Electricity Networks Association for the purpose of developing voluntary model approaches to distribution pricing in New Zealand
PAWG model approach	means the recommended model approach for distribution pricing set out in the PAWG report
PAWG report	means the PAWG report, <i>Model Approaches to Distribution Pricing</i> dated February 2005
RCPD	means a network's regional coincident peak demand on the regional transmission grid and which is calculated or assessed in accordance with Transpower's transmission pricing methodology
Retail delivery model (RDM)	means an electricity distribution business model used by a distributor in which ICP metered/estimated quantities are used by the distributor for charging retailers
Retailer	has the meaning set out in part A of the Rules
Rules	means the Electricity Governance Rules 2003
Time-of-use	refers to a description of the distribution delivery service according to the times at which the service is (or is not) provided
TPM	means the transmission pricing methodology set out in Schedule F5 of the Rules
UFE	means unaccounted for electricity
Wholesale delivery model (WDM)	means an electricity distribution business model in which reconciled GXP-metered quantities are used by the distributor for charging retailers

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1. Introduction

- 1.1.1 On 5 June 2009, the Electricity Commission (**Commission**) published a consultation paper outlining a proposed model approach to an electricity distribution pricing methodology and asking submitters to comment.¹ This approach used as a starting point the model pricing methodology of the Pricing Approaches Working Group (**PAWG**) (**PAWG model approach**).
- 1.1.2 The Commission held a workshop on 17 June 2009 for interested parties to discuss the content of the consultation paper.
- 1.1.3 Submissions on the proposed model approach closed on 10 July 2009. The Commission received 27 submissions (see Appendix 1 for a list of submitters).
- 1.1.4 The Commission has now completed an assessment of the submissions and formed a provisional view on a model approach to a distribution pricing methodology.
- 1.1.5 The purpose of this paper is to set out the Commission's assessment of and provisional response to the submissions.

1.2 Background

- 1.2.1 The 5 June 2009 consultation paper set out a voluntary model approach to a distribution pricing methodology, which in the Commission's view furthered the Commission's principal objectives under the Electricity Act 1992 (**Act**) and gave effect to the objective in paragraph 100 of the 2009 Government Policy Statement on Electricity Governance (**GPS**), which states that "the Commission should develop, in consultation with interested parties, principles or model approaches to distribution pricing and monitor their uptake".
- 1.2.2 Consistent with the outcome of the distribution pricing process facilitated by the Electricity Networks Association (**ENA**) in 2004 - 2005, which culminated in the early 2005 report setting out the PAWG model approach (**the PAWG report**), the Commission noted in the consultation paper its view that a single model for distribution pricing, with flexibility in its implementation, would be the most efficient means of furthering the objectives described above.
- 1.2.3 The proposed model approach set out in the consultation paper was based on the PAWG model approach, which the Commission understands received widespread acceptance from distributors and retailers at the time of its development and publication.

¹ [Distribution Pricing Methodology, Consultation paper on a model approach, 5 June 2009.](#)

- 1.2.4 To guide the development of a model approach, the Commission developed a set of guiding principles, which built on the guiding principles used by the PAWG, and took into account the Commission's principal objectives and required outcomes, as set out in the Act and the GPS.
- 1.2.5 In the consultation paper the Commission updated the PAWG model approach, primarily to reflect changes in the regulatory environment, but also to introduce more flexibility in its application. The regulatory changes reflected the development of the transmission pricing methodology, and regulations pertaining to distributed generation and a low fixed charge for domestic consumers. In addition, the proposed model approach set out in the consultation paper differed from the PAWG model approach in that it made firm recommendations on disaggregating costs by service level and on adopting the Retail Delivery Model (**RDM**) (where distributors charge retailers on the basis of sales volumes measured at the ICP) over the wholesale delivery model (where distributors charge retailers on the basis of reconciled sales volumes at grid exit points).
- 1.2.6 The proposed model approach aimed to improve the transparency of the allocation of costs, in particular load-dependent costs, and to facilitate efficient pricing. It also aimed to promote efficient use of distribution networks and efficient investment in these networks, by signalling the cost of network congestion and augmentation, while ensuring that distributors and consumers received stability and certainty in revenues and costs (respectively). Finally, the model approach set out in the consultation paper aimed to achieve a greater degree of commonality and consistency of distribution pricing across New Zealand's 29 distributors, thereby reducing the complexity and costs faced by retailers operating across multiple distribution networks, thus enhancing retail competition.
- 1.2.7 As part of the consultation on a draft proposed model approach to distribution pricing, the Commission ran a workshop on 17 June 2009 in Wellington to give interested parties an opportunity to present their initial views and to interact with the Commission. The workshop submissions largely presented the points made later in the submissions by those parties.
- 1.2.8 As a result of these submissions and a commitment made at the workshop, the Commission has reconsidered its position and has decided to pursue more consultation on distribution pricing, including a less detailed approach to ensuring that distribution charges are being set in a way which promotes efficiency and enhances competition in the retail electricity market.

1.3 Next steps

- 1.3.1 The Commission has prepared a further consultation paper², which sets out the Commission's provisional view on a model approach to a distribution pricing methodology that:
- (a) a principles-based approach to a distribution pricing methodology should be adopted; and
 - (b) guidelines (methodological requirements) should be provided to assist stakeholders with interpreting and implementing the proposed pricing principles.
- 1.3.2 In addition, the Commission proposes to publish a relatively detailed model distribution pricing methodology, which is intended to provide distributors with an example of a methodology that, in the Commission's view, satisfies the pricing principles and methodological requirements. This supplementary document will be for information only.
- 1.3.3 To assist it in forming a final view on a model approach to a distribution pricing methodology, the Commission is facilitating a workshop for industry participants and other interested stakeholders. This workshop will have the following objectives:
- (a) understanding retailers' concerns as to the aspects of distribution pricing that can be a barrier to retail competition;
 - (b) identifying what aspects of distribution pricing may be relatively easily standardised;
 - (c) confirming common terminology and definitions for distribution access and pricing, as well as the basis for a common tariff format across distributors (including standardisation of customer categories). It is expected that an industry working group will be formed to progress this issue;
 - (d) seeking feedback from stakeholders on revised draft pricing principles; and
 - (e) discussing the merits, or otherwise, of a more or less mandatory approach.
- 1.3.4 The Commission will also be able to factor in any appropriate material provided or discussed at the 12 October workshop into the final approach.
- 1.3.5 The proposed timetable for finalising the model distribution pricing methodology approach is set out in the following table.

² The draft Distribution Pricing Principles and Methodological Requirements paper is available at www.electricitycommission.govt.nz/pdfs/opdev/transmis/pdfsconsultation/draft-pricing-principles.pdf

Table 1 Process to finalise the model distribution pricing methodology approach

Date	Event
12 October 2009	Commission facilitates workshop on distribution pricing
30 September 2009	Commission publishes draft final pricing principles and methodological requirements
November 2009	Industry working group reports back on areas that can be standardised
Late December 2009	Commission finalises approach

1.4 Key general themes in the submissions

1.4.1 The following key general themes emerged from the submissions and workshop presentations on the consultation paper:

- (a) the desirability of the Commission and the Commerce Commission working closely together to minimise regulatory uncertainty and overlapping requirements on distributors;
- (b) the appropriate level of detail in a model approach to a distribution pricing methodology;
- (c) whether a model approach based on the PAWG model pricing methodology is the best solution to the retail competition issues identified as resulting from many different distribution pricing methodologies?
- (d) issues that arise with the low fixed charge tariff regulation and the GPS requirement in respect of rural/urban charging;
- (e) the desirability of retailers passing distribution price signals through to consumers;
- (f) whether or not the retail delivery model should be mandated under a model approach to a distribution pricing methodology?
- (g) the desirability of standardising “low level elements” of distribution pricing, such as terminology, definitions, and a maximum number of tariffs;
- (h) the need for further dialogue between retailers and distributors in respect of distribution pricing issues; and
- (i) treatment of embedded networks.

2. Responses to consultation questions

2.1.1 This section outlines responses received to each of the key questions contained in the consultation paper.

2.2 Guiding principles

The proposal

2.2.1 To guide the development of the proposed model approach, the Commission developed a set of guiding principles, which built on those used by PAWG, and took into account the Commission's objectives and required outcomes, as set out in the Act and the GPS.

The question

Q1. Do you agree with the content of these proposed guiding principles? Are there alternative or additional guiding principles that should be considered?

Submissions

2.2.2 Significant feedback was received from submitters on the proposed guiding principles for the development of a model approach to a distribution pricing methodology.

2.2.3 Marlborough Lines, Orion, Powerco, PriceWaterhouseCoopers (**PWC**)³, Unison and Vector recommend simplification and rationalisation of the pricing principles and alignment of them with the gas authorisation pricing principles⁴.

- (a) Powerco considers that the principles are overly complex and contain duplication. Powerco recommends that the prices are: subsidy free, cost-reflective, Ramsey compliant, stable, predictable, low cost to administer, transparent, signal future investment cost and signal price quality trade off.
- (b) PWC considers that the principles should meet the core regulatory principle of promoting productive, allocative and dynamic efficiency, along with being consistent with the gas authorisation pricing principles. PWC considers that this contributes to achieving the regulatory implementation principles set

³ A submission on behalf of 22 distributors – see appendix 1 for list.

⁴ [IM Paper - Gas authorisation pricing principles, para 13.108](#)

out by the Commerce Commission in its discussion paper (consistency, flexibility, cost-effectiveness and transparency).

- (c) Vector's recommendation is to adopt the gas authorisation pricing principles, with modification to require distributors to demonstrate how their tariff structures have been developed to take into account the costs imposed on retailers/consumers. Vector notes a significant feature of the gas authorisation approach was that some of the pricing principles required compliance only 'to the extent practical'.
- (d) Unison considers that workshops on pricing principles should be facilitated.

2.2.4 In Contact's view the proposed guiding principles do not adequately cover the principles that are of most concern to retailers; pricing structure and prices. Contact recommends some minor amendments to the proposed guiding principles.

2.2.5 Meridian wants to see the following key principles used in distribution pricing:

- (a) transparency;
- (b) consistency of price signals;
- (c) rationalisation of pricing methodologies; and
- (d) alignment between the Commission's methodology and the Commerce Commission price paths.

2.2.6 The Consumer Coalition on Energy (**CC93**) considers that the principles should be of a broader nature, and includes in its submission the principles presented by Vector at the 17 June 2009 workshop.

2.2.7 Energy Market Services Limited (**EMS**) considers that a qualification is needed regarding the principle of not creating barriers for retail competition. This should not mean imposing high costs on distributors or inefficiencies due to information issues or inaccuracies, nor by oversimplifying the range of pricing signals in the interest of simplifying information exchange processes.

2.2.8 Meridian and the Major Electricity Users' Group (**MEUG**) consider the proposed guiding principles should be aligned with the Commerce Commission's principles. Additionally, MEUG recommends both the purpose statement and the principles in Part 4 of the Commerce Act be incorporated into the principles.

2.2.9 Mighty River Power (**MRP**) considers that the Commerce Commission's gas authorisation pricing principles warrant consideration, along with Contact Energy's principles⁵ presented at the Commission's 17 June 2009 workshop.

⁵ [Contact presentation to distribution pricing methodology workshop](#)

MRP also recommends some principles, which are intended to complement the principles above.

- 2.2.10 Eastland and Unison consider that the guiding principles need to align with the purpose statement⁶ of the Commerce Act to form a consistent regulatory framework for distribution businesses.

Section 52A states the overall purpose of Part 4 is:

to promote the long-term benefit of consumers in markets referred to in section 52 by promoting outcomes that are consistent with outcomes produced in competitive markets such that suppliers of regulated goods or services

- (i) have incentives to innovate and to invest, including in replacement, upgraded and new assets; and*
- (ii) have incentives to improve efficiency and provide services at a quality that reflects consumer demands; and*
- (iii) share with consumers the benefits of efficiency gains in the supply of the regulated goods or services, including through lower prices; and*
- (iv) are limited in their ability to extract excessive profits.*

- 2.2.11 ENA, Orion, PowerNet and Unison consider that identification of key pricing principles parallels and supports the Commerce Commission's development under Part 4 and recommend that the Commission:

- (i) use the Commerce Commission's principles⁷ as a starting point; and
- (ii) be consistent with the preliminary views⁸ of the Commerce Commission that:
 - *In relation to DPP, the costs associated with applying pricing methodologies to the default price-quality paths may outweigh the benefits; and*
 - *In relation to customised price-quality paths that a principles based approach to pricing methodologies is appropriate for ELBs.*

- 2.2.12 Buller, Horizon, Northpower and PowerNet consider there are issues in avoiding cross subsidisation and unfair discrimination and make the following points:

⁶ [IM Paper - Purpose statement of Part 4, para 2.3](#)

⁷ [IM Paper - Regulatory framework principles and efficient pricing, para 9.19](#)

⁸ [IM Paper - Commerce Commission's preliminary view, para 11.121](#)

- (a) Northpower suggests that the proposed guiding principles be split into two sections:
 - (i) domestic connections: as dictated by the low fixed charge regulations; and
 - (ii) non-domestic connections: the Commission's proposed principles.
- (b) Horizon and PowerNet consider cross subsidisation takes place and that the two statements below contradict each other:

“The Government expects the distribution companies to keep any changes in rural line charges in line with changes to urban line charges”

and

the proposed model approach is to “promote cost-reflective pricing”.

- (c) Buller considers that the removal of cross subsidisation from urban to rural consumers would be unfair discrimination in a community that clearly states it does not wish to have cross subsidisation removed for the overall good of the economy of the region. Additionally, Buller considers that risks of delivery relate to geographic location, but locational pricing is not permitted under the GPS.
- (d) PowerNet also considers that the uncertainties related to the future of the Act regarding the obligation to supply will also impact if cross-subsidisation is to continue.

2.2.13 Orion suggests that the Commission needs to consider how to assess and manage trade-offs between principles. Orion also recommends that the principles associated with the transmission pricing methodology and the distributed generation regulations need to be considered.

2.2.14 The Lines Company considers that there should be principles regarding the recovery of subsidies arising from government policy (i.e. the low fixed charge and rural cost indexing).

2.2.15 Simply Energy agrees with the content of the guiding principles.

Commission's provisional response

2.2.16 The Commission agrees that, consistency should be sought between itself and the Commerce Commission in respect of the treatment of distribution pricing. Accordingly, the Commission has prepared draft pricing principles based on the principles contained in the Commerce Commission's gas authorisation for Powerco and Vector, and the Commerce Commission's input methodologies discussion paper.

- 2.2.17 The Commission has then updated these where appropriate to reflect:
- (a) any additional objectives set out in the Act;
 - (b) any relevant objectives in the transmission pricing methodology⁹ and the distributed generation regulations¹⁰; and
 - (c) feedback from submissions on the 5 June 2009 consultation paper.
- 2.2.18 Similarly, the Commission has prepared draft methodological requirements based on those set out in the Commerce Commission's gas authorisation for Powerco and Vector, and updated these where appropriate to reflect any additional requirements specific to the Commission's principal objectives and specific outcomes.

2.3 Distributor business models

The proposal

- 2.3.1 The proposal is a preference for the RDM in the proposed model approach.

The question

Q2. Do you agree that the RDM should be the preferred approach?

Submissions

- 2.3.2 Five submissions¹¹ support the RDM approach.
- 2.3.3 Contact strongly supports the RDM being the preferred approach. Contact considers that the Wholesale Delivery Model (**WDM**):
- (a) fails to reflect that delivery is to the ICP not the GXP;
 - (b) transfers network pricing risk to retailers;
 - (c) creates retail pricing risk, as actual input costs by ICP are unpredictable;
 - (d) causes administrative issues (with respect to the application of transparent and predictable pricing to consumers); and

⁹ Schedule F5 (Transpower's transmission pricing methodology), Section IV, Part F, Electricity Governance Rules.

¹⁰ Refer to the Electricity Governance (Connection of Distributed Generation) Regulations 2007.

¹¹ Contact, MEUG, PowerNet, Simply Energy and TrustPower.

- (e) adds costs, with multiple reconciliations and invoice reprocessing for each month, due to the need to align invoicing with the reconciliation cycle.

2.3.4 Simply Energy considers that the RDM is preferable, since the WDM:

- (a) Can entrench incumbent retailers by forcing new retail entrants to charge higher line charges than incumbents. This is because the average line charges calculated under the WDM can be lower than the sum of the line charges calculated under the RDM (due to diversity in demand) and new entrants do not have a portfolio of customers to capture that diversity.
- (b) Further dilutes the incentives to track down and eliminate unaccounted for energy (**UFE**). However, Simply Energy recognises that UFE has a material impact on distributors' revenue over which they have very little control. Therefore, Simply Energy supports measures to strongly incentivise retailers to ensure that submissions to the reconciliation manager are accurate, consistent with network reports provided to distributors, and in a form that can be easily verified against actual meter readings, for example:
 - (i) the clearing manager applying a high rate of interest when under submissions are washed up and low rates of interest when over submissions are washed up; and
 - (ii) moving rapidly to impose penalties on retailers with poor score cards.

2.3.5 MEUG agrees that the pricing approach should be based on the RDM. MEUG notes that improvements in meter, control and communications technology will allow for better cost-reflective pricing to be introduced for the consumer and considers that the RDM is a better approach to facilitating smarter pricing and price-quality trade-offs, thereby assisting the uptake of smart meter and smart grid technologies.

2.3.6 TrustPower supports the RDM as it believes that the WDM results in increased costs to consumers and increased complexity. TrustPower considers that when distributors use the WDM, the prices passed to retailers are unable to be easily converted to an ICP level. Retailers therefore add a risk factor to their pricing, which results in unnecessarily higher network prices and increased costs to end consumers.

2.3.7 PowerNet agrees that the RDM should be the preferred approach. PowerNet considers that the recent introduction of global reconciliation and the use of profiles could reduce the commercial risk to distributors transferring to the RDM.

2.3.8 PowerNet's support is conditional on retailers reflecting the RDM-based line charges in their prices to consumers. At present there is no mandatory requirement to do this and retailers are allowed to bundle costs, which may not necessarily reflect the stronger price signals available through RDM-based line charges.

- 2.3.9 Northpower agrees that distributors should offer the RDM as a standard offer, to provide price signals at all connection points on the distribution network. Northpower believes that the RDM is more transparent in terms of enabling end customers to identify their costs.
- 2.3.10 Eleven submissions¹² consider that the RDM should not be mandated. Amongst these submissions there is a general consensus that both the RDM and the WDM meet the pricing principles.
- 2.3.11 Buller does not support using only the RDM because distributors cannot achieve payment for UFE under the RDM, whereas they can under the WDM. The WDM therefore places the incentive to reduce UFE and non-technical losses on retailers, which in Buller's view is correct because only retailers can control non-technical losses. Buller concludes by stating that the ability of distributors to use the WDM should not be removed until ICP-level data is accurate.
- 2.3.12 Eastland and Marlborough consider that both models meet the regulatory purpose and the choice of model should ultimately be left to the distributor. Eastland considers that a 'one size fits all' approach is inappropriate as distributors differ in network size, customer density and geographic locations. However, Eastland comments that if only one model was adopted, then Eastland would prefer the RDM.
- 2.3.13 EMS considers that for some distributors the RDM can create inequities in revenue due to errors from unreconciled and estimated data. EMS considers that although the RDM has benefits in providing price signals at the ICP level, distributors should not have this approach imposed on them until retailers are better able to provide more accurate data.
- 2.3.14 Whilst endorsing delivery of end-consumer focused pricing arrangements, ENA considers that there is no mechanism for RDM level (end user) pricing methodologies to penetrate past the retailers.
- 2.3.15 ENA also notes that there are local and regulatory pricing issues that need consideration before a single pricing methodology is considered, such as:
- (a) the impact of distribution pricing arrangements in different areas, where existing arrangements may have been developed which recognise local priorities such as irrigation or dairying load;
 - (b) the practicality (and transaction costs) of shifting pricing from the WDM to the RDM under the now evolving Part 4 price control requirements; and

¹² Buller, Counties Power, Eastland, EMS, ENA, Marlborough Lines, Meridian, NWL, Orion, Powerco, PWC, Unison and Wellington Electricity.

- (c) the capacity of larger loads such as major industrial and commercial users to purchase electricity at the wholesale level, coupled with the sub-optimal signals to do that if it allows them to free-ride on burdens that would be loaded onto (mainly) domestic and smaller non-domestic users, such as power factor correction, load control, rolling outage exposure and the requirement in the GPS for distributors to keep any changes in rural line charges in line with changes to urban line charges.
- 2.3.16 Marlborough Lines considers that a number of reasons for preferring the RDM over the WDM appear to be driven by retailers' preferences rather than the interests of distributors.
- 2.3.17 Meridian does not have a strong preference for either the RDM or the WDM. Meridian considers that a single model needs to be selected, which meets the principles of transparency, consistency of price signals, and rationalisation of pricing methods.
- 2.3.18 Network Waitaki Limited (**NWL**) does not support the RDM approach and considers that the proposal is dominated by retail interests. NWL suggests that the Commission should assess all current methodologies for how well they deliver on the pricing principles and base a generic model on the best practices.
- 2.3.19 Orion does not agree that the RDM should be the preferred approach, or that there needs to be a preferred approach. Orion considers that many of the arguments in favour of the RDM are empirical, although presented as fact, without supporting analysis.
- 2.3.20 Powerco considers that the issues provided by the Commission for the WDM are not significant enough to justify the prohibition of the WDM.
- 2.3.21 In Unison's view the Commission has not demonstrated that the RDM is superior to the WDM and that this is an area where distributors should be able to retain pricing flexibility.
- 2.3.22 Wellington Electricity considers that both the RDM and the WDM meet regulatory objectives and pricing principles consistent with legislative requirements. Wellington Electricity would only endorse the RDM when metering solutions and associated data collection processes are working effectively (e.g. full deployment of Advanced Metering Infrastructure (**AMI**)) and ensure accurate metering.

Commission's provisional response

- 2.3.23 The Commission notes that support for the RDM comes predominantly from retailers and consumers. Key reasons why these parties favour the RDM is its increased transparency and cost-reflectivity for consumers, and its reduced risk and complexity for retailers. The Commission also notes that the overarching consensus amongst distributors is that the RDM should not be mandated over

the WDM, with key reasons being that both approaches meet the draft guiding principles set out in the consultation paper, distributors using the WDM have good commercial reasons for doing so, and the issues associated with the WDM are not significant enough to justify using only the RDM.

- 2.3.24 In the Commission's view, the submissions have not raised benefits and/or drawbacks of the RDM and the WDM that are additional to those outlined in the consultation paper. Furthermore, in the Commission's view, the draft pricing principles¹³ the Commission has developed, based on the Commerce Commission approach, for a model approach to a distribution pricing methodology do not alter materially the analysis of the distributor business models undertaken in the consultation paper. Therefore, it remains the Commission's view that, overall, the actual and potential benefits of RDM align it more closely with the draft pricing principles.
- 2.3.25 The issues relating to inaccurate data provided by retailers mentioned by Buller and EMS can be addressed by distributors by discussion with retailers or through the Rules. Each participant who provides submission information has an obligation to ensure that it is complete and accurate. Distributors who detect that inaccurate information is being provided can advise the Commission by alleging a breach of the Rules.
- 2.3.26 Therefore, if the Commission was to publish a model distribution pricing methodology, it would use only the RDM approach. However, both approaches would conform to the draft pricing principles.

2.4 Distribution pricing model, cost categorisation and allocation

The proposal

- 2.4.1 The proposal is to use the PAWG model approach to distribution pricing, with the addition of the following areas:
- (a) transmission cost allocation;
 - (b) distributed generation cost allocation;
 - (c) controllable load cost allocation;
 - (d) identification of consumer classes within load groups; and
 - (e) disaggregation by service quality.

¹³ These are contained in "Draft Distribution Pricing Principles and Methodological Requirements" paper.

The questions

- Q3. Do you agree with the proposed approach to the allocation of costs (as set out in figure 4 and table 2)? Please provide comments on:**
- (a) Load independent costs;**
 - (b) Load dependent costs; including:**
 - (i) Geographic zones;**
 - (ii) Asset groups;**
 - (iii) Load group classifications;**
 - (iv) AMD and CPD to allocate the network asset group costs to load groups; and**
 - (c) Transmission costs.**
- Q4. Do you agree with the proposed approach to allocating the net benefits of deferred network augmentation?**

Submissions on the allocation of costs

General considerations

- 2.4.2 Three submitters¹⁴ note their agreement with the proposed approach or a singular approach (not necessarily the one proposed) to the allocation of costs.
- 2.4.3 PowerNet agrees with the proposed approach to the allocation of costs but believes that more work is required to provide some degree of consultation, guidance and clarification. PowerNet expects some flexibility in load group classifications etc, and raises the issue of the impact of the new Commerce Commission pricing and quality control regulations.
- 2.4.4 Meridian notes that it does not necessarily have issues with any specific distributor's current methodology; it is the multiplicity of pricing methodologies that causes difficulty.
- 2.4.5 MRP supports rationalisation, but does not necessarily believe that there should be only one price methodology. MRP recognises that there are a number of legitimate approaches to distribution pricing and does not want to hinder innovation in distribution pricing.
- 2.4.6 MRP considers that there are wide price bands for customers that would not give rise to cross-subsidies, and therefore a wide range of different cost allocation methodologies that should be deemed acceptable. MRP considers that a model should be established, but with variations allowed where these are agreed by

¹⁴ EMS, Meridian and PowerNet.

retailers (through a negotiation or consultation process) or approved by the Commission as promoting the long-term interests of end-users. This could be achieved through mandatory or voluntary arrangements, although MRP recognises that the voluntary arrangements come with the risk that distributors will not act as quickly as they should (or not at all) and would require a rigorous compliance regime.

- 2.4.7 TrustPower also supports the proposed approach to the allocation of costs subject to various considerations including:
- (a) the ability of consumers to take advantage of pricing signals;
 - (b) the need to avoid disadvantaging rural consumers; and
 - (c) the use of Anytime Maximum Demand (**AMD**) and CPD charges for all but general connections.
- 2.4.8 MEUG considers that the pricing methodology should be sufficiently transparent and detailed to allow an end consumer in each load group to validate its share of:
- (a) operating costs;
 - (b) maintenance costs;
 - (c) overhead costs;
 - (d) capital costs comprising:
 - (i) post-tax capital charge;
 - (ii) tax charge (including interest tax shield); and
 - (iii) depreciation and write-offs.
- This would require disclosure ahead of each pricing year of each of the above forecast costs for each load group and the allocator(s) to be used to each individual consumer in each load group.
- This level of transparency has been provided by Transpower in the past (e.g. Transpower disclosed all of the above cost components for the HVAC Connection, HVAC Interconnection and HVDC assets ahead of the transmission pricing year ending 31 March 2008¹⁵).
- 2.4.9 MEUG assumes that costs attributable to dedicated bi-lateral contracts are excluded from this allocation methodology. The pricing methodology should make this clear. The allocation methodology needs to have a mechanism to ensure distributors do not subsidise the costs of dedicated bi-lateral contracts that are un-economic.

¹⁵ http://www.transpower.co.nz/f1210,148662/148662_appendix-k-pricing-grid-connection-services-2007.pdf

- 2.4.10 The Lines Company considers that the cost of subsidies (domestic consumers on low fixed charge and rural customers) should be recognised as an additional cost category and the methodology should include a section on how these costs are to be recovered.
- 2.4.11 Nine submissions¹⁶ do not agree with the proposed approach to cost allocation.
- 2.4.12 ENA, PWC, Unison and Vector consider the focus of the consultation should be on cost allocation principles rather than methodologies, to accommodate issues specific to individual networks.
- 2.4.13 Contact, Counties Power and PWC consider the cost allocation approach is only one of several possible approaches that could lead to improved economic efficiency.
- 2.4.14 Orion, Powerco, PWC, Unison, Vector and Wellington Electricity suggest that the PAWG approach is overly prescriptive and complex:
- (a) Vector notes that the Commerce Commission recognised in its discussion paper that more prescriptive approaches mean higher compliance costs, associated with establishing new information systems and pricing models, audit and verification costs, and transition costs;
 - (b) Vector considers that the proposed methodology does not take into account unique network differences and does not provide flexibility; and
 - (c) Unison considers that the proposed methodology limits the ability for Electricity Lines Businesses (**ELBs**) to develop and implement dynamically efficient pricing structures, including structures based on long run average incremental cost (**LRAIC**) and structures that contain a more refined set of time of use (**TOU**) signals than simple critical peak period pricing (**CPP pricing**).
- 2.4.15 Although agreeing that distribution pricing should be determined so that economically efficient outcomes are achieved, PWC notes that distributors may choose revenue requirements based on other criteria. Some may be influenced by factors which occur outside the 12 month monitoring period. Distributors may use a marginal cost approach to price setting, determining the most critical pricing signals on a marginal cost basis. The revenue requirement may therefore be derived from a combination of marginal costs, average costs, adjustments for other sources of revenue, consideration of cash requirements, consideration of rate shocks, adjustments for prior over or under recoveries and adjustments for the price path threshold. PWC considers that these factors cannot be accommodated by the proposed model approach and nor should they be.

¹⁶ Contact, Counties Power, ENA, NWL, Powerco, PWC, Unison, Vector and Wellington Electricity

- 2.4.16 PWC and Vector consider that assumptions will need to be made to develop indicators:
- (a) PWC notes that, as the majority of meters record total use, assumptions are needed to develop allocators which reflect customer demand and use at different times. Further assumptions are then required to disaggregate to more granular customer groups. A model approach which specifies a high level of detail using assumptions not directly derived from corresponding data is likely to result in suboptimal prices; and
 - (b) Vector considers that much of the input data required in the proposed approach is unavailable or needs estimating.
- 2.4.17 Vector considers that distributors would be unwilling or unable to adopt a model approach because it would lead to customer rate shocks from shifting to a different but no 'fairer' allocation approach. Vector's assessment of the proposed model is that it may lead to an increase in Vector's tariff complexity.
- 2.4.18 Vector considers that cost allocation models are largely irrelevant to the pursuit of efficient price structures; and that what matters for efficiency is the marginal signal faced by consumers to change their behaviour.
- 2.4.19 In its development of a gas pricing methodology and cost of supply model, Vector encountered significant difficulties in attempting to define a cost allocation approach which would generate a sensible tariff structure. The cost allocation approach selected only generated sensible allocations at relatively high levels of customer aggregations. In developing prices for more granular capacity groups, substantial smoothing and operator judgement were used to establish prices consistent with the pricing principles set out by the Commerce Commission. This experience highlighted that model approaches cannot be applied mechanically.
- 2.4.20 Vector considers that distributors rely on imperfect information, are impacted by government regulations that do not represent efficient prices (e.g. low fixed charges), and that mechanistic modelling does not necessarily produce sensible pricing outcomes.
- 2.4.21 ENA considers that any large scale reallocation of costs would require a lengthy customer consultation process and it is premature to make assumptions about the outcomes of such a consultation. Similarly, distributors are not in a position to make informed recommendations to customers until they know the types of constraints that will be imposed by the Part 4 price and quality control regime.
- 2.4.22 NWL states that it does not allocate costs to the degree of economic purity assumed in regulation development and tends to have a greater level of average costing in its pricing methodology compared to other line companies. To an extent, this reflects the lack of diversity within NWL's community.

- 2.4.23 NWL considers that the constraints of regulation with regard to low users, rural/urban differentials, fixed and variable components (which are not classed as variable per the low user regulations unless they are kWh based), and pricing controls have resulted in a complete inability to develop efficient pricing signals. NWL does not differentiate between domestic and non-domestic except where required to for the low user option. Differentiation by connection capacity is sufficient. GXP pricing inherently recognises TOU differences in load profiles.

Commission's provisional response

- 2.4.24 In its introduction to the proposed model approach to a distribution pricing methodology, the Commission acknowledged that there are many complexities with distribution pricing, reflecting individual network design and capacity utilisation, geographical differences, historical pricing and cross subsidies, and network amalgamations. The submissions have added other factors such as the low fixed charge regulations and the availability of data.
- 2.4.25 The majority of submissions disagree with the proposed approach set out in the consultation paper, and that those submissions that do support it, do so on a qualified basis. Key reasons for submitters not supporting the proposed approach is that the proposed approach is overly prescriptive and complex, and that the proposed approach is only one of several that would meet the proposed guiding principles. Hence, cost allocation principles should be adopted rather than a cost allocation methodology.
- 2.4.26 The Commission agrees that more than one cost allocation methodology will meet the proposed guiding principles, and that flexibility is required in the allocation of costs to accommodate distribution network-specific characteristics. The Commission considers that it is desirable to adopt a principles-based approach to the allocation of costs, with a degree of guidance provided by the Commission on the interpretation of the principles (methodological requirements).
- 2.4.27 The Commission does not discount the provision of a cost allocation model approach to illustrate the cost allocation principles but agrees that the mechanical application of theoretical models is likely to lead to the types of problems that Vector encountered when implementing its settlement with the Commerce Commission. The complexities of load profiles, consumer mix, network characteristics and other variables require distributors to temper theory with pragmatism when designing their tariff structures.

Consumer specific costs

- 2.4.28 Buller agrees that consumer specific costs are easily allocated under the proposed cost categorisation, but such costs apply only to large industrial

consumers with TOU metering. By definition, consumer specific costs do not apply to the mass domestic market.

- 2.4.29 NWL considers that consumer specific costs are broad and varied in their ability to be controlled. Defining them as the consumer's responsibility reduces the network operator's ability to address issues that affect the quality of service and/or costs to other consumers. These can include service lines, power factor correction, tree clearing, compliance monitoring, etc. Rural users and low users can have disproportionately higher consumer-specific costs. Regulation prevents the differentiation desired by the Commission.

NWL considers that, since major connections also increase the cost of interconnecting reticulation for security purposes, it can be argued that it is reasonable for them to contribute to shared assets beyond those directly involved in their supply.

Commission's provisional response

- 2.4.30 The Commission notes that identifiable consumer-specific costs may form a subset of the total costs recovered from a consumer. The distributor may also recover other shared network costs from that consumer. The Commission draws the analogy with the Transmission Pricing Methodology (TPM), where grid connected parties pay a connection charge (i.e. a party-specific charge) and an interconnection charge.

- 2.4.31 Consumer-specific costs are not limited to large industrial consumers as these costs can be identified at the time of application for supply. There are no regulations preventing differentiation on consumer-specific cost allocation. The low fixed charge regulations and the GPS provisions requiring that changes in the rural charges are in line with changes in urban charges relate to pricing rather than cost allocation. Any shortfall resulting from pricing on the basis of the legislative requirements should be re-allocated transparently.

Load independent costs

- 2.4.32 Wellington Electricity considers that load independent costs tend to be relatively small compared to load dependent costs. Wellington Electricity supports the flexibility for distributors to allocate costs on a causation basis. However, again being cognisant of the need for simplicity, comprehension, ease and cost of application, Wellington Electricity considers that it may be more efficient for independent load costs to be allocated on an ICP basis.

Commission's provisional response

- 2.4.33 The Commission anticipates that a distributor would factor into its decision making whether the allocation of load independent costs on an ICP basis will deliver similar outcomes to some other well-accepted causation-based measure.

Load dependent costs – general

- 2.4.34 Buller agrees that load dependent costs are easily allocated under the proposed cost categorisation, but such costs apply only to commercial and industrial consumers that are generally TOU metered.
- 2.4.35 MEUG suggests that the phrase “capacity dependent costs” would better match the primary goal of cost reflective pricing, as load dependent could infer load means energy transported over a year.
- 2.4.36 NWL considers that the term “load” needs to be better clarified. NWL considers that load is a demand or power measure, not an energy or consumption measure. NWL agrees that load is the correct determinant for assessing fixed and variable costs and the basis on which they should allocated.
- 2.4.37 Unison disagrees that optimised replacement cost (**ORC**) is the appropriate allocator for load dependent costs. Unison considers that ORC will not exist in the future and ORC does not reflect the incremental cost of peak load growth. Unison agrees that LRAIC pricing is highly desirable and contributes to dynamically efficient outcomes, but the Commission has failed to demonstrate how the model approach produces prices that are at all related to LRAIC. The suggestion that ORC reflects LRAIC is incorrect.

Commission's provisional response

- 2.4.38 The Commission agrees that “load dependent costs” should be interpreted to mean “capacity/demand dependent costs”. The Commission does not agree that load dependent costs should only be applied to TOU metered consumers. Profiles enable allocation of these costs to non-TOU metered consumers as well.
- 2.4.39 The Commission notes that the PAWG report defined LRAIC as using ORC to determine the long run average cost (**LRAC**), in today's dollars, of an increment to a distribution network's capacity. The Commission notes that distributors may wish to use replacement cost instead of ORC in determining the value of the network for the purpose of allocating costs within the revenue requirement. This approach has been adopted by Transpower in the TPM.
- 2.4.40 The key point is that LRAIC is a measure of the LRAC of augmenting the distribution network. It is not a measure of the incremental/marginal cost of

augmenting the distribution network. As was noted in the PAWG report¹⁷, LRAIC signals the average costs of distribution network congestion to those network users operating during peak periods. LRAIC does not, strictly speaking, signal the incremental costs of congestion to the particular consumers that give rise to the congestion. It is common to use an averaged approach to congestion pricing in network services.

Load dependent costs – geographic zones

- 2.4.41 Paragraph 3.4.3 of the consultation paper notes that “distributors must ensure that, as set out in the GPS, any changes to rural line charges are kept in line with changes to urban line charges.” Several submitters note that the rural/urban cost allocation methodology is impacted by the proposal. Three submitters¹⁸ do not support disaggregation by geographic zone.
- 2.4.42 TrustPower supports the use of geographic zones inasmuch as differing geographic regions may incur different costs. TrustPower does not support the use of geographic zones where they disadvantage rural customers or introduce complexity through differing pricing structures. A distributor’s use of geographic zones should be tested against the guiding principles. In particular, a km-based fixed charge as imposed by some distributors is disadvantageous to rural customers and does not meet the guiding principles.
- 2.4.43 MEUG sees no reason why the rate of change in distribution prices should be the same between rural and urban zones if the rate of change in costs differs.
- 2.4.44 EMS considers that geographic factors in the distribution of assets can have a significant impact on costs (many distributors extract asset valuations from geographic information systems) so should be fully available for inclusion in pricing signals.
- 2.4.45 The Lines Company considers that geographic regions should also be chosen on the basis of load characteristics and may therefore be below a GXP level. Feeders supplying a dairying area may peak in summer, while urban feeders off the same GXP may peak in winter. The potential peak period may not be the same unless the combined load presents a constraint at the transmission or sub-transmission level. Even with such a constraint occurring, there is still a need to signal the local constraint periods if over-investment is to be avoided.

¹⁷ See the LECG report entitled “Incremental cost measures and pricing”, contained in Appendix 4 of the PAWG report.

¹⁸ Marlborough, NWL and Wellington Electricity.

- 2.4.46 NWL considers that urban consumers do not call for lower charges compared to rural consumers, and that average costing is accepted, with the link between the wellbeing of the town and that of the country understood.
- 2.4.47 NWL considers that disaggregating by geographic zone is not practical in terms of delivery on pricing principles unless the zones are significantly diverse regions or with respect to load density (kWh/ICP/km of network). NWL does not support differentiation of GXP's within the same network segment. "It upsets consumers when they have different pricing to the house next door because of an arbitrary zone boundary."
- 2.4.48 NWL considers that service quality is largely dependent on where a consumer is located in the network. There is reasonable correlation between lower inherent service level and lower economics so there is little point to having a price differential. Consumers do not have that much choice about where they connect.
- 2.4.49 Wellington Electricity does not support separate zoning for interconnected geographic zones because it creates undue complexity and will impact on distributors' ability to meet the requirements of the GPS.
- 2.4.50 Buller does not agree with geographic zone charges because the GPS does not permit such actions and because its consumers have stated that they do not wish such charges to be introduced. Buller notes that rural distribution networks generally can supply only one level of service.
- 2.4.51 Marlborough considers that there is little doubt that the cost drivers and characteristics of supply to remote rural areas differs significantly from those characteristics in urban areas. However, Marlborough considers that it is "a pointless exercise" to identify these geographic areas and establish compliant prices if that information is to be set aside because of the GPS requirements.
- 2.4.52 Marlborough considers that no guidance is provided as to whether the geographic zones referred to are zones within a network area (remote rural areas such as the Marlborough Sounds compared with urban areas such as Blenheim) or whether these zones are more related to different network areas supplied by a distributor (such as Unison supplying Hawkes Bay, Rotorua and Taupo).
- 2.4.53 Marlborough submits that, irrespective of the outcome of the Commission's deliberation with respect to pricing methodologies, the Commission should approach the government to have Section 102 of the 2009 GPS either deleted or qualified with a proviso to allow different changes in urban and rural line charges in instances where the costs can be shown to be significantly different

Commission's provisional response

- 2.4.54 There is mixed reaction to the proposal that distributors should disaggregate networks into geographic zones where cost drivers or costs differ significantly

from those of other areas. The Commission agrees with the comment by NWL that “disaggregating by geographic zone is not practical in terms of delivery on pricing principles unless the zones are significantly diverse regions or with respect to load density”.

- 2.4.55 Averaging of costs within consumer classes will always lead to a degree of cross subsidisation as, by definition, an average will be calculated from a range of costs which will include costs above and below the average. Therefore the Commission accepts that there will be a degree of cross subsidisation between, for instance consumers in urban areas and consumers in rural areas. Where these do not impose significant increased charges on a specific group, there would appear to be no need to develop geographical discrimination.
- 2.4.56 Some submitters referred to the GPS requirement assuming that the *charges* in urban and rural areas should be the same. This is not the case. The government expects distribution companies to keep any *changes* to rural line charges in line with *changes* to urban line charges. The charges can be different. Where the rate of change in costs is different between rural and urban zones and there are significant differences in the costs, the distributor could still allocate costs to the zones but may have to adjust its prices in order to comply with government policy. Transparent re-allocation of the charges should be done to meet the pricing principles to the extent possible (i.e. the cross subsidy should be transparently shown in any disclosure).
- 2.4.57** The Commission notes the suggestion by Marlborough that the Commission should approach the government to have Section 102 of the 2009 GPS either deleted or qualified with a proviso to allow different changes in urban and rural line charges in instances where the costs can be shown to be significantly different. The Commission intends to communicate those concerns by distributors to the Ministry of Economic Development.

Load dependent costs – asset groups

- 2.4.58 The Lines Company, TrustPower, Unison and Wellington Electricity support the use of asset groups with various provisos.
- 2.4.59 The Lines Company supports this as long it is broad enough to cover assets shared by a small number of customers. This was indicated to be the case when the PAWG paper was discussed. The cost per customer of supplying two customers from a single transformer is considerably less than the cost of supplying one, but still considerably more than the cost of supplying five or six. The Lines Company’s studies suggest that the cost evens out (when the trade-off of eliminating the cost of shared assets from customers paying for dedicated assets is factored in) where assets are used by more than four consumers. Such an approach is consistent with principle on cross-subsidisation.

2.4.60 Wellington Electricity supports the use of asset groups on the basis that distributors are able to determine the extent and types of groups, depending on the nature of their networks. In order to maintain simplicity and comprehension Wellington Electricity encourages a small number of asset groups.

Commission's provisional response

2.4.61 There were no submissions disagreeing with the use of asset groupings for cost allocation. The number and type of asset groups should be chosen to reduce the potential for significant cross subsidies between consumer groups even if this entails a degree of complexity.

Load dependent costs – load group classifications

2.4.62 TrustPower supports the use of load groups in principle. Where load groups differentiate on end use (e.g. residential / non residential, low use / high use), the rules must be defined and if possible, be common across distributors.

2.4.63 Based on its experience, Northpower considers that a cost of supply model to allocate costs between load groups is not straightforward.

2.4.64 Marlborough submits that it is impractical to exclude holiday homes from the definition of domestic consumer.

2.4.65 Contact agrees that for general connections, domestic consumers should be classed separately from non-domestic consumers. However, the key point is that capacity charges for domestic consumers must be avoided as they create compliance issues with the low fixed charge regulations. Contact does not object to capacity bands as a definition for load groups, provided that the domestic / non domestic split is made first. Furthermore, distributors should avoid distinguishing between domestic and non-domestic variable rates with the same capacity.

2.4.66 One of the biggest concerns that MRP expresses about distribution pricing is the excessive number of customer categories that some distributors have. The low fixed charge regulations exacerbate this by effectively doubling the number of residential tariff categories.

2.4.67 NWL experiences difficulty with allocating asset costs across load groups as virtually all of its consumers are defined as general connections. The remaining consumers are further reduced in number when those on individual contracts and/or TOU metering are excluded. Allocating on the basis of demand will cause pricing volatility because NWL's system peak periods are changing and, being irrigation driven, are very weather dependent.

2.4.68 Disaggregating by load group creates an equity issue for NWL because of the small customer numbers in some load groups. Small business enterprises usually

carry the burden of the negative mismatch between cost allocation and revenue requirement. Small customer bases are very sensitive to allocation methodologies.

- 2.4.69 NWL has more capacity groups in the fixed charge component of its tariff structure. The reason for this is to encourage efficient transformer sizing.
- 2.4.70 The Lines Company's research shows that the use of a three hour measurement period rather than a half hour period appears to adjust individual results for diversity within the group, to produce an average kW measure almost identical to that used when designing a distribution system from new.
- If, however, it is possible to assess the individual contribution, adjusted for diversity, then what is the benefit in allocating costs into groups, other than based on voltage and location?

The Lines Company recommends that rather than using sub groups for capturing load dependent costs and calculating prices, distribution companies should instead be required to disclose the assumptions that they have made regarding diversity and profile for particular types and sizes of customers, to assess individual load contributions and thus produce a cost per kW / kVA for the head voltage / geographic groups.

- 2.4.71 Wellington Electricity supports the use of load groups on the basis that distributors will determine appropriate groups dependent on the nature of their networks.
- 2.4.72 Wellington Electricity is of the view that the allocations as currently specified are possibly at too fine a granularity to allow for changing network load characteristics. The "up to 15kVA" load group might for example prove to be too low a threshold given the proliferation of households with power hungry appliances (e.g. big screen televisions) and the "16kVA up to 70kVA" too broad. Each time a discrepancy like this arises, the allocation methodology will have to change.

Commission's provisional response

- 2.4.73 The Commission accepts that the allocation of network asset costs to load groups is not straightforward and that there will be boundary issues. The grouping of general connections appears to provide the most challenges. The Commission agrees with Vector's view that a flexible approach would assist in obtaining a logically progressive tariff structure, where charges increase as consumers move to higher capacity groups.
- 2.4.74 The Commission also notes and agrees with the sentiments expressed by MRP that the number of load groups should not be excessive, but the Commission's view is that there should be enough load groups to minimise significant cross

subsidisation between consumer classes. Clearly, judgment is required to appropriately respond to the twin demands of cost reflectivity and simplicity of pricing.

- 2.4.75 There appears to be a general acceptance of the proposed differentiation between domestic and non-domestic to allow for application of the Low Fixed Charge Regulations and the introduction of consistent distribution pricing terminology and definitions across the industry.

Load dependent costs – AMD and CPD

- 2.4.76 Wellington Electricity supports the use of AMD and Coincident Peak Demand (CPD).
- 2.4.77 The Lines Company, through the use of group profiling, sample data collection and regression analysis, notes that it is able to assess individual contributions which can be summed to a group to give the group's AMD and CPD.
- 2.4.78 TrustPower supports the use of AMD and CPD for all but general connections. TrustPower believes that, for general connections, the AMD and CPD charges should be used to create a greater price differential between peak and off-peak usage. TrustPower considers that the assignment of CPD or AMD for general connections must take into account the ability of the customer to take advantage of pricing signals. A simple reflection of true engineering costs may not have the desired effect of changing customer's usage habits and shifting load into lower cost periods. The AMD and CPD values must be calculable prior to the customer being billed. Some distributors will not advise these figures until post billing, leaving the retailer no ability to recover costs from the customer or provide demand response pricing signals.
- 2.4.79 Four submitters¹⁹ noted that they do not support the use of AMD and CPD, as proposed, for general connections.
- 2.4.80 NWL and Unison do not agree with the suggestion that a specific weighting of AMD and CPD is appropriate: different networks will have different investment and peaking issues, and as a result different weightings will be appropriate. In NWL's case its system is summer peaking whereas the transmission system peak for which it controls load is winter peaking. These peaks are variable with weather and the demand from the Tiwai Point aluminium smelter.
- 2.4.81 NWL considers that regulation has stifled load control product innovation. NWL has observed a significant decline in demand side load control capability since market reforms. It attributes this to pricing regulation and inflexibility with regard to change.

¹⁹ Northpower, NWL, Unison and Vector.

- 2.4.82 Vector uses Delta's presentation at the 17 June 2009 workshop as an example of how using AMD and CPD could lead to perverse outcomes on Delta's network due to the impact of the aluminium smelter.
- 2.4.83 Northpower believes that a large number of load groups are more difficult for retailers and consumers to understand/apply than a minimum set of common load groups and a few "specialist" plans.
- 2.4.84 Northpower considers that an approach to distribution pricing that is presently highly valued in many areas is simplicity. Further complicating the structure of domestic pricing by introducing demand charges and congestion pricing will be counter-productive if consumers do not understand it. Distributors are required to publically disclose and publish line charges.
- 2.4.85 Northpower considers that it is impractical to calculate AMD using the 200 maximum half hour demands, as half hour data only exists for categories 3-6 sites and some category 2 sites. In practice, load patterns will be the best indicators; for example domestic load tends to peak between 1800 and 1900 hours from June to August;
- 2.4.86 Northpower notes that the Commission has defined the AMD in terms of the maximum 200 half hour demands, with no exceptions. In submissions and at the conference on the transmission pricing methodology (TPM), Northpower put forward the argument that the top 100 or top 200 half-hour demands should be used in the assessment of the interconnection charges in all regions. However, the Commission insisted on a methodology using the top 12 demands in the upper North Island and the upper South Island, and the top 200 demands elsewhere. In Northpower's opinion, the Commission has not explained its reasons for this apparent inconsistency between its views expressed in the context of the TPM versus the parallel situation for distribution pricing.
- 2.4.87 Northpower notes that the first deployment of AMI seems to be on the basis of automating the meter reading process. Northpower has no guarantee that the information fundamental to determining AMD and CPD for all connections:
- (a) could be downloaded by data collection agents;
 - (b) will be made available to distributors without significant additional cost;
 - (c) could be processed in the volumes required in the timeframes required; and
 - (d) could be readily accessed in the event of a consumer querying when an AMD increased.

Commission's provisional response

- 2.4.88 In the consultation paper the Commission referred to the PAWG approach of allocating AMD and CPD on a 50:50 basis, but did not endorse this split. The

Commission noted that it supports the use of a combination of AMD and CPD to allocate costs to load groups. The Commission agrees that a 50:50 split is arbitrary. It would expect the actual proportions used by distributors to be based on the nature of the consumer base and the load characteristics of the distribution network. Where there is a specific load situation, as in the lower South Island, where a single load can introduce volatility, the pricing allocations should take this into account.

- 2.4.89 The Commission agrees that introducing demand and congestion charges for individual domestic consumers would not be desirable. However, the class (group) of domestic consumers has a significant influence on both the AMD and the CPD of a network, and costs can be allocated to that class on the basis of the group demand. The number of hours used would be dependent on the load duration curve. The Commission's suggestion was provided as a guide.
- 2.4.90 Obtaining the data for allocating costs will present challenges. However, the reconciliation system will provide profiles, monitoring the load at zone substations will provide representative profiles and targeted cost of service studies can also be used for assessing group profiles. It is therefore not absolutely necessary to have AMI data to obtain the data to allocate costs on an AMD and CPD basis.

Load dependent costs – transmission costs

- 2.4.91 Orion agrees that transmission costs should be identified and allocated separately to distribution costs, although Orion notes that distributors will include avoided transmission costs, not just Transpower's charges. Orion does not think any model approach needs to go beyond this level of prescription in relation to transmission costs. Distributors are likely to recover transmission costs in a number of ways, reflecting more general aspects of their pricing structure.
- 2.4.92 EMS considers that the coincident peak transmission pricing signal provides an opportunity for consumers to make demand side cost savings while also supporting the objectives of the transmission pricing methodology. Where there is a price signal, EMS has found a high level of interest amongst larger consumers in responding to regional peaks.
- 2.4.93 Simply Energy does not agree with allocating transmission connection costs in accordance with the transmission pricing methodology as it is inconsistent with the pass through of marginal transmission costs as set out in the Electricity Governance (**Connection of Distributed Generation**) Regulations 2007 (**DG Regulations**).

Where a GXP is an offtake customer and an injection customer, the transmission methodology allocates the cost of connection assets in proportion to historical anytime maximum injection and AMD. However, an assessment of the marginal

connection costs attributable to distributed generation in accordance with the DG Regulations will allocate less injection costs to generation than is allocated as injection charges by the TPM. In Simply Energy's view the connection costs attributable to load should be the total connection costs charged per GXP less the marginal connection costs caused by injection from distributed generation.

- 2.4.94 Transmission is NWL's largest single cost. Therefore, to minimise risk, NWL seeks to pass these costs through with the minimum amount of rebundling or alteration to price signals. Transmission pricing principles, with respect to efficiency and fairness, are otherwise compromised from the end-user perspective:
- (a) NWL considers that the WDM facilitates this better than does the RDM because of its TOU structure. However, it is the practice of basing load dependent costs on energy rather than power that creates impurity with respect to pricing principles.
 - (b) The treatment of avoided transmission costs is a concern to NWL. It creates uncertainty in revenues from year to year and interferes with decisions about whether investment is more efficient in the Transpower-owned transmission network, distributor-owned sub-transmission network or other non-lines alternatives.
- 2.4.95 MEUG considers that in addition to its disclosure detail for load groups outlined above, the pricing methodology should require distributors to disclose how transmission losses and constraint rebates received from Transpower are allocated.
- 2.4.96 Wellington Electricity supports transmission costs being allocated to load groups based on mirroring (to the extent practical given a distributor's pricing methodology) the manner in which Transpower charges distributors.
- 2.4.97 MRP is concerned that distributors have no incentive to respond to transmission price signals because under the price thresholds regime they are allowed to pass 100% of their transmission costs through in their prices. MRP would like the Commerce and Electricity Commissions to work through this issue.

Commission's provisional response

- 2.4.98 The Commission agrees that the allocation of costs and benefits to distributed generators should be consistent with the DG Regulations.
- 2.4.99 The Commission agrees that the transmission pricing methodology should be used to allocate transmission costs (and avoided transmission costs) to load groups on the basis of their contribution to these costs as far as practicable.

- 2.4.100 The Commission has not considered the implications of the allocation of losses and constraint rentals in the distribution pricing methodology, as these were not considered by the PAWG. The proposed guiding principles would require that these should be allocated transparently to the relevant load groups as is recommended for other transmission costs and benefits.

Distributed generation

- 2.4.101 Opuha supports the explicit consideration of generation costs. Because the DG Regulations set out that:

“... connection charges in respect of distributed generation must not exceed the incremental cost of providing connection services to the distributed generator. ..”

Opuha considers that generation-specific costs should be determined as the marginal cost due to the presence of the generation.

- 2.4.102 Whilst the DG Regulations provide for generators to be charged their actual marginal cost, in The Lines Company’s experience, generators are contracting out of this as they want cost certainty.
- 2.4.103 In order to avoid duplication and possible inconsistencies, TrustPower supports the use of the DG Regulations as the reference for connection and pricing of lines services to distributed generators. Further to this, TrustPower considers that if the DG Regulations are applied correctly then there should be no “residual” costs or benefits available for allocation. Therefore, TrustPower does not support the concept of separating out “residual” costs or benefits.

Commission’s provisional response

- 2.4.104 The Commission agrees that the allocation of costs and benefits to distributed generators should be consistent with the DG Regulations. However, if there are any material and substantiated residual costs, these should be allocated transparently.

Submissions on net benefits of network augmentation deferral

- 2.4.105 The submissions from Buller, Contact, EMS, MEUG, PowerNet, TrustPower, Unison and Wellington Electricity agree with the proposed network augmentation approach.
- 2.4.106 MEUG supports the work by Transpower on grid security contracts and the proposal in the consultation paper (paragraphs 9.7.1 to 9.7.2) that similar contracts should be considered by distribution companies.

- 2.4.107 PowerNet agrees with this approach in principle but considers that it requires further consultation and discussion on the application.
- 2.4.108 TrustPower supports the development and use of network support contracts for situations where it may be more prudent to utilise demand side participation, via either the reduction of load or the addition of local generation, in order to avoid or defer otherwise uneconomic distribution upgrades.
- 2.4.109 Unison agrees that a portion of the benefits of deferred network augmentation should be passed through to distributed generation on a contractual basis rather than on the basis of the pricing methodology. The costs of the network support contract then become part of the costs of the distribution network to be recovered through the pricing methodology. The precise form of recovery will depend on the distributor's judgment regarding the specific investment (voltage level, type of investment) which has been avoided.
- 2.4.110 Wellington Electricity considers that the ability to defer network augmentation via load management or distributed generation has the potential to be an important tool for a network planner. Wellington Electricity supports the Commission's proposed approach of a network support contract based on the avoided cost of the investment with a proportion of the net savings incurred by the distributor in implementing the deferral allocated to the counter party to the network support contract
- 2.4.111 Wellington Electricity considers that steps should be taken to avoid the possibility of double counting where customers improperly gain benefits from being on both a controlled load pricing option and a network support contract. Moreover, as mentioned above, there should be a significant amount of benefit for the distributor in terms of deferred capital expenditure before any network support contract is considered.
- 2.4.112 The submissions from ENA, Northpower, NWL and PWC disagree with the proposal and provide the following comments:
- (a) ENA supports the removal of any restrictions on distributors actively engaging in the procurement and management of transmission and network support contracts.
 - (b) However, ENA considers that any large-scale re-allocation of costs would require a lengthy customer consultation process, and thinks it is premature to make assumptions about the outcomes of such consultation. Similarly, ENA considers that distributors are not in a position to make informed recommendations to customers until they know the types of constraints that will be imposed by the Part 4 price and quality control regime.
 - (c) Northpower "strongly disagrees" with the proposal because there is no scope to:

- (i) contract directly with end-use customers; and
 - (ii) recognise this type of arrangement in the price-path thresholds.
 - (d) NWL considers that in a small community with limited technical expertise, capital or understanding of the opportunity, it is unlikely that these alternatives will ever be realised without the network proactively pursuing the opportunity in its own right. NWL believes that allocating away the benefits destroys the business case for investment.
- 2.4.113 PWC disagrees because this approach is only one allocation approach. Principles should be used instead to accommodate issues that are specific to individual networks.
- 2.4.114 Orion believes that it signals the LRAIC correctly through its pricing and therefore network augmentation only occurs when consumers value it sufficiently as against all other options.

Commission's provisional response

- 2.4.115 There appears to be sufficient support for this approach for the Commission to develop principles relating to the allocation of the benefits of network deferral through network support arrangements and to examine any regulatory barriers to such arrangements.
- 2.4.116 The Commission sees no reason why distributors could not initiate such measures, nor does it see any reason why there is no scope for distributors to contract with end users for network deferral arrangements.

2.5 Price signalling and price structure

The proposal

- 2.5.1 The Commission proposes the following approach to signalling distribution prices:
- (a) distributors should signal network congestion via posted demand prices and, where it is cost-effective to do so, dynamic critical peak periods;
 - (b) distributors should offer controllable load contracts with dynamic signalling of critical peak periods and with prices based on the deferral value of the network investment; and
 - (c) distributors should offer retail delivery pricing as a standard offer, to provide price signals at all connection points on the distribution network.
- 2.5.2 The proposed approach to the structure of distribution prices is that, where it is not cost-effective to dynamically signal critical peaks to consumers (and/or

impractical for consumers to respond to dynamic price signals), it is proposed that distributors should:

- (i) pre-define high price periods to approximate critical peak periods;
- (ii) for winter-peaking networks, consider using the standard high price periods of 7am-11am, and 5pm to 9pm weekdays;
- (iii) for summer –peaking networks, publish the high price periods used to approximate critical peak periods;
- (iv) restrict the high price period to the season in which the critical peak periods usually occur; and
- (v) in addition to the above high price periods, define shoulder periods either side of each high price period, if appropriate.

The questions

Q5. Do you agree with the proposed approach to signalling critical peak periods and shoulder periods via distribution prices?

Q6. Do you agree with the approach to structuring distribution prices?

Submissions

- 2.5.3 MEUG agrees with the price signalling proposal except for “prices based on the deferral value of the network investment” being signalled only to consumers with controllable demand. The reason for MEUG seeking removal of this text is discussed in MEUG’s response to Question 7.
- 2.5.4 MEUG agrees with the proposed price structure.
- 2.5.5 PowerNet considers that the proposed approach to signalling critical peak periods and shoulder periods via distribution prices can be developed further on a more dynamic basis for customers with AMI. PowerNet notes that this approach is also a step in calculating the line charge components for the various tariff rates.
- 2.5.6 PowerNet agrees with the approach to structuring distribution prices.
- 2.5.7 EMS agrees with the price signalling proposal and with the proposed approach to structuring distribution prices, as it provides a comprehensive range of pricing signals within a clear framework.
- 2.5.8 TrustPower supports the approach to signalling critical peak periods and shoulder periods via distribution prices. TrustPower considers that demand pricing should be restricted to load groups where demand is measured and customers are able

to react to demand charges through load shifting. TrustPower considers that assessed demand at the level of small commercial or residential consumers has no impact on network efficiency and should be avoided.

- 2.5.9 TrustPower considers that the majority of consumers are not able to take advantage of the price differentials offered by network pricing models that attempt to reflect the “true” cost of network costs. In some cases, these pricing models are repackaged by the retailer in order to reduce the complexity or remove risk. This delivers no benefit to the network or the retailer. TrustPower believes that pricing structures should:
- (i) be able to take advantage of signals at the residential level;
 - (ii) ensure that signals take into account investment by customers, i.e. they should remain in force for a period long enough to ensure investment return over the life of the investment;
 - (iii) not cater to a minority group only; and
 - (iv) not add demand charges to customers where the demand is neither measured nor able to be controlled.
- 2.5.10 Unison agrees that it is efficient and desirable to use prices to signal the costs of network congestion but Unison considers that the model methodology should not be restricted to just CPP pricing, as the rollout of AMI means that more sophisticated pricing will be able to be delivered to a wider range of consumers.
- 2.5.11 Unison considers that even without AMI it may be appropriate to have prices that reflect more than just the critical peak period, as the Commission recognises with the inclusion of “shoulder” periods. However, shoulder periods should not necessarily be limited to either side of the peak, as there may be a primary peak and a secondary peak, and Unison considers that distributors should have the flexibility to send the appropriate price signals.
- 2.5.12 Unison agrees that network congestion should be signalled through dynamic congestion period signalling using posted (rather than dynamic) prices, as would occur if the distributor had a direct relationship with the consumer.
- 2.5.13 Unison notes that the low fixed charge regulations provide significant barriers to the implementation of efficient pricing.
- 2.5.14 Unison agrees with the approach to structuring distribution prices.
- 2.5.15 Buller believes that signalling peak period and shoulder period prices is not an option available to distributors until smart meters are rolled out. Similarly, while Buller agrees with the approach to structuring distribution prices, it notes that it has no means of conveying these signals to non-TOU metered consumers.

- 2.5.16 Northpower agrees that distributors should offer the RDM as a standard offer, to provide price signals at all connection points on the distribution network. However, Northpower does not agree with distributors signalling network congestion via posted demand prices and distributors offering controllable load contracts.
- 2.5.17 Where distribution pricing is leveraging AMI data, Orion can see no reason to define fixed time peak periods, as these just run the risk of shifting peaks.
- 2.5.18 Northpower and Marlborough consider that increasing the precision and therefore the complexity of distribution pricing will achieve very little if retailers do not have any obligation to pass through the pricing signals.
- 2.5.19 Northpower considers that winter peaking periods are not standard throughout New Zealand. Northpower considers that the proposal would require changes to metering information (TOU metering for all consumers) and a shift away from consumption-based pricing to demand charges. Northpower notes that the low fixed charge regulations forbid this for many customers and that for the pricing methodology to be relevant to today it must be consistent with the technologies presently in use.
- 2.5.20 Marlborough considers it impossible to accurately or reasonably estimate consumption at critical peak periods.
- 2.5.21 Marlborough and Contact consider that residential consumers are not interested in complex or punitive price signals and will not change their consumption patterns.
- 2.5.22 Contact agrees that the proposed price signalling is appropriate for customers with half hour metering; but until AMI is widely deployed and retailers have put in place more capable billing systems, Contact considers that there would be no way to accurately bill critical peak/shoulder and off-peak rates to mass market/profiled consumers.
- 2.5.23 Contact considers that retailers would be forced to repackage the rates based on their own profiling assumptions which could cause additional complexity, administrative burden and pricing/revenue risk. It would be impossible to provide transparency to customers who requested distribution and energy splits. In the meantime Contact considers that profiled consumers should be sent price signals with respect to the available hours of control on their tariff (e.g. uncontrolled (no ripple) rates higher than controlled (ripple) rates and based on hours of control).
- 2.5.24 Contact considers that when in future AMI is widely deployed across all retailers and in all network areas, and billing systems are able to support this type of pricing, and the trade-off between distributor driven peak load management and consumer demand response is fully understood, this approach could have real

value as it will incentivised demand side response through clearer price signalling.

- 2.5.25 Eastland, Powerco and PWC consider that there is no justification for this added level of prescription which would mean an increase in regulatory compliance costs, and which may not be appropriate for all distributors.
- 2.5.26 In respect of signalling peak and shoulder periods, Eastland considers that there is already adequate information on load variations available through the wholesale electricity market.
- 2.5.27 Eastland considers that the proposed approach to structuring prices is inappropriate, as it is only one example of how to structure distribution prices and does not reflect individual business needs. Eastland considers that restructuring its prices would only incur costs while creating little or no benefits.
- 2.5.28 Powerco considers that distributors should have the flexibility to define periods which best meet their circumstances and be able to change this following consultation with retailers and consumers.
- 2.5.29 ENA would prefer arrangements that allow for increasingly dynamic peak management, but is conscious that there is a range of critical peak issues affecting distributors differently, and that little authoritative work has been done on this. ENA considers that it would be premature to develop a methodology for peak signalling.
- ENA considers that this is still an area where the way forward has yet to be defined by the Commerce Commission. As a hypothetical example, the Part 4 regime could create problems for a distributor wishing to signal constraint peaks in one area but not needing to give the same signals in other unconstrained areas. Agreement by the two Commissions on principles could help in avoiding this type of situation from developing.
- 2.5.30 NWL does not agree with the proposed peak pricing approach and considers that the purpose is defeated by conflicting objectives regarding transmission, distribution, energy, and demand side management. Which objective maximises efficiency also varies from company to company.
- 2.5.31 NWL also considers that the proposed approach to structuring prices will be complicated, will confuse the consumer, be unstable, create pricing shocks and be disliked by both small and large consumers.
- 2.5.32 Orion disagrees with both the proposed approach to signalling critical peak periods and shoulder periods via distribution prices and the proposed approach to structuring distribution prices:

- (a) Orion considers that distributors should, as envisaged by the PAWG, create dynamic peak prices, or defined period peak prices as a distant second best, and then map these peak prices through to any legacy metering set-ups. Orion notes that legacy prices would still be strongly seasonal in any networks with a clear seasonal peak;
 - (b) Should the second best approach of the PAWG be adopted (defined period peak prices at defined times), Orion considers that there would be a risk of increasing costs to consumers to cover the additional instantaneous reserve required to deal with restoration at the end of the period;
 - (c) Orion considers that there would also be an additional risk of creating system security problems with the simultaneous switching of large loads nationwide. While Orion accepts that shoulder periods could help alleviate this problem to some extent, they would be unlikely to solve it.
- 2.5.33 Meridian considers that the proposed approach to signalling critical peak periods, if applied to residential customers, is unnecessarily complex.
- 2.5.34 While Meridian considers that complex price signals are not desirable, it believes that sending consistent signals to the right class of consumers is important. Meridian considers that residential consumers have limited ability to move load to a different time period, and most of that ability is already in place with the current day/night price signal (at least for those customers with that meter configuration).
- 2.5.35 Wellington Electricity supports distributors providing pricing signals to ensure the efficient use of distribution services. However, Wellington Electricity is concerned that the need to provide very high price differentials and the need for electricity retailers to transparently pass through these signals is extremely limited.
- Accordingly Wellington Electricity considers that it should be at the discretion of distributor as to how pricing signals are provided by distributors and should be reflective of the characteristics of the network and the capability for the pricing to be signalled to consumers.
- Distributors should also be able to define alternate peak price periods to reflect the unique characteristics of each network business.
- 2.5.36 Wellington Electricity considers that the structuring of prices should be at the discretion of distributors to reflect the nature of their networks, the capability of the respective distributors to provide sufficiently large pricing signals and the extent to which electricity retailers pass these signals transparently through to consumers.
- 2.5.37 TrustPower supports the approach to structuring distribution prices in cases where consumers are able to take advantage of the summer / winter pricing differential. It is preferable that seasonal loads that contribute to peaks are charged during those peaks.

TrustPower considers that applying summer / winter differentials to general connections, where customers are unable to take advantage of these differentials, imposes unnecessary complexity on retailers and is not supported.

- 2.5.38 The Lines Company considers that the recommended pricing structure, being based on time bands, would appear to have the following disadvantages:
- (a) It ignores the use of ripple signalling to signal actual constraints and instead encourages customers to shift load, and distributors to use load control simply as a service to shift load from time zones, irrespective of whether the system is constrained or not.
 - (b) Where the local constrained time is seasonally unaligned with Transpower's peaks, there is no pricing incentive for those consumers to reduce their load when there are transmission constraints. If the network controls the load to minimise Transpower charges, it is lowering the service to those customers with no corresponding reduction in price. These would appear to be contrary to the guiding principles.
 - (c) The charges to holiday homes and other installations that are disproportionately occupied at local constrained times will probably be considerably less than the cost of service.
 - (d) It is not a true reflection of the methodology on which costs have been calculated. Therefore, it is probable that prices to individual customers, or even groups of customers, will not align with costs.
 - (e) It loads charges onto the seasons of constraint, increasing the size of bills that are already high, as this is also the time of the highest energy usage.
- 2.5.39 The Lines Company also considers that a more thorough review of pricing structures be undertaken, as the following elements are changing:
- (a) since the PAWG report the Commission has authorised a charging structure for Transpower that is reflective of its cost and provides a suitable incentive for lines companies to act to minimise constraints on the transmission system; and
 - (b) technology has improved considerably since the PAWG report and is continuing to improve.
- 2.5.40 The Lines Company suggests that charges should be based on:
- (i) Individual demand over actual constrained periods, as identified by the real time actual usage of load control rather than by nominal time periods;
 - (ii) maximum individual demand, or contracted capacity; and

- (iii) the unit for measurement should be a kW or kVA charge rather than kWh – to meet the objectives of price stability and transparency, and to better reflect costs.

Commission's provisional response

- 2.5.41 This element of the proposed distribution pricing methodology relates to signalling higher priced and lower priced periods to consumers, where the capability to do so exists.
- 2.5.42 The Commission notes that network congestion should only be signalled through dynamic congestion periods and dynamic demand prices, *where and when the benefits outweigh the costs*; otherwise distributors should pre-define high price periods approximating congestion periods. This provides distributors with flexibility in signalling network congestion, and is entirely consistent with the widespread use of controlled load tariffs.
- 2.5.43 The Commission agrees that distributors should have the flexibility to define periods which meet their circumstances best and be able to change these periods following consultation with retailers and consumers. The Commission expects that diversity across regions will mean that peak / shoulder / off-peak periods will vary across distribution networks in New Zealand. The anticipated rollout of large numbers of smart meters with two-way communication over the next several years will extend the capability of distributors to signal critical peak periods and possibly signal dynamic prices.

2.6 Model price structure

The proposal

- 2.6.1 The Commission proposes to adopt the PAWG model approach to model price structures, with the following additional developments:
 - (a) distributors should offer RDM pricing as standard, to enable distribution price signals to be available at all connection points on a distribution network.
 - (b) all load groups should have a form of controlled load pricing option to encourage automated demand response; and
 - (c) there should be consistency of key distribution pricing terminology across all distributors.

The question

Q7. Do you agree with the model structure? Are there reasonably practical alternatives?

Submissions

- 2.6.2 Five submitters²⁰ agree in general with the model price structure.
- 2.6.3 PowerNet agrees in general with the model structure, but recommends that there be more consultation on some of the detail.
- 2.6.4 EMS agrees with the proposed model price structure including the additional developments to the PAWG model approach, with the exception of standardising the RDM.
- 2.6.5 EMS recommends that the model include providing a price signal for kVARh. EMS notes that the Commission has separately consulted on reactive power market options and power factor standards. Providing a price signal to end consumers would be a useful component of overall improvement of power factors without necessarily requiring a more prescriptive approach.
- 2.6.6 Meridian is happy with any reasonable price structure that is applied consistently across all distribution companies.
- 2.6.7 TrustPower agrees with the model structure subject to:
- (a) in response to the request for feedback on the ratios for peak / off peak prices, TrustPower feels that distributors should offer more low cost, (low network loading), variable pricing options:
 - (i) network companies often average the cost of provision of the sunk assets across all energy that is provided across the system. Again this is a pure “engineering” model which provides little or no signal to users to use more energy at night even though this would cost the networks little;
 - (ii) even if 50% of the sunk asset revenue was recovered across all energy that was passed through the network and the other 50% on day energy only, this would reduce the network charges for night energy appreciably;
 - (iii) on a SRMC basis, the transport of night energy should be virtually free. Such a strategy could well increase network utilisation factors and lower the need to increase asset size; and

²⁰ Contact, EMS, Meridian, PowerNet, TrustPower and Wellington Electricity.

- (iv) this could well reduce overall network income growth and therefore may need to be legislated. The low fixed charge regulations could be modified to include a low network loading low price charge.
- (b) the multiple methodologies and formats utilised by distributors increases the complexity of invoicing and reconciliation:
 - (i) although distributors argue that retailers are dealing with a great deal more complexity in half hour metering data and market settlements, they fail to recognize that the data set for these operations is consistent. Although there is a great deal more data, the complexity of processing is a lot lower; and
 - (ii) standardisation of invoice information, with all supporting information and invoices in an electronic format, would enable easy upload for checking by retailers and therefore more prompt payment to distributors.

2.6.8 Contact largely agrees with the model structure in the PAWG report, subject to

- (a) the necessary modifications to support only the RDM;
- (b) recognition that for general connections the model pricing structure should reflect the impracticality of having CPP pricing until AML is widely deployed and retailers have capable billing systems; and
- (c) for general connections Contact notes that:
 - (i) distribution pricing structures should be practical to implement for retailers, avoid unnecessary complexity, and accept that a level of cross subsidisation is not counter productive where additional complexity or zone pricing adds little if any value to improving network utilisation and investment;
 - (ii) regulated low fixed charge pricing already distorts cost-reflective pricing and adds significant complexity;
 - (iii) prices should be predictable and billable using current metering infrastructure, be practical to implement, and enable transparency where demanded by customers;
 - (iv) where appropriate pricing should encourage future innovation in demand side response;
 - (v) while it may be administratively simpler for retailers if distributors all adopted the same structure, Contact believes there may be a risk of stifling innovation. However in some network areas the current pricing structures (and loss factor structures which also influence pricing) are overly complex and/or are inconsistent with the pricing principles of most importance to retailers, so some changes are necessary to

reduce pricing risk passed through to retailers and lower the barrier to competition for new entrant retailers;

- (vi) there should be a universal definition of “domestic” consistent with the low fixed charge regulations; and
- (vii) general connection domestic consumers should be classed separately from non-domestic consumers, and capacity charges for domestic consumers must be avoided as they create issues for compliance with the low fixed charge regulations. Contact does not object to capacity bands as a definition for load groups, provided that the domestic/non-domestic split is made first. Furthermore distributors should avoid distinguishing between domestic and non-domestic variable rates with the same capacity.

- 2.6.9 Wellington Electricity is largely supportive of the PAWG structure for half-hourly metered consumers, as it provides an example of one possible methodology consistent with the proposed guiding principles.
- 2.6.10 Wellington Electricity would only consider supporting the RDM after AMI is installed across the whole network and it is proven that it provides open access to timely and accurate data. Until this happens distributors should be free to use whatever methodology (be it the RDM or the WDM) they consider appropriate to meet the unique requirements of their respective networks. Wellington Electricity considers that both the RDM and the WDM meet regulatory objectives and pricing principles consistent with legislative requirements.
- 2.6.11 Wellington Electricity does not support the Commission’s proposal that all load groups should have a form of controlled load pricing option to encourage automated demand response. Wellington Electricity considers that this will increase complexity and is unlikely to be effective. For many load groups the financial benefits from automated demand response are outweighed by the commercial risk or the inelastic demand profile of consumers. A Commission study on this matter through a pilot of consumer behaviour to price changes could assist in determining the extent to such behaviour could be altered.
- 2.6.12 Ten submitters²¹ disagree with the model price structure.
- 2.6.13 Buller makes a number of points, including:
- (a) Distributors cannot control non-technical losses.
 - (b) Cross-subsidisation cannot be removed under the GPS.
 - (c) Transparency will occur only when retailers agree to include distributor pricing on consumer invoices.

²¹ Buller, Counties Power, ENA, Marlborough, MEUG, Northpower, NWL, Orion, Powerco, PWC and Unison.

- (d) Price signalling cannot be provided to the mass market without AMI.
 - (e) Rural networks generally can supply only one level of service.
 - (f) The Commission has no evidence that general connection consumers want to understand how their individual distribution charge is determined.
 - (g) To achieve load control pricing options, the installation of load control to each premise must be mandatory.
 - (h) It is a simple matter to design a standard format for all distributors to publish prices to retailers, regardless of the methods used to derive prices.
- 2.6.14 Counties Power considers that all of the approaches in questions 4 to 7 inclusive are restrictive and that there are practical alternatives which distributors should be free to explore.
- 2.6.15 Marlborough considers that having the following data generally available as outlined in the proposal; are in fact not the norm:
- (a) having data generally available for energy consumption or average demand during critical peak periods; and
 - (b) day/night meters.
- 2.6.16 Marlborough submits that the use of power factor charges should not be treated as an alternative to kVA based charging but should instead be a pricing signal to consumers to improve their power factor thus reducing the kVA demand on the network.
- 2.6.17 Orion does not agree with the proposal. Without choosing a single model, distributors could report compliance with (and particularly variation from) agreed principles and the PAWG methodology (either the RDM or the WDM). This would not involve a cost benefit analysis, but rather an explanation.
- 2.6.18 PWC considers that distributors' pricing structures partly reflect the information available to them about their customers and their willingness to obtain and manage information. Their choice and use of kW, kVA or kVA_{rh} charges partly reflect this. Each of these is able to meet particular objectives in respect of demand or capacity and should be able to be used by distributors as they deem appropriate, consistent with the pricing principles.
- 2.6.19 Northpower strongly disagrees with the proposal because it is not consistent with the metering technology presently in use, and it also seems to be based around kVA or kW charges which cannot be measured for the vast majority of end-use customers. If the Commission sees a shift as metering technology changes, then Northpower considers that this should be the subject of a separate paper which would also consider any required changes to legislation.

- 2.6.20 NWL does not agree with the model structure and considers that its pricing structure is the best it has been able to establish in the current regulatory environment and in the face of significant network load changes. NWL is not convinced that the Commission can determine a model that delivers better outcomes unless changes are made to the regulations that limit the choices (e.g. the low fixed charge regulations). NWL also comments that an alternative is to stop making changes quicker than NWL or its consumer base can adapt to them.
- 2.6.21 Powerco considers that the level of prescription is unjustified. Powerco recommends that the Commission adopts Powerco's proposed approach to implementing pricing principles, by following a similar approval process to electricity asset management plans.
- 2.6.22 ENA recommends that the Commission confines itself to identifying principles and standard definitions for distribution pricing at this stage, or else issues a supplementary paper for consultation outlining in particular (and in more detail) the issues raised at the 17 June 2009 workshop, and the comments from submitters on the paper.
- 2.6.23 Eastland Network believes that the individual business is suited best to design a pricing structure appropriate for its business operations.
- 2.6.24 Unison supports a high level principle-based approach not a prescriptive model approach. Unison believes that further consultation needs to occur in respect to responses from the consultation paper and the matters raised at the 17 June 2009 workshop.
- 2.6.25 Submitters also raised other issues with respect to the proposal:
- (a) MEUG considers that the proposed requirement that only TOU-metered consumers should be charged, "a variable critical peak period price component that reflects LRAIC, which is charged on demand in excess of the capacity to which the fixed capacity price component relates" will hinder dynamic efficiency compared to either:
- (i) removing this charge altogether; or
 - (ii) charging all classes of consumer an excess contract capacity charge.
- For example assume the capacity charge to recover existing sunk assets is \$100/kW. All classes of consumer should be charged this amount. If the next forecast increment of capital to meet demand growth is going to cost \$150/kW (i.e. the LRAIC) then that price signal should be given to all consumer classes that exceed existing peak contract levels deliverable by the exiting assets.
- There is also an argument that signalling \$150/k W ahead of assets being built is speculative and to the extent the forecast LRAIC is below or over

the actual needed future investment costs there will be inefficient over or under investment by end consumers respectively. What is known for certain is the current regulated asset base for assets actually used. This is the pricing approach by Transpower. There is no speculative charge for as yet to be built assets.

Distribution pricing terminology

- 2.6.26 Six submitters noted their support for consistent use of distribution pricing terminology across the industry.
- 2.6.27 Eastland, MEUG, and PWC support the objective of consistent use of terminology and believe this could be achieved by the Commission publishing a list of terms and definitions relevant to electricity retail and distribution.
- 2.6.28 Wellington Electricity and PowerNet support consistency of key distribution pricing terminology across all distributors.
- 2.6.29 ENA recommends that the Commission should confine itself to identifying principles and standard definitions for distribution pricing at this stage.
- 2.6.30 Counties has no in-principle objection to changing some of its customer definitions if they differ from those of the other distributors.
- 2.6.31 Marlborough considers that it would be impractical to exclude holiday homes from the definition of a domestic consumer.

Commission's provisional response

- 2.6.32 Although there is general agreement on the proposal to develop consistent terminology, there is disagreement with the proposed model price structure from many of the submitters. The disagreements relate to perceptions about the level of prescription in the PAWG model and some misunderstanding of the level of flexibility in the Commission's proposed approach.
- 2.6.33 It is recognised that individual companies know their businesses best and therefore the option exists for those who can make a case to use a different model from that proposed to do so.
- 2.6.34 The Commission is also looking to distributors to provide information that will improve the understanding of distribution pricing and how relevant factors contribute to differences between networks insofar as costs and prices vary across the country.
- 2.6.35 There is some misunderstanding as to the way in which cost allocation and pricing is developed in the model. There is clearly a need for the Commission to further engage with participants to clarify the underlying principles and how the

Commission would see these being applied in a model, as opposed to a prescribed structure.

2.7 Meeting the guiding principles

The proposal

- 2.7.1 The proposed model approach meets most of the guiding principles satisfactorily. However, the ability to gain benefits of economically efficient pricing signals is achievable only in cases where the distributor supplies distribution services directly to end users. This occurs when the distributor has a conveyance agreement with the retailer supplying electricity to the end user.
- 2.7.2 Where the distributor supplies those services through an interposed arrangement with a retailer, the retailer is able to pass the signals on to the end user, augment them, or mute them.

The question

Q8. Do you agree the proposed model approach meets the guiding principles appropriately?

Submissions

- 2.7.3 Five submitters²² note their agreement that the proposed model approach meets the guiding principles and make the following points:
- 2.7.4 EMS agrees subject to interpretation of “common approach to distribution pricing”.
- 2.7.5 Contact agrees that the proposed model approach meets the guiding principles, subject to modifications to the guiding principles to accommodate the issues raised in its response to Question 1 (including pricing structures and pricing). Furthermore, Contact believes that the proposed approach needs to take into account the current limited deployment of AMI and supporting billing systems.
- 2.7.6 Meridian considers that the proposed methodology appears to meet the guiding principles appropriately.
- 2.7.7 PowerNet considers that, subject to the legislative constraints and uncertainties noted in its submission, the proposed model meets the guiding principles.

²² Contact, EMS, Meridian, PowerNet and TrustPower.

- 2.7.8 TrustPower considers that the proposed model structure meets the majority of the guiding principles. In order to meet all of the guiding principles, TrustPower considers that additional recommendations would need to be added to the model, including that distributors must ensure that customers are able to take advantage of the pricing signals applicable to them.
- 2.7.9 Thirteen submitters²³ note that they do not believe the model approach meets the guiding principles.
- 2.7.10 Simply Energy considers that by itself the proposed methodology will not achieve fair pricing.
- 2.7.11 Counties Power, Orion and PWC do not consider that the principles are appropriate or that any single approach should be adopted as a model.
- 2.7.12 Northpower and Buller do not agree as the model needs to be applicable to current metering technologies and regulations. Moreover, Buller does not agree in those instances where a distributor does not have a direct relationship with consumers.
- 2.7.13 As noted in responses to earlier questions, MEUG suggests that the guiding principles, pricing approach and structure require changes. Therefore, MEUG does not agree that the proposal is appropriate.
- 2.7.14 NWL does not consider the principles will have a high level of acceptance and with limitations on practicality consider the outcomes may fail to be significant or effective.
- 2.7.15 Genesis considers that the optimal approach is to balance compulsion with flexibility, with elements to achieve this including:
- (a) regulation at the level of pricing principles;
 - (b) one or more model methodologies as a 'safe harbour' or as a default;
 - (c) an ability for distributors and their customers to agree on an alternative pricing methodology, as long as it doesn't favour incumbent retailers; and
 - (d) an ability for distributors to deviate from the principles or methodology if they can demonstrate a net public benefit.
- 2.7.16 Genesis considers that work on tariffs should be carried out in conjunction with work on other terms and conditions for the model use of system agreement.

²³ Buller, Counties Power, Eastland, ENA, Genesis, MEUG, Northpower, NWL, Orion, Powerco, PWC, Simply Energy and Unison

- 2.7.17 ENA, Orion, and Unison are conscious that the new Part 4 regime encourages innovative approaches and that the proposal needs to be aligned with the Commerce Commission work. They note:
- (a) ENA also refers to its response to Q1 above and consider until the price and quality control regime for electricity distributors has been defined by the Commerce Commission it is not clear whether terms such as “efficient and fair”, “signals to manage transmission”, “risks of delivery” etc can apply within the proposed model methodology.
 - (b) Orion does not believe that the proposal meets the purpose statement of Part 4 of the Commerce Act. As indicated above, Orion believes the industry is at risk of creating too many principles – some rationalisation is overdue.
 - (c) Unison considers that a prescriptive approach will fail to fully deliver on the principles, hindering investment and innovation.
- 2.7.18 Orion believes that a variety of approaches will align well with the principles. Therefore, defining just one approach is almost certainly going to have adverse consequences for some, and perhaps all, distributors and consumers.
- 2.7.19 Powerco does not believe that the model promotes economic efficiency.
- 2.7.20 Wellington Electricity agrees that a pricing methodology should be stable and predictable in respect of revenue for the distributor and charges to consumers. Wellington Electricity agrees that a pricing methodology should be practicable to implement without placing significant transaction costs on consumers and distributors. Wellington Electricity also agrees that the distribution pricing methodology (and the rationale for it) should be widely publicised and follow consultation with interested parties, and that the revised distribution pricing methodology should be transparent, with the results predictable and readily verifiable.
- 2.7.21 However, as noted previously, Wellington Electricity considers that distributors should have the final say on the methodology to use for their respective networks. Consultation is an important enabler, but it must not override the ability of distributors to operate their networks in a flexible and efficient manner. Wellington Electricity also advocates a need for distributors to be able to enforce the pricing methodology in order to avoid deadlock situations where parties have been in negotiation but have been unable to reach an agreement.

Commission’s provisional response

- 2.7.22 A number of submitters felt that the guiding principles were not appropriate and made suggestions for additions. The Commission has produced proposed pricing principles in the light of the comments received in this section and the answers to

Q1. These are set out in its paper Draft Distribution Pricing Principles and Methodological Requirements.

2.7.23 The Commission has also taken into account the Commerce Commission's work as suggested by ENA, Unison and Orion and agrees with Orion that a number of approaches could meet the principles. Any approach that does meet the proposed pricing principles would be considered compliant in any review of distribution pricing methodologies.

2.7.24 The Commission notes the suggestion by Genesis to balance compulsion with flexibility and the comments of others on the disadvantages of an approach which is too prescriptive. The Commission does not agree with the statement by Wellington Electricity that distributors should have the final say on the methodology to use for their respective networks, if those methodologies are inconsistent with the pricing principles which the Commission publishes.

2.8 Implementation issues and next steps

The proposal

2.8.1 The Commission's preliminary view is that, rather than being overly prescriptive, the self-reporting should be principle based, including:

- (a) the level of reporting on the pricing methodology should be in line with the requirements of the Electricity Distribution (Information Disclosure) requirements or subsequent developments;
- (b) distributors should provide sufficient details to be clear as to why their methodology varies from the proposed model approach including, if necessary, a high level cost/benefit analysis demonstrating why changing their current methodology would be to the detriment of their customers; and
- (c) the date for the first Statement of Variations from the Voluntary Model Approach to be provided to the Commission should be one year after the voluntary model approach has been published.

The question

Q9. Do you agree this is an effective and practicable approach to monitoring uptake? Are there alternatives that are more effective and practicable to implement?

Submissions

- 2.8.2 Five submitters²⁴ agree in general with the proposed monitoring approach.
- 2.8.3 Contact considers that this is a reasonable approach in the event of a model being adopted or guiding principles being mandated. Contact also recommends that an industry review occur one year after finalisation of the model to see whether it is driving the desired changes. In this context Contact notes that there has been very little uptake of the model use of system agreement, due in part to the delay in completing the alignment work.
- 2.8.4 EMS agrees with the proposed monitoring approach and considers that the approach lends itself to auditing, similar to reconciliation participant auditing, if required.
- 2.8.5 Meridian considers that the proposed approach to be an effective way to monitor uptake. However, Meridian notes that the methodology is voluntary, and so if a distributor disagrees with it, that distributor is not required to meet it.
- 2.8.6 TrustPower supports the proposed monitoring approach as an initial mechanism for compliance. Analysis of take up and cost to retailers may reveal a need for regulation in the future.
- 2.8.7 PWC, Horizon, Counties Power, NWL raise their concern that although the proposed pricing methodology is intended to be voluntary, it may in fact form a compulsory pricing methodology framework under the Commerce Commission's input methodologies, which will apply for 7 years before review.
- 2.8.8 NWL considers that a monitoring regime will result in NWL implementing unpopular changes and notes that the Commission should prescribe how it wants outcomes delivered.
- 2.8.9 CC93 and MEUG consider that the approach should be mandatory and make the following points:
- (a) CC93 considers that a voluntary standard is a "soft" option, which enables the Commission to "tick" the GPS statement "box", and which creates regulatory uncertainty for distribution companies;
 - (b) MEUG's experience has shown that a voluntary approach to distributors following and reporting compliance with model pricing and model contracts has been abysmal. MEUG points to the fact that only 4 of the 28 distributors responded to a Commission request for information on changes in their pricing methodology since 2005 and progress on implementing the Pricing Approaches Working group (PAWG) recommendations;

²⁴ CC93, Contact, EMS, Meridian and TrustPower.

- (c) MEUG sees no change in the external environment that will result in a change in the behaviour of distributors to volunteer information and self-report more than they do at present. Accordingly, MEUG supports the proposal by CC93 that distributor pricing methodologies and related contract terms and conditions should be mandatory;
 - (d) Rather than reporting on variations to a standard, the onus should be on distributors to first justify its unique circumstances for use of a non-standard approach. As the fundamental basis for any deviation must be the delivery of long-term benefits to end consumers, the views of retailers and consumers should form part of this justification; and
 - (e) MEUG consider a mechanism similar to the implementation of the mandatory transmission Benchmark Agreement²⁵ as a default contract should be considered by the Commission.
- 2.8.10 CC93 and MRP consider that the presence of an administrative settlement with the Commerce Commission should form a part of a justification for any distributor for deviating from the standard approach.
- 2.8.11 ENA, PowerNet, PWC, Vector and Wellington Electricity support the Commerce Commission's indication that, under the default price path, monitoring compliance with pricing methodology inputs will consist of a statement in distributors' information disclosures. These organisations do not support parallel reporting obligations across the Commission and the Commerce Commission:
- (a) Vector recommends that the two Commissions agree a template compliance statement where distributors demonstrate their pricing methodologies have complied with the pricing principles. The statement should only be updated when distributors have materially changed pricing structures and cost allocation methodologies.
 - (b) PWC recommends that the timing of the disclosure should be identical to that which already exists (i.e. at the beginning of each pricing year).
 - (c) Wellington Electricity is not against reporting, provided that it is straightforward and not an undue burden. However, Wellington Electricity queries whether such reporting is not a duplication of similar reporting that distributors already do. Wellington Electricity is of the view that the Commerce Commission's disclosure requirements are largely sufficient and that once input methodologies are determined, will be enhanced further.
- 2.8.12 Vector notes that the Commission acknowledges the complexities with distribution pricing, including that it is probably impractical to develop a

²⁵ Refer Electricity Governance Rules, Part F, Schedule F2,
<http://www.electricitycommission.govt.nz/pdfs/rulesandregs/rules/rulespdf/PartFSectionIIIScheduleF2-17January2008.pdf>

mandatory approach. Hence, Vector queries whether it is realistic for distributors to align to a voluntary approach, as there are significant compliance costs.

- 2.8.13 Vector notes that in the event of a voluntary model being adopted, all distributors will have legitimate reasons to depart from the model, which raises the question of what has been achieved through variance reporting, except for additional compliance costs? If the model becomes mandatory Vector expects that distributors and their customers will experience significant rate movements and tariff structures may become less effective as distributors seek to mitigate the discontinuities that can arise from mechanical cost allocations.
- 2.8.14 Unison supports a form of self-reporting. However, Unison does not agree that a statement of variations is required every year. Unison considers that once every five years is more appropriate, as it will be a costly exercise and will require auditor sign-off to show compliance with regulations. Hence, Unison notes that care needs to be exercised to avoid duplication with information disclosure requirements and therefore the imposition of unnecessary costs on distributors.
- 2.8.15 Orion considers that distributors should be required to include a statement in their disclosures of how their pricing methodology complies with the principles. Orion and MRP suggest that a useful starting point might be the pricing methodology report requirements that the Commerce Commission imposed on Vector's and Powerco's gas pipeline businesses.
- 2.8.16 MRP suggests that the Commission study the pricing arrangements of each of the different distributors (particularly those with most and least competition on their networks) to gain a better understanding of good and bad practices.
- 2.8.17 MRP recommends that the Commission should introduce an electricity distribution price monitoring framework under which the Commission:
- (a) sets guiding/pricing principles which would place boundaries around the discretion that distributors have over the approach they take to electricity pricing;
 - (b) sets a model distribution pricing methodology which would sit under the pricing principles and act as a 'safe harbour' of distributors;
 - (c) makes clear its expectation as to the timeframe for distributors to review their distribution pricing methodologies;
 - (d) requires distributors to consult with customers/retailers over the approach they take to pricing;
 - (e) requires distributors to disclose details of any difference in approach between their pricing methodologies and the model methodology, and why they consider their approach to be in the long-term interests of end-users;

- (f) only allows distributors to deviate from the model distribution pricing methodology where this is agreed to by electricity retailers (through a negotiation and/or consultation process) and/or the distributor can demonstrate, to the Commission's satisfaction, that the alternative approach is in the long-term interests of end-users;
 - (g) reviews distributors' disclosures and identifies any explanations it is not satisfied with;
 - (h) publicly consults on approaches/explanations it is not satisfied with, and provides the affected distributors with an opportunity to review further their distribution pricing methodologies and/or their explanations for variations; and
 - (i) mandates its model distribution pricing approach for any distributors that do not adopt a satisfactory methodology (consistent with paragraph 100 of the 2009 GPS, which states that "the Commission should recommend regulations if required to ensure compliance").
- 2.8.18 Northpower urges the Commission to clearly distinguish between the aspects of the proposed methodology that are achievable under current conditions and those that might be achievable in the future, subject to changes in regulation and technology.
- 2.8.19 Northpower believes that, before introducing another disclosure, the Commission should examine the usefulness and relevance of existing disclosures
- 2.8.20 Powerco does not believe that annual reporting will be effective or practicable. It will impose a "pointless compliance cost" on distributors, which will ultimately be passed through to consumers. Powerco recommends an approach similar to the review of electricity asset management plans.
- 2.8.21 PowerNet supports the direction and principles of the proposed methodology, but considers that distributors should be able to phase in the transition to the proposed methodology over a period of time to minimise rate shock and any adverse impact on the company under the future line charge regulation.
- 2.8.22 Vector considers that if distributors comply with the new methodology, retailers would initially need to update their billing and pricing systems for all 29 distributors. Vector recommends that the Commission monitor distributors' pricing approaches and initiate targeted interventions where the pricing principles have not been met by particular distributors.
- 2.8.23 Counties Power considers that whilst the proposed monitoring approach may be effective, it is inefficient and unnecessary.
- 2.8.24 PWC does not support the inclusion of a high level cost/benefit analysis of why changing current methodologies to the model approach would be detrimental to

consumers, as this presupposes that a single methodology is superior to others, which PWC submits it cannot be. PWC believes that this is simply another compliance cost, which is not justified.

- 2.8.25 Eastland does not support the proposed approach to monitoring compliance, as the process would only add unnecessarily to compliance costs. Distributors publish their methodologies annually on or before 1 April, providing sufficient information for the Commission to assess the level of uptake. A statement of variations from the voluntary model requires a detailed understanding of the working of the model. Some distributors might not have the required resources to compare their own methodology with the proposed approach.

Commission's provisional response

- 2.8.26 The Commission accepts that distributors may need some time to align their pricing methodologies with the proposed approach and acknowledges that there will be compliance costs. As set out in the consultation paper, the Commission's preliminary view is that the level of reporting on the pricing methodology should be in line with the obligations on distributors under the Electricity Distribution (Information Disclosure) Requirements or subsequent developments (i.e. distributors would submit the same information to the Commission as they would submit to the Commerce Commission to the extent possible). This is to avoid duplication in the provision of information by distributors to the Commission and to the Commerce Commission.
- 2.8.27 The Commission notes that the concern by some distributors that the model approach would become mandatory indirectly via the Commerce Commission's input methodologies is overstated. The input methodologies are not relevant to exempt distributors or those distributors who opt for a customised price/quality threshold arrangement. For most distributors the proposed approach would have been voluntary. However, reliance on pricing principles and methodological requirements means that reporting becomes more critical.
- 2.8.28 The Commission expects distributors to provide sufficient information for it and others to assess whether their methodologies conform. As the new draft pricing principles should be applicable to all, the Commission expects there to be no deviations and hence no need for a cost/benefit analysis.
- 2.8.29 Any reporting requirements should require the distributors to submit this information to the Commission at the same time that they submit the information to the Commerce Commission.
- 2.8.30 The Commission will work with the Commerce Commission to make consistent the information disclosure requirements of the two organisations. The Commission notes the feedback received from submitters and will factor this into its discussions with the Commerce Commission.

3. Other issues

3.1 Interaction between the Commission and the Commerce Commission

- 3.1.1 A majority of submitters consider that further clarity is required around the roles of the Commerce and Electricity Commissions.
- 3.1.2 CC93, MRP and Genesis consider that sole responsibility for economic regulation lies with the Commerce Commission as the specialist economic regulator. Genesis comments that real progress will not occur until there is some change in institutional arrangements, with consolidation of this responsibility and others under the Commerce Commission's minimum requirement.
- 3.1.3 Thirteen submitters²⁶ consider there to be interdependencies between the input methodologies being developed by the Commerce Commission and the Commission's model approach to a distribution pricing methodology and that the two commissions need to integrate their respective approaches. However, there is recognition that the Commission has a broader mandate than the Commerce Commission.
- 3.1.4 Meridian notes that with any misalignment between the two Commissions, whether perceived or real, distribution companies will adhere to the Commerce Commission's requirements. MRP considers that the overlap in responsibilities between the Commission and the Commerce Commission on model distribution pricing is "entirely unsatisfactory".
- 3.1.5 Eastland, Marlborough Lines, NWL, PWC and Unison each note their concern that the introduction of voluntary methodologies may in fact form a compulsory pricing methodology framework under the Commerce Commission's input methodologies, which will apply for 7 years before review.
- 3.1.6 Powerco recommends that the Commission aligns its definition of static and dynamic efficiency with the Commerce Commission's description of allocative efficiency, productive efficiency and dynamic efficiency.
- 3.1.7 Orion considers that the proposed pricing methodology does not reflect the mandatory nature of input methodologies as they relate to non exempt distribution businesses.

²⁶ Eastland, ENA Marlborough Lines Meridian, MRP, NWL, Orion, Powerco, PowerNet, PWC, Unison, Vector and Wellington Electricity.

Commission's provisional response

- 3.1.8 The Commission has engaged with the Commerce Commission during the development of the model approach and there is clarity between the two organisations as to their individual responsibilities in relation to the regulation of electricity distributors.
- 3.1.9 The Commission will continue to liaise with the Commerce Commission in the Commission's further work on distribution pricing, to promote consistency and to avoid duplication in common areas consistent with any legislative requirements.
- 3.1.10 The Commission has also sought to align its proposed new draft pricing principles and methodological requirements with the appropriate Commerce Commission authorisations statements and the "Pricing Methodology Report" used in the gas authorisation for Powerco and Vector.

3.2 An appropriate level of detail for a model approach

- 3.2.1 The Commission received substantial feedback on the appropriate level of detail that should be contained in a model approach to a distribution pricing methodology. The submissions fell broadly into three categories:
- (a) those that favoured an approach based on the use of pricing principles;
 - (b) those that agreed with the use of pricing principles accompanied by a relatively prescriptive methodology; and
 - (c) those that did not have a preference between a principles-only approach and/or a relatively prescriptive methodology.

Pricing principles approach

- 3.2.2 Twelve submitters²⁷ favoured the development of a model approach based on pricing principles rather than a prescriptive methodology.
- 3.2.3 ENA recommended that the Commission confine itself to identifying principles and standard definitions for distribution pricing at this point in time.
- 3.2.4 PWC and Marlborough Lines noted that the Commerce Commission's discussion in its June 2009 Input Methodology discussion paper drew on its pricing methodology experience with the electricity distribution businesses of Unison and Vector and the gas pipeline businesses of Powerco and Vector, and that this experience has contributed to the Commerce Commission's preliminary view on

²⁷ Eastland, ENA, Counties Power, Horizon, Marlborough, Northpower, Orion, Powerco, PWC, Unison, Vector and Wellington Electricity.

pricing regulation in the context of Input Methodologies to be developed under Part 4 of the Commerce Act.

- 3.2.5 Marlborough Lines submitted that a highly prescriptive approach will restrict distributors in meeting their individual characteristics of demand, consumer density, consumer mix, geography, etc. Marlborough Lines submitted that a principles-based approach should be adopted rather than a prescriptive model approach.
- 3.2.6 Orion considered that significant industry changes have occurred since the PAWG report was released²⁸, all of which in Orion's view support a principles-based approach. Orion submitted that a principles-based approach to pricing that allows distributors flexibility to innovate and adapt to change is essential, as this enables distributors to maintain system reliability in a more dynamic environment.
- 3.2.7 Vector considered that a principles-based approach will better enable distributors to provide innovative pricing arrangements to encourage better use of networks and promote improvements in economic efficiency (e.g. enabling the potential of smart meters to be realised through innovations in distribution pricing). In contrast, Vector considered that model-based approaches stifle such innovation.
- 3.2.8 Vector noted that the Commerce Commission recognises that "the more prescriptive the Electricity Commission's approach is, the more likely a change would need to be made during the seven years in which the input methodologies determinations could potentially apply before being reviewed"²⁹. In Vector's view this provides further support for the adoption of a principles-based approach.
- 3.2.9 Unison considered that the Commission's proposed methodology was unnecessarily prescriptive, and that there is not a demonstrable benefit associated with changing methodologies.
- 3.2.10 Wellington Electricity considered that a principles-based approach should be adopted rather than one that is based on a prescriptive model and that:
- (a) distributors must have pricing principles that allow sufficient flexibility such that tariff structures meet the needs of their networks and customers; and
 - (b) that there is a pragmatic approach to pricing methodologies over the competing interest of economic principles.

²⁸ In particular: the commencement of the rollout of AMI; the implementation of global reconciliation; the Commerce Act requirement that ELBs be under economic regulatory control, rather than be under a threshold regime; the introduction of the distributed generation regulations and pricing principles; the Commerce Commission's decision to adopt pricing principles for the gas industry rather than a detailed prescriptive pricing methodology such as that proposed in the PAWG report; and the existence of an increasing number of embedded networks.

²⁹ Commerce Commission, Input Methodologies Discussion Paper, 19 June 2009, pp 342-343, para 11.127.

Principles and model approach

- 3.2.11 There were eight submissions³⁰ that noted a preference for the principles and model approach.
- 3.2.12 CC93 believed that a standard methodology should be adopted as a default.
- 3.2.13 MRP's view was that the greater the flexibility granted to distributors, the greater the risk that nothing will be achieved. However, MRP noted that if insufficient flexibility is given, then innovation in electricity distribution pricing will be stifled and there will be risks of anomalous outcomes arising from the rigid application of a highly prescriptive methodology. The amount of discretion that distributors should be granted should depend on the impact of the particular aspect of distribution pricing, in terms of reducing transaction costs and enabling retail competition.
- 3.2.14 Simply Energy believed that the distribution pricing methodology should include a fall-back right for network users to select standard pricing (as per their load group, consumer class and service quality), with any investment not covered within that pricing (as defined by the distribution pricing methodology) to be explicitly identified by the distributor so that its cost can be transparently negotiated.
- 3.2.15 Contact Energy noted that the principles-based approach with an intermediate level of detail specified in the input methodology, as per the Commerce Commission's gas authorisation for Powerco and Vector, appears to be leading to positive results for retailers, given the rationalisation in pricing structures.

No preference between principles or a model approach

- 3.2.16 Three submitters³¹ appeared to have no preference between a model approach based on pricing principles and/or a more prescriptive methodology.
- 3.2.17 Genesis Energy considered that the optimal regulatory approach would balance compulsion with flexibility. Genesis noted that there is a range of ways that this could be achieved, as noted in paragraph 2.7.16 above.
- 3.2.18 Genesis submitted that it wants rationalisation of tariff structures, but it does not believe that rigid and prescriptive regulation of tariff methodologies is the best approach, as it would be costly for many distributors and it would limit scope for innovation.

³⁰ Contact, CC93, EMS, Meridian, MEUG, MRP, PowerNet and Simply Energy.

³¹ Genesis, NWL and the Lines Company.

3.2.19 Network Waitaki, whilst agreeing with the pricing principles as ideals, noted that in practice it has found there to be too many conflicting regulatory constraints for it to implement the principles anymore than at a system-wide level, and certainly not at an individual consumer level. Network Waitaki considered that the proposed pricing principles are focussed on regulatory and industry structure rather than on the issues that at least its consumers would prefer to see addressed, including:

- (a) fixed tariffs with a small variable component to limit excessive use;
- (b) consistency in the size of the bill from month to month; and
- (c) confidence that they are paying the same rate as every other consumer on the distribution network.

Commission's provisional response

3.2.20 As noted above, the Commission has prepared a paper entitled "Draft Distribution Pricing Principles and Methodological Requirements". This document sets out the Commission's preliminary view on a model approach to a distribution pricing methodology. The Commission will be seeking comment from stakeholders on this preliminary view through submissions on the consultation paper and through a workshop on distribution pricing, to be held in October 2009.

3.2.21 In summary, the Commission has formed the following preliminary view on a model approach to a distribution pricing methodology:

- (a) a principles-based approach to a distribution pricing methodology should be adopted; and
- (b) guidelines (methodological requirements) should be provided to assist stakeholders with interpreting and implementing the proposed pricing principles.

3.2.22 In addition, the Commission proposes to publish a relatively detailed model distribution pricing methodology, which is intended to provide distributors with an example of a methodology that, in the Commission's view, satisfies the pricing principles and methodological requirements. This supplementary document will be for information only.

3.3 Low fixed charge tariff

3.3.1 MRP and Horizon submit that the Commission recommend to the Minister of Energy and Resources that the Low Fixed Charge Tariff Option for Domestic Consumers Electricity Regulations 2004 (low fixed charge regulations) be abolished.

- 3.3.2 MRP recommends that if this recommendation is rejected, then the regulations should be amended, including by:
- (a) adjusting the threshold in warmer regions to reflect the lower consumption level (e.g. adjusting the threshold in Auckland from 8,000kWh to 7,000kWh to better reflect the median);
 - (b) shifting the threshold away from an average or median consumption to lower levels (say lowest 40 or 25 percentiles); and
 - (c) raising the 30c/day low fixed charge rate to, at least, reflect inflation.
- 3.3.3 Genesis, Horizon, NWL, PWC, TrustPower, Unison and Vector consider that the low fixed charge regulations distort cost allocations and/or reduce pricing efficiency.
- 3.3.4 Unison supports a review of the low fixed charge regulations.
- 3.3.5 Genesis considers that the low fixed charge “hardwires” cross subsidies and increases the number of tariff structures. Genesis believes that this policy area should be prioritised by the Commission.
- 3.3.6 NWL considers that cross subsidisation arising on its network as a result of the low fixed charge regulations is completely at odds with any pricing principles on fairness and efficiency.
- 3.3.7 Horizon also considers that cost-reflective pricing and fairness cannot be met while the low fixed charge regulations are enforced.
- 3.3.8 Northpower and the Lines Company consider that the proposed methodology must include all of the requirements of the low fixed charge regulations and that the model should not propose pricing structures that may be contrary to the regulations (such as capacity charges for domestic consumers).
- 3.3.9 In Northpower’s opinion the low fixed charge tariffs stifle innovation in pricing for domestic consumers, including new options that might open up as smart metering becomes available.
- 3.3.10 Horizon and PowerNet also consider cross subsidisation takes place in a similar manner with urban and rural lines charges; and under the Act (s62), the obligation to supply³² for customers from prior to 1 April 1993.

Commission’s provisional response

- 3.3.11 The Commission notes the concerns raised by submitters in respect of the impact of the Low Fixed Charge Regulations on the allocation of costs, the fairness of pricing and the potential for innovation in tariffs.

³² [Electricity Act 1992, Continuance of supply s62](#)

3.3.12 The Commission will pass these concerns on to the Ministry of Economic Development.

3.4 Further dialogue between retailers, distributors and regulators

3.4.1 Eleven submitters consider that the next step required in this process is further dialogue between retailers, distributors, the Commerce Commission and the Commission.

3.4.2 PWC, Marlborough Lines, Horizon, Counties Power, Vector and Unison submit the need for further dialogue between the retailers and distributors to identify or clarify:

- (a) specific issues and transaction costs directly attributable to distribution pricing which inhibits retail competition; and
- (b) the principles.

The submitters do not believe that the model methodology provides the solution to the acknowledged/perceived issues that exist.

3.4.3 PWC and Vector consider variations in distribution pricing which arise due to network characteristics are more likely to apply in networks with lower load factors where there are stronger incentives on distributors to improve network utilisation by signalling the costs to supply connections on a more disaggregated basis. PWC considers that such matters can be resolved by reasonable dialogue between the retailer and distributor.

3.4.4 ENA, Marlborough Lines, Orion, PWC, Powerco and Vector consider that anecdotal evidence (and lack of quantitative analysis) does not support the assertion that variances in distribution pricing structures create a barrier to entry into the retail market, or that introduction of pricing methodologies will enhance retail competition.

3.4.5 Meridian notes that it is unclear whether revising the model approach will result in more companies using the methodology, and poses the question “Why have more distribution companies not used the existing model approach?”

3.4.6 Vector raises a concern about designing policy outcomes based on transaction costs. The question which Vector wishes to be addressed is to what degree are transaction costs creating additional costs or barriers to competition? Vector believes that retailers’ concerns with distribution pricing complexity can be addressed via additional pricing principles directed at reducing tariff complexity.

3.4.7 Orion considers that although there may be a case for rationalising distribution structures, the primary focus of the Commission’s review should be to establish

what barriers prevent distributors from rationalising legacy pricing methods. Orion considers that the Commission should develop a model of retailer market entry/expansion that attempts to quantify and rank the various possible barriers with a view to understanding the barriers and prioritising work streams.

3.4.8 MRP believes that it would be useful for the Commission to investigate the different network access and pricing arrangements of each distributor to determine what particular aspects of network access and pricing arrangements are causing substantial variations in retail competition.

3.4.9 PowerNet recommends more consultation on some of the details pertaining to the way forward.

Commission's provisional response

3.4.10 The Commission agrees with MRP that it would be useful to determine what particular aspects of network access and pricing arrangements are causing substantial variations in retail competition. The Commission also agrees with PWC, Marlborough Lines, Horizon, Counties Power, Vector and Unison on the need for further dialogue between retailers and distributors. As a first step, the Commission will be facilitating a workshop involving retailers and distributors. :

3.4.11 This workshop will have the following objectives:

- (a) understanding retailers' concerns as to the aspects of distribution pricing that can be a barrier to retail competition;
- (b) identifying what aspects of distribution pricing may be relatively easily standardised;
- (c) confirming common terminology and definitions for distribution access and pricing, as well as the basis for a common tariff format across distributors (including standardisation of customer categories). This will probably require the formation of an industry working group;
- (d) seeking feedback from stakeholders on revised draft pricing principles; and
- (e) discussing the merits, or otherwise, of a more or less mandatory approach

3.5 Embedded networks

3.5.1 Horizon, Marlborough Lines, Powerco, Unison and PWC believe that further consultation is required to understand the issues relating to embedded network distribution pricing.

3.5.2 TrustPower considers that the Commission should restrict or apply the same rules and regulations, which apply to major networks, to embedded networks. An embedded network requires the same amount of administration as a normal

network for a very small number of customers. As a minimum, TrustPower considers that these networks should be required to have at least one use of system agreement signed with a retailer before they can be established.

Commission's provisional response

- 3.5.3 The Commission notes the concerns raised by submitters in respect of embedded networks. These concerns will be raised with the work stream currently undertaking the review of secondary networks. Pricing is currently outside the scope of the workstream but may relate to other consumer related work that has to be done.
- 3.6 Retailer pass through of distribution charges
- 3.6.1 A number of submitters³³ raised as an issue the lack of pass through of distribution charges by retailers.
- 3.6.2 Buller considers that retailers' continual refusal to provide distribution pricing on consumers' invoices negates any gains brought about by a model approach to a distribution pricing methodology.
- 3.6.3 ENA and PowerNet consider that it would be unreasonable to require only the RDM, without first ensuring that price signals and methodologies will penetrate past retailers to consumers in those instances where the main contractual relationship is between the retailer and the consumer.
- 3.6.4 Marlborough considers that retailers diminishing line pricing signals creates a barrier to achieving some of the proposed guiding principles.
- 3.6.5 Northpower considers that increasing the precision and complexity of distribution pricing will achieve very little if electricity retailers do not have any obligation to pass through the pricing signals.
- 3.6.6 Unison considers that the sending of efficient price signals for peak capacity usage is lost by retailers repackaging transmission and distribution pricing, which leads to consumers responding to the overall energy cost rather than to peak capacity price signals. Unison has not seen evidence of the retailer view that consumers do not want more detail on their bills and therefore the associated transparency of costs. Unison believes that consumers need to be given the opportunity to comment on whether they would like their invoice to be more transparent (i.e. to show the generation, transmission, distribution and retail cost components), and therefore be able to make decisions on the basis of the price signals provided. Unison believes that it has been evident that, as the price of

³³ Buller, ENA, Marlborough, Northpower, PowerNet, Unison and Wellington Electricity.

delivered energy increases, the demand from consumers for transparency on the transmission and distribution elements also increases.

- 3.6.7 Unison points to anecdotal evidence suggesting that at least some residential consumers are disappointed that there is often no significant saving to be made from using off-peak (night time) energy. The absence of a significant pricing differential may be due to inappropriate bundling and averaging of network price signals.
- 3.6.8 While Wellington Electricity supports distributors providing pricing signals to ensure efficient use of distribution services, Wellington Electricity is concerned that the need to provide very high price differentials and the need for electricity retailers to transparently pass through these signals is extremely limited.

Commission's provisional response

- 3.6.9 The Commission agrees that the benefits of a cost-reflective / economically efficient distribution pricing methodology can only be achieved if the price signals are received by end-consumers. Where retailers are interposed between distributors and consumers, they can strengthen or weaken the distribution price signals.
- 3.6.10 The Commission has no mandate to require that distribution pricing signals be passed through to end-consumers by retailers. The Commission notes that recommendation 23 from the preliminary report to the Ministerial Review of Electricity Market Performance³⁴ recommends that retailers are encouraged "...to make tariffs available, as an option for consumers, that provide incentives to better manage electricity consumption including through shifting load to off-peak times and conservation during dry years". The exact detail of what form this "encouragement" may take has yet to be considered and finalised.

3.7 Standardisation of low level elements of distribution pricing

- 3.7.1 Several submitters³⁵ raised the desirability of standardising low level elements of distribution pricing, in order to reduce its diversity and complexity.
- 3.7.2 Buller supports the adoption of a single presentation format, which is intended to reduce transaction costs.

³⁴ Improving Electricity Market Performance, August 2009.

³⁵ Buller, Counties, MRP and TrustPower.

- 3.7.3 Counties considers that the Commission could facilitate an industry accord on some very low level practical principles to address some of the concerns of retailers, such as a desirable maximum number of tariffs.
- 3.7.4 MRP considers that a reduction in, and standardisation of, customer categories will have a material impact on the commercial viability of entry into any particular distribution network, particularly for smaller distributors.
- 3.7.5 TrustPower considers that the multiple methodologies and formats utilised by distributors increases the complexity of invoicing and reconciliation. Although distributors maintain that retailers are handling a great deal more complexity in half hour metering data and market settlements, they are failing to recognise that the data set for these operations is consistent. Although there is a great deal more data, the complexity of the processing is a lot lower. Standardisation of invoice information, with all supporting information and invoices in an electronic format, would enable easy upload for checking by retailers and thereby more prompt payment to distributors.

Commission's provisional response

- 3.7.6 The Commission agrees that any easily attainable improvements in distribution pricing should be pursued promptly. As noted above in its provisional response in respect to further dialogue between retailers, distributors and regulators, the Commission will be facilitating such an approach at the October 2009 workshop involving retailers and distributors.
- 3.7.7 The Commission intends that a key part of the workshop will be exploring solutions to low level elements of distribution pricing that have been identified by retailers as hindering retail competition. The Commission will be seeking to identify these elements and to facilitate a small focused group of retailers and distributors to work on programme to implement the agreed changes.

3.8 Dispute resolution process

- 3.8.1 Simply Energy considers that end consumers should have default access to a binding dispute resolution process with a suitably qualified independent person. This is to ensure that network users are not forced to accept commercial terms because of the cost of project delay brought about by distributors drawing out the contract negotiation process.

Commission's provisional response

- 3.8.2 The Commission notes the concern raised by Simply Energy. The Commission has been considering the development of a model consumer agreement for small to medium sized enterprises. This is intended to address the gap between the

model retail contract and the customised bilateral agreements between retailers/distributors and large consumers. Simply Energy's comments will be considered in the work stream investigating this model consumer agreement.

Appendix 1 Submitters

Twenty seven submissions were received by the Commission. The submitters were as follows:

	Submitters
1.	Buller Electricity Limited (Buller)
2.	Consumer Coalition on Energy (CC93) Business NZ Consumer NZ Federated Farmers of NZ Inc Major Electricity Users Group Inc
3.	Contact Energy Limited (Contact)
4.	Counties Power Limited (Counties Power)
5.	Eastland Network Limited (Eastland)
6.	Electricity Networks Association (ENA)
7.	Energy Market Services Limited (EMS)
8.	Genesis Energy Limited (Genesis)
9.	Horizon Energy Distribution Limited (Horizon)
10.	Major Electricity Users' Group Inc (MEUG)
11.	Marlborough Lines Limited (Marlborough)
12.	Meridian Energy Limited (Meridian)
13.	Mighty River Power Limited (MRP)
14.	Network Waitaki Limited (NWL)
15.	Northpower Limited (Northpower)
16.	Orion New Zealand Limited (Orion)
17.	Pat Dedy – East Otago
18.	Powerco Limited (Powerco)
19.	PowerNet Limited (PowerNet) on behalf of Electricity Invercargill and The Power Company

	Submitters
20.	PriceWaterhouseCoopers (PWC) on behalf of 22 electricity distribution businesses: <ul style="list-style-type: none"> Alpine Energy Limited Aurora Energy Limited Buller Electricity Limited Counties Power Limited Eastland Network Limited Electra Limited Electricity Ashburton Limited Electricity Invercargill Limited Horizon Energy Distribution Limited MainPower New Zealand Limited Marlborough Lines Limited Nelson Electricity Limited Network Tasman Limited Network NWL Limited Northpower Limited OtagoNet Joint Venture ScanPower Limited The Lines Company Limited The Power Company Limited Top Energy Limited Waipa Networks Limited Westpower Limited
21.	Simply Energy (Simply Energy)
22.	Simply Energy (on behalf of Opuha Water Partnership) (Opuha)
23.	The Lines Company Limited (Lines Company)
24.	TrustPower Limited (TrustPower)
25.	Unison Networks Limited (Unison)
26.	Vector Limited (Vector)
27.	Wellington Electricity Lines Limited (Wellington Electricity)