

# A model approach to distribution pricing

## Overview

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# Introduction

The purpose of this workshop is to:

- provide an opportunity for the industry to directly interact with the Commission and other industry participants
- facilitate submissions on the Commission's consultation paper
- provide an overview of the Commission's proposed model approach and the reasons for developing it

# Reasons for undertaking the work

- Commission required to develop **voluntary** principles or model approaches to distribution pricing (Electricity Act and 2009 GPS) and monitor uptake
- Ensuring coordination with the Commerce Commission as the input methodologies are required to be finalised by June 2010
- During the Market Design Review, retailers supported standardising network pricing approaches as a means to reducing the transaction costs faced by retailers competing for electricity consumers across distribution networks

# Reasons for undertaking the work – cont.

- Improving the transparency of the allocation of costs and facilitate efficient pricing
- Promote efficient use of distribution networks and efficient investments in these networks while ensuring that distributors and consumers receive stability and certainty in revenues and costs
- Both important considerations given the size of the sector - \$6 – \$7 Billion in assets
- Achieve a greater degree of commonality and consistency of distribution pricing thereby reducing the complexity and costs faced by retailers and thus enhancing retail competition

# Steps involved in developing model approach

- 2005 PAWG report used as a starting point as it received support from the industry at the time
- Considerable effort and time by the industry in developing the PAWG recommendations
- PAWG recommendations reviewed in light of the various regulatory factors which have been enacted or developed subsequent to the publication of the PAWG report

# Steps involved in developing model approach – cont.

The changes that have occurred:

- GPS (2009)
- the Low Fixed Charge Tariff Option for Domestic Consumers Regulations 2004
- Finalisation of the Transmission Pricing Methodology
- the Electricity Governance (Connection of Distributed Generation) Regulations 2007
- Amendments to the Commerce Act 1986

# Steps involved in developing model approach – cont.

- Review of the four largest distributors' pricing methodologies
- Engaged with distributors (through ENA) to understand the extent to which the PAWG recommendations had been implemented
- Commission developed guiding principles to guide development of model approach
- Commission and Commerce Commission working closely to ensure that the “model approach to distribution pricing” and the “input methodologies” workstreams are aligned

# Proposed approach

- Similar to PAWG recommendations
- Relates only to standard distribution services
- A key variation is that the Commission favours the retail delivery model (RDM) as it:
  - more accurately tailors distribution tariffs to reflect an individual consumer's contribution to distribution costs with respect of the quantity of supply but also the quality of service.
  - provide distribution prices to end users that are cost-reflective encourages the efficient use of electricity
  - more transparent than the WDM

# Implementation and reporting

- Implementation of the final approach will be voluntary
- Commission keen to understand:
  - what is involved for distributors and retailers to change from existing methodologies
  - any detrimental impacts on innovation
  - impact on consumers (if any)

# Implementation and reporting

- Where the cost of a change outweighs the benefit, distributors are not expected to adopt the approach but provide reasons for inconsistency in a “statement of variations” from the voluntary model approach
- Commission expects that distributors will seek to align their methodologies over time, making rational and transparent decisions about the costs versus the benefits of making their methodologies consistent with the model approach

# Next steps

- Consultation closes – extended to 10 July 2009 (following a request from the ENA)
- Review submissions – July / August 2009
- Draft decision paper – September 2009
- Second round of consultation - September 2009
- Final decision paper – November 2009
- Commerce Commission publish input methodologies by June 2010

# Wrap-up

- Commission has developed a draft model approach to distribution pricing
- Similar to PAWG recommendations but EC favours RDM
- Approach is voluntary

# Wrap-up cont.

- Businesses not endorsing the approach should justify it in a “statement of variation” one year after publication of model approach
- Draft decision will be published in September and consulted on
- EC encourage businesses to provide feedback on the proposed approach

## 17 June 2009

<i>8.30 – 9.00</i>	<i>Registration and coffee</i>
9.00 – 9.10	<b>Welcoming address</b> David Caygill
9.10 – 9.30	Peter Smith <span style="float: right;"><b>– Project Overview</b></span>
9.30 – 10.00	<b>Orion</b> Rob Jamieson
10.00 – 10.30	<b>Vector</b> Nathan Strong and Brett Butler
10.30 – 11.00	<b>Unison</b> Nigel Hoare
<i>11.00 – 11.30</i>	<i>Morning Tea</i>
11.30 – 12.00	<b>Delta</b> Lindsay McLennan
12.00 – 12.30	<b>Contact Energy</b> Rod Crone
12.30 – 13.00	<b>Mighty River Power</b> Rob Allen
13.00 – 13.10	<b>Closing remarks</b> David Caygill
<i>13.10</i>	<i>Workshop ends</i>

# House keeping

- When asking questions identify yourself.
- Keep noise to a minimum.
- Please switch off your mobile phone.

Thank you!

# QUESTIONS?