

Presentation to the Electricity Commission: Electricity Distribution Pricing Methodology Workshop

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17 06 2009



Electricity Distribution Pricing and Retail Competition

- **The existence of a large number of small EDBs is a barrier to retail competition.**
- **Electricity retailers have to establish unique retail offerings for each EDB's network access and distribution pricing arrangements.**
- **29 EDBs. Some have multiple EDPMs. Some have an excessive number of tariff categories.**
- **This is one of the reasons why retail competition is generally greater/retail margins smaller in larger network areas, such as Auckland, than in smaller network areas.**
- **It is more attractive for a retailer to establish the pricing arrangements etc needed to enter a network area with 300,000 ICPs than 4,000 ICPs.**
- **Mighty River Power wants to see a rationalisation of EDPMs.**

Introduction of a model EDPM

- **Mighty River Power believes introduction of a model EDPM is justified on the following grounds:**
 - **Competition in the relevant market is limited (met as EDBs are natural monopolies); and**
 - **Regulation would promote competition (met as consolidation of EDPMs would reduce barriers to retail competition); and**
 - **Regulation would be to the long-term benefit of end-users.**
- **However, we do not want to preclude innovation in electricity distribution pricing.**
- **Deviation from the model EDPM would be appropriate where this is agreed to by electricity retailers (through a negotiation and/or consultation process) or the EDB can demonstrate, to the Electricity Commission's satisfaction, that the alternative approach is in the long-term interests of end-users.**

If the Electricity Commission adopts a voluntary approach

- **We have misgivings about the extent of uptake of a voluntary model EDPM. Clear rules would be needed around circumstances where EDBs can deviate from the model EDPM, combined by rigorous monitoring.**
- **EDBs should be required to consult with customers/retailers over the approach they take to pricing.**
- **EDBs should be required to disclose details of any difference in approach they take to the model EDPM, and why they consider their approach to be in the long-term interests of end-users.**
- **The Electricity Commission should publicly review these disclosures and identify any explanations it is not satisfied with.**
- **The Commission should make it clear that it is not acceptable for any EDB to continue to use multiple EDPMs/an excessive number of tariff categories.**
- **The Electricity Commission needs to form a view as to what kind of transition period EDBs should adopt for moving from legacy EDPMs to the Electricity Commission's model approach (or alternative approaches).**
- **The Electricity Commission should move to mandate its model approach for any EDBs that do not adopt a satisfactory EDPM.**

The Commerce Commission

- **The Electricity and Commerce Acts create an over-lap in responsibilities for electricity distribution pricing between the Electricity Commission and the Commerce Commission.**
- **The Commerce Commission could adopt the Electricity Commission's model EDPM as an input methodology BUT only if it is satisfied the model EDPM would be to the long-term benefit of end-users.**
- **The Commerce Commission cannot mandate an EDPM for EDBs that are exempt from the price thresholds regime ie small trust-owned EDBs. Only the Electricity Commission can.**

Other issues

- **Mighty River Power believes the Electricity Commission should recommend to the Government that the Low Fixed Charge Tariff requirements be abolished.**
- **Mighty River Power supports the GPS requirement for no differentiation between rural and urban pricing.**
- **How should non-traditional EDBs be dealt with? Mighty River Power believes a network is a network is a network.**

Concluding remarks

- **There needs to be a rationalisation of network access arrangements in the electricity industry, including electricity distribution pricing.**
- **This would reduce the barriers to retail competition.**
- **The Electricity Commission should introduce a model EDPM.**
- **There should be clear rules around circumstances where EDBs can deviate from the model EDPM.**
- **Alternative EDPMs should be allowed where this is agreed to by electricity retailers (through a negotiation and/or consultation process) or the EDB can demonstrate, to the Electricity Commission's satisfaction, that the alternative approach is in the long-term interests of end-users.**