

Distribution pricing – Other issues

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Outline

- Dispute resolution process
- Embedded networks
- Low fixed charge regulations
- Rural/urban line charges
- Number of distribution businesses
- Model use of system agreement

Dispute resolution process

- Stephen Peterson – Simply Energy

Embedded networks

- Commission facilitation
- Retailers and embedded network owners
- Meeting held in June
- Group agreed 'straw man'
 - Commission MUoSA used as base
 - amended to reflect agreed changes
- To go back to group for comment shortly

Low Fixed Charge regulations

- Distribution pricing submissions covered cost allocation, fairness and tariff innovation
- Commission analysis
 - UMR research
 - Retailer data
- Advice to MED/Minister to follow

Rural/urban line charges

- Several parties commented that the 2009 GPS makes it difficult to meet any requirements to have subsidy-free prices
- Some parties consider that cross-subsidisation of rural customers benefits all consumers in the region and that their customers support it

Model use of system agreements

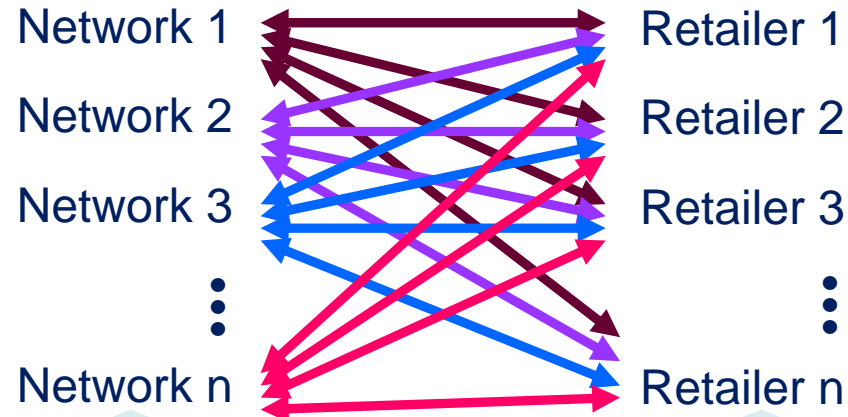
- Commission determination of appropriate way forward in progress
- Some advisory group discussion; yet to be considered by Commissioners
- Industry input very important
- Seeking information/views on:
 - issues with current arrangements
 - merits and practicalities of options to address them

Regulatory context

- GPS expectations
- Electricity Act
- Other relevant Acts and regimes

- Industry has focussed on development of Model UoSA but completion been difficult

>>150 contracts



- 29 network companies
- various sizes

- 5 larger
- several smaller
- new entrants

each network:

- regional monopoly
- obligations & technical needs
- desire to tailor UofSA to own network & transmission contract
- concerned about differentiating between retailers

each retailer:

- competing for customers
- ideally seeks uniform contract in all trading areas, that meets business model / customer needs
- concerned if another retailer getting a “better deal”

what level of standardisation best meets these requirements simultaneously?



Other issues

Other issues that may be adversely impacting resolution of model UofSA issues include:

- no standard distribution pricing methodology
- liability issues under Consumer Guarantees Act (recent court decision)
- diversity of retailer business models
- changing technologies, especially smart metering
- diversity of network ownership structures
- lack of specialist dispute resolution process for UofSA (cf arrangements for negotiating transmission agreements)

Case for Commission action?

The case for the Commission to take some form of action with UoSAs depends on the existence or otherwise of:

• market failure	eg. are UofSA arrangements - inhibiting competition? - imposing unnecessary costs?
• imbalance of power	eg. does monopoly position of networks create a contracting problem?
• asymmetry of information	eg. are small or new entrant retailers at a disadvantage?

Actions can include education, monitoring, promoting guidelines/models, rule-making

Diversity of industry views

- “Issues unlikely to be solved without regulation”
- “Contracts with retailers have been signed in a week – where’s the problem?”
- “Why should we sign agreements clearly out of date?”
- Costs incurred in moving to model UofSA:
 - ‘customers’ (i.e. retailers) are not pressing for it at the moment
 - Commerce Commission regime has an impact
- Waiting for Commission to finish model UofSA before updating contracts, but move to model is planned
- Lack of ‘bandwidth’ to negotiate (on both sides)

Next steps

- Working through understanding of issues and blocks to progress to date
- Develop options and assessment framework
- Assess options to determine preliminary views
- Issues and options papers considered by advisory group and Commission Board

Active industry engagement is required to resolve use of system agreement issues

Questions?

