

Second workshop on distribution pricing

Peter Smith
12 October 2009

The programme

- Split into two sessions
- This morning's session is focussing on what the industry can do bilaterally to address any barriers to retail competition created by distribution pricing
 - Rob Jamieson/Nigel Williams will present the distributors' and retailers perspectives respectively
 - Discussion on key issues and what we (distributors/retailers and the Commission) can do about it
- The afternoon session will be on draft pricing principles, methodological requirements and reporting
 - Peter Smith will present the draft pricing principles
 - Robert Reilly will present the methodological requirements and reporting
 - Karen Bradley will present on other issues relevant to distribution pricing
 - Discussion to follow each presenter

Workshop objectives

- Present the Commission's reasons for proposing a more light-handed approach than the previous proposal
- Provide an opportunity for distributors and retailers to discuss how distribution pricing impacts on retail competition
- Seek feedback from stakeholders on the draft pricing principles, methodological requirements and reporting arrangements
- Provide an overview of issues which fall outside of the project scope but which nevertheless are relevant to distribution pricing

Introduction to first session...

- High level overview of the Commission's rationale for proposing pricing principles (problem definition)
- Presentations by Rob Jamieson (Orion Group) and Nigel Williams (Mercury Energy) on the "lower level elements" of distribution pricing that may be impacting on retail competition
- Interactive discussion on key issues and priorities
- Interactive discussion on those aspects of distribution pricing which are barriers to retail competition and which of those can be relatively easily fixed without intervention
- Formation of working group/milestones/timeframe

Problem definition (1)

- The approach is seeking to:
 - ensure prices are set efficiently
 - reduce any barriers to retail competition (both for incumbents and new retailers)
- Many **distributors** do not accept that:
 - prices are not being set efficiently now, or
 - distribution pricing creates a material barrier to retail competition

but appear to accept – a pricing principles approach (aligned with any Commerce Commission approach) may be in long term interest of end-consumers

- Commission is considering whether the issues identified by retailers may either:
 - not be resolved by a model approach, or
 - be resolved more easily via other means

Problem definition (2)

- Retailers consider that any approach to distribution pricing:
 - needs to be mandatory or at least applied voluntarily by the majority of distributors to be effective
 - should seek to reduce the administrative costs created by the number and complexity of tariffs

but appear to accept that some of the “barriers” are not strictly related to distribution pricing matters under the control of the distributors

Residential Connections											
Standard Option Non-Remote Areas											
Uncontrolled Energy	E1	cents per kWh	6.298	5.865	0.433	1.302		6.298	5.988	0.310	Only available with fixed charge code D8 or DT
13 hour Controlled Energy - Note 3	I2	cents per kWh	3.682	3.249	0.433	0.761		3.682	3.372	0.310	Normally on maximum of 13 hours per 24 hour period
8 hour Controlled Energy - Note 3	I8	cents per kWh	1.596	1.163	0.433	0.330		1.596	1.286	0.310	On 11pm to 7am all days
Daily Charge - up to 20EVA Capacity	D8	per Day	\$0.852	\$0.654	\$0.198	\$0.176	15.425	\$0.852	\$0.382	\$0.270	Fixed Charge applicable to codes 01, 12 & 18
Daily Charge - above 20EVA Capacity	DT	per Day	\$1.699	\$1.394	\$0.305	\$0.353	517	\$1.699	\$1.286	\$0.415	Fixed Charge applicable to codes 01, 12 & 18
Standard Option Remote Areas - Note 9											
Uncontrolled Energy	E1	cents per kWh	6.298	5.865	0.433		6.298	5.988	0.310	Only available with fixed charge code D8 or DT	
13 hour Controlled Energy - Note 3	I2	cents per kWh	3.682	3.249	0.433		3.682	3.372	0.310	Normally on maximum of 13 hours per 24 hour period	
8 hour Controlled Energy - Note 3	I8	cents per kWh	1.596	1.163	0.433		1.596	1.286	0.310	On 11pm to 7am all days	
Daily Charge - up to 20EVA Capacity, in areas where Code D8 not available	D8N1	per Day	\$0.852	\$0.654	\$0.198		1,992	\$0.852	\$0.382	\$0.270	Fixed Charge applicable to codes 01, 12, & 18 in areas where the Low Fixed Charge option is not available
Daily Charge - above 20EVA Capacity, in areas where Code DT not available	DTN1	per Day	\$1.699	\$1.394	\$0.305		60	\$1.699	\$1.286	\$0.415	Fixed Charge applicable to codes 01, 12, & 18 in areas where the Low Fixed Charge option is not available
Daily Charge - Kulkarni Area - up to 20EVA	DK	per Day	\$0.941	\$0.743	\$0.198		81	\$0.941	\$0.671	\$0.270	Fixed Charge applicable to codes 01, 12, & 18, in Kulkarni District Council areas
Daily Charge - Kulkarni Area - above 20EVA	DT	per Day	\$1.705	\$1.401	\$0.304		2	\$1.705	\$1.290	\$0.415	Fixed Charge applicable to codes 01, 12, & 18, in Kulkarni District Council areas
Low Fixed Option, for up to 20 EVA Capacity in Non-Remote Areas - Note 1											
Uncontrolled Energy - Note 1	I1	cents per kWh	9.501	8.849	0.652	1.964		9.501	8.643	0.858	Only available with fixed charge code D6
13 hour Controlled Energy - Note 3	I6	cents per kWh	6.285	6.233	0.652	1.423		6.285	6.027	0.858	Only available with fixed charge code D6
8 hour Controlled Energy - Note 3	I7	cents per kWh	4.799	4.147	0.652	0.992		4.799	3.941	0.858	Only available with fixed charge code D6
Daily Charge - up to 20EVA Capacity - Note 1	DL	per Day	\$0.150	\$0.000	\$0.150	\$0.001	2.078	\$0.150	\$0.000	\$0.150	Fixed Charge applicable to code 11, 16 & 17 only
Low Fixed Option, for above 20 EVA Capacity in Non-Remote Areas - Note 1											
Uncontrolled Energy - Note 1	I8	cents per kWh	13.365	12.225	1.140	2.762		13.365	11.846	1.519	Only available with fixed charge code DM
13 hour Controlled Energy - Note 3	I3	cents per kWh	10.749	9.609	1.140	2.221		10.749	9.230	1.519	Only available with fixed charge code DM
8 hour Controlled Energy - Note 3	I9	cents per kWh	8.663	7.523	1.140	1.781		8.663	7.144	1.519	Only available with fixed charge code DM
Daily Charge - above 20EVA Capacity - Note 1	DM	per Day	\$0.150	\$0.000	\$0.150	\$0.001	9	\$0.150	\$0.000	\$0.150	Fixed Charge applicable to code 06, 13 & 19 only
Non-Residential Connections											
Group 1 - up to 3 phase 60 Amp Capacity, in Non-Remote Areas											
Uncontrolled Energy	E2	cents per kWh	6.298	5.865	0.433	1.302		6.298	5.988	0.310	Only available with fixed charge code NS, NH or NI
20 hour Controlled Energy - Note 3	I0	cents per kWh	5.019	4.586	0.433	1.037		5.019	4.709	0.310	Normally on maximum of 20 hours per 24 hour period. Minimum Controlled Load 10kW
13 hour Controlled Energy - Note 3	I2	cents per kWh	3.682	3.249	0.433	0.761		3.682	3.372	0.310	Normally on maximum of 13 hours per 24 hour period
8 hour Controlled Energy - Note 3	I8	cents per kWh	1.596	1.163	0.433	0.330		1.596	1.286	0.310	On 11pm to 7am all days
Daily Charge up to 15EVA	N5	per Day	\$1.253	\$1.108	\$0.147	\$0.259	902	\$1.253	\$1.051	\$0.199	Fixed Charge applicable to codes 02, 20, 22, & 28
Daily Charge up to 16 to 30EVA	NH	per Day	\$1.683	\$1.390	\$0.293	\$0.348	184	\$1.683	\$1.481	\$0.399	Fixed Charge applicable to codes 02, 20, 22, & 28
Daily Charge up to 31 to 41EVA	NI	per Day	\$2.524	\$2.086	\$0.438	\$0.522	1,438	\$2.524	\$2.086	\$0.598	Fixed Charge applicable to codes 02, 20, 22, & 28
Uncontrolled Supplies up to 8kWh per day	I3	per Day	\$1.797	\$1.591	\$0.146	\$0.360	7	\$1.797	\$1.530	\$0.227	Fixed Charge for Uncontrolled supply assessed at up to 8kWh per day
Uncontrolled Supplies above 8kWh per day	I1	per Day	\$2.702	\$2.504	\$0.198	\$0.558	2	\$2.702	\$2.432	\$0.270	Fixed Charge for Uncontrolled supply assessed at above 8kWh per day
Group 1 - up to 3 phase 60 Amp Capacity, in Remote Areas - Note 9											
Uncontrolled Energy	E2	cents per kWh	6.298	5.865	0.433		6.298	5.988	0.310	Only available with fixed charge code NS, NH, NI, NK or NU	
20 hour Controlled Energy - Note 3	I0	cents per kWh	5.019	4.586	0.433		5.019	4.709	0.310	Normally on maximum of 20 hours per 24 hour period. Minimum Controlled Load 10kW	
13 hour Controlled Energy - Note 3	I2	cents per kWh	3.682	3.249	0.433		3.682	3.372	0.310	Normally on maximum of 13 hours per 24 hour period	
8 hour Controlled Energy - Note 3	I8	cents per kWh	1.596	1.163	0.433		1.596	1.286	0.310	On 11pm to 7am all days	
Daily Charge up to 15EVA	N5	per Day	\$1.253	\$1.108	\$0.147		166	\$1.253	\$1.054	\$0.199	Fixed Charge applicable to codes 02, 20, 22, & 28
Daily Charge - Kulkarni Area up to 15EVA	NK	per Day	\$1.586	\$1.314	\$0.146		24	\$1.586	\$1.081	\$0.199	Fixed Charge applicable to codes 02, 20, 22, & 28, in Kulkarni District Council areas
Daily Charge up to 16 to 30EVA	NH	per Day	\$1.683	\$1.390	\$0.293		73	\$1.683	\$1.284	\$0.399	Fixed Charge applicable to codes 02, 20, 22, & 28
Daily Charge up to 31 to 41EVA	NI	per Day	\$2.524	\$2.086	\$0.438		47	\$2.524	\$1.926	\$0.598	Fixed Charge applicable to codes 02, 20, 22, & 28
Daily Charge - Kulkarni Area 31 to 41EVA	NU	per Day	\$2.548	\$2.113	\$0.177		12	\$2.548	\$1.950	\$0.598	Fixed Charge applicable to codes 02, 20, 22, & 28, in Kulkarni District Council areas
Uncontrolled Supplies up to 8kWh per day	I3	per Day	\$1.797	\$1.591	\$0.146		6	\$1.797	\$1.530	\$0.227	Fixed Charge for Uncontrolled supply assessed at up to 8kWh per day
Uncontrolled Supplies above 8kWh per day	I1	per Day	\$2.702	\$2.504	\$0.198		7	\$2.702	\$2.432	\$0.270	Fixed Charge for Uncontrolled supply assessed at above 8kWh per day
Kulkarni Uncontrolled Supplies up to 8kWh per day	DT	per Day	\$1.764	\$1.566	\$0.168		1	\$1.764	\$1.537	\$0.227	Fixed Charge for Uncontrolled supply assessed at up to 8kWh per day in Kulkarni District Council areas
Kulkarni Uncontrolled Supplies above 8kWh per day	DK	per Day	\$2.709	\$2.511	\$0.198		1	\$2.709	\$2.439	\$0.270	Fixed Charge for Uncontrolled supply assessed at above 8kWh per day in Kulkarni District Council areas
Group 2 - up to 70 EVA Capacity, in Non-Remote Areas											
Uncontrolled Energy	E3	cents per kWh	5.019	4.586	0.433	1.037		5.019	4.709	0.310	Only available with fixed charge code RT or RF
20 hour Controlled Energy - Note 3	I0	cents per kWh	4.525	4.092	0.433	0.935		4.525	4.215	0.310	Normally on maximum of 20 hours per 24 hour period. Minimum Controlled Load 10kW
13 hour Controlled Energy - Note 3	I2	cents per kWh	3.682	3.249	0.433	0.761		3.682	3.372	0.310	Normally on maximum of 13 hours per 24 hour period
8 hour Controlled Energy - Note 3	I8	cents per kWh	1.596	1.163	0.433	0.330		1.596	1.286	0.310	On 11pm to 7am all days
Daily Charge 3 phase 42 to 70EVA	RT	per Day	\$6.883	\$6.073	\$0.865	\$1.423	245	\$6.883	\$5.761	\$1.182	Fixed Charge applicable to code 05, 22, 28 & 30
Daily Charge - Kulkarni Area 3 phase 42 to 70EVA	RJ	per Day	\$6.894	\$6.079	\$0.865		1	\$6.894	\$5.712	\$1.182	Fixed Charge applicable to code 05, 22, 28 & 30 in Kulkarni District Council areas
Daily Charge 1 phase up to 70EVA	RF	per Day	\$12.266	\$10.948	\$1.726		1	\$12.266	\$10.453	\$1.813	Fixed Charge applicable to code 05, 22, 28 & 30
Group 2 - up to 70 EVA Capacity, in Remote Areas - Note 9											
Uncontrolled Energy	E3	cents per kWh	5.019	4.586	0.433		5.019	4.709	0.310	Only available with fixed charge code RT or RF	
20 hour Controlled Energy - Note 3	I0	cents per kWh	4.525	4.092	0.433		4.525	4.215	0.310	Normally on maximum of 20 hours per 24 hour period. Minimum Controlled Load 10kW	
13 hour Controlled Energy - Note 3	I2	cents per kWh	3.682	3.249	0.433		3.682	3.372	0.310	Normally on maximum of 13 hours per 24 hour period	
8 hour Controlled Energy - Note 3	I8	cents per kWh	1.596	1.163	0.433		1.596	1.286	0.310	On 11pm to 7am all days	
Daily Charge 3 phase 42 to 70EVA	RT	per Day	\$6.883	\$6.073	\$0.865		8	\$6.883	\$5.701	\$1.182	Fixed Charge applicable to code 05, 22, 28 & 30
Daily Charge - Kulkarni Area 3 phase 42 to 70EVA	RJ	per Day	\$6.894	\$6.079	\$0.865		1	\$6.894	\$5.712	\$1.182	Fixed Charge applicable to code 05, 22, 28 & 30 in Kulkarni District Council areas
Daily Charge 1 phase up to 70EVA	RF	per Day	\$12.266	\$10.948	\$1.726		1	\$12.266	\$10.453	\$1.813	Fixed Charge applicable to code 05, 22, 28 & 30
Group 3 - 70 to 140 EVA Capacity, in Non-Remote Areas											
Uncontrolled Energy	E4	cents per kWh	4.525	4.092	0.433	0.935		4.525	4.215	0.310	Only available with fixed charge code RV or RX
13 hour Controlled Energy - Note 3	I2	cents per kWh	3.682	3.249	0.433	0.761		3.682	3.372	0.310	Normally on maximum of 13 hours per 24 hour period
8 hour Controlled Energy - Note 3	I8	cents per kWh	1.596	1.163	0.433	0.330		1.596	1.286	0.310	On 11pm to 7am all days
Daily Charge 70 to 105EVA	RV	per Day	\$12.225	\$10.929	\$1.294	\$2.527	77	\$12.225	\$10.453	\$1.772	Fixed Charge applicable to code 04, 22 & 28
Daily Charge 106 to 140EVA	RX	per Day	\$16.239	\$14.571	\$1.728	\$3.369	41	\$16.239	\$13.937	\$2.362	Fixed Charge applicable to code 04, 22 & 28
Group 3 - 70 to 140 EVA Capacity, in Remote Areas - Note 9											
Uncontrolled Energy	E4	cents per kWh	4.525	4.092	0.433		4.525	4.215	0.310	Only available with fixed charge code RV or RX	
13 hour Controlled Energy - Note 3	I2	cents per kWh	3.682	3.249	0.433		3.682	3.372	0.310	Normally on maximum of 13 hours per 24 hour period	
8 hour Controlled Energy - Note 3	I8	cents per kWh	1.596	1.163	0.433		1.596	1.286	0.310	On 11pm to 7am all days	
Daily Charge 70 to 105EVA	RV	per Day	\$12.225	\$10.929	\$1.294		2	\$12.225	\$10.453	\$1.772	Fixed Charge applicable to code 04, 22 & 28
Daily Charge 106 to 140EVA	RX	per Day	\$16.239	\$14.571	\$1.728		2	\$16.239	\$13.937	\$2.362	Fixed Charge applicable to code 04, 22 & 28
Group 4 - above 140 EVA Capacity - Note 2											
Low Voltage Supply in Non-Remote Areas											
Winter Day Energy Note 5	W51	cents per kWh	1.971	1.538	0.433	0.497		1.971	1.661	0.310	Only available with fixed charge code 0P
Winter Night Energy Note 5	W52	cents per kWh	0.311	0.032	0.279	0.064		0.311	0.209	0.209	Only available with fixed charge code 0P
Summer Day Energy Note 5	S51	cents per kWh	1.308	0.985	0.433	0.289		1.308	1.088	0.310	Only available with fixed charge code 0P
Summer Night Energy Note 5	S52	cents per kWh	0.311	0.032	0.279	0.064		0.311	0.209	0.209	Only available with fixed charge code 0P
Winter Demand - Maximum 102EVA Notes 2 & 10	W1	per kVA per Month	\$24.443	\$19.983	\$4.979	\$4.392	\$24.443	\$20.798	\$3.445	\$4.443	Based on Actual or Assessed Installed Capacity
Capacity Charge Note 10	W2	per kVA per Month	\$4.427	\$4.043	\$0.384	\$0.311	\$4.427	\$4.427	\$4.427	\$4.427	Based on Actual or Assessed Installed Capacity
Daily Charge	W3	per Day	\$5.425	\$5.425	\$0.000	\$1.121	128	\$5.425	\$5.425	\$0.000	Fixed Charge applicable to codes 051, 052, 061 & 062
Low Voltage Supply in Remote Areas - Note 9											
Winter Day Energy Note 5	W51	cents per kWh	1.971	1.538	0.433		1.971	1.661	0.310	Only available with fixed charge code 0P	
Winter Night Energy Note 5	W52	cents per kWh	0.311	0.032	0.279		0.311	0.209	0.209	Only available with fixed charge code 0P	
Summer Day Energy Note 5	S51	cents per kWh	1.308	0.985	0.433		1.308	1.088	0.310	Only available with fixed charge code 0P	
Summer Night Energy Note 5	S52	cents per kWh	0.311	0.032	0.279		0.311	0.209	0.209	Only available with fixed charge code 0P	
Winter Demand - Maximum 102EVA Notes 2 & 10	W1	per kVA per Month	\$24.443	\$19.983	\$4.979		\$24.443	\$20.798	\$3.445	\$4.443	Based on Actual or Assessed Installed Capacity
Capacity Charge Note 10	W2	per kVA per Month	\$4.427	\$4.043	\$0.384		\$4.427	\$4.427	\$4.427	\$4.427	Based on Actual or Assessed Installed Capacity
Daily Charge	W3	per Day	\$5.425	\$5.425	\$0.000		\$5.425	\$5.425	\$0.000	\$0.000	Fixed Charge applicable to codes 051, 052, 061 & 062

Light-handed approach (1)

- Consideration of submissions and the regulatory objectives would suggest that:
 - retaining the status quo (“do nothing”) is not an appropriate option
 - proposing a less prescriptive approach than originally proposed would be acceptable
- Address some of the retailers issues to do with standardisation by mutual agreement between retailers and distributors facilitated by the Commission – respond to call for more “dialogue”
- Proposed approach more efficient and practical than the previous proposed approach because it:
 - recognises the information asymmetry
 - it has greater flexibility
 - it has lower compliance costs
 - aligns with Commerce Commission’s approach

Light-handed approach (2)

Ensure prices are set efficiently and reduce any barriers to retail competition:

- Signal the economic costs of providing service by:
 - removing material cross subsidies
 - reflecting available service capacity
 - signalling future investment costs
- Discourage uneconomic bypass
- Allow for price/quality trade-offs
- Establish **in detail** what the barriers are and seek to facilitate a **bilateral approach** to addressing those barriers

Light-handed approach (3)

- The main driver for Pricing Approaches Working Group was to move towards “a more common and transparent framework for allocating costs and calculating prices” (Unison presentation to 17 June 2009 Workshop) – this approach continues this work
- An opportunity for distributors to show that a light handed approach will result in improvements
- Compliance process to demonstrate that distributors have set or are in the process of setting their prices in accordance with the pricing principles

Lower level elements of distribution pricing

The purpose of this morning session is to explore:

- Barriers to pricing rationalisation and innovation
- Proposed common terminology and definitions
- Proposed single presentation format
- Suggested desirable number of tariffs
- Reduction in and standardisation of customer categories (including minimum number of customers in a customer category)
- Proposed standardisation of invoice information and supporting information
- Formation of an industry working group

Industry working group – some suggestions

- Commission invites interested parties to register their interest to be part of the working group
- Group members would be expected to attend 3 half day sessions (location TBC) supported by the Commission
- The working group is expected to provide a recommendation to the Commission by the end of November 2009