



meridian

30 October 2009

Electricity Commission
P O Box 10-041
Wellington 6143

Email: submissions@electricitycommission.govt.nz

Dear Sir / Madam

Discussion Paper – Draft Distribution Pricing Principles and Methodological Requirements

Meridian appreciates the opportunity to make submissions on the proposed distribution pricing principles and methodological requirements. We found the workshop the Electricity Commission (Commission) held on this issue to be very useful and commend the Commission for establishing a working group with balanced representation to discuss the proposals as they are finalised.

Meridian is a nationwide electricity retailer and therefore has a relationship with every line company and a resulting significant portfolio of over 2,000 tariffs to manage.

At the workshop it became clear that there may be significant overlap between the pricing principles and methodological requirements from the Electricity Commission and the requirements placed on lines companies via regulation from the Commerce Commission under Part 4A. While Meridian is not directly involved in this, nor has a detailed understanding of the Commerce Commission regime, we submit that the work lines companies are required to do for each regulator should be aligned so that the lines companies are not facing undue additional costs which will be borne by electricity consumers.

Pricing Principles

Meridian suggests there should be alignment between the pricing principles used for distribution pricing and transmission pricing. We have not analysed the principles for this alignment.

Our comments on each of the pricing principles follow.

Proposed Principles	Meridian Comments
(a) Prices are to signal the economic costs of service provision, by: (i) being subsidy free (equal to or greater than incremental costs, and less than or equal to standalone costs), except where subsidies arise from legislation; (ii) having regard, to the extent practicable, to the	Meridian queries whether the lines companies should be required to be transparent about where cross subsidies lie if they are material. There is still an expectation in the GPS that changes in rural line charges are in line with changes in urban line charges.

<p>level of available service capacity; and</p> <p>(iii) signalling, to the extent practicable, the impact of additional usage on future investment costs.</p>	
<p>(b) Where prices based on 'efficient' incremental costs would under-recover allowed revenues, the shortfall should be made up by setting prices in a manner that has regard to consumers' demand responsiveness (i.e. Ramsey pricing) and/or the quality of service that they receive, to the extent practicable.</p>	<p>We understand the Commerce Commission is discussing problems with the availability of data to be able to effectively undertake Ramsey pricing (eg data on price elasticity).</p> <p>We query whether the "shortfall" should refer to "unallocated" costs.</p>
<p>(c) Provided that prices satisfy (a) above, prices should be responsive to the requirements and circumstances of users in order to:</p> <p>(i) discourage uneconomic bypass; and</p> <p>(ii) to allow for price/quality tradeoffs.</p>	
<p>(d) Development of prices should be transparent, promote price stability and certainty for consumers, and lead to prices that are able to be understood by users.</p>	<p>Meridian queries who the "customer" or user is in this context – with interposed use of system agreements the customer of the lines company is the retailer.</p> <p>We refer to our previous submission regarding consistency of price signals which does not appear to be picked up in any of the proposed pricing signals.</p>
<p>(e) Pricing structures should not place undue transaction costs on retailers and consumers, and should be competitively neutral across retailers.</p>	<p>Meridian suggests the lines companies' pricing structures must be competitively neutral across retailers – especially given the lines company can now be a retailer of electricity. Perhaps there should be a requirement for a lines company that is an electricity retailer to publish in percentage terms the number of customers on each of their published line tariffs. This would assist in ensuring transparency of competitive neutrality.</p>
<p>(f) Prices and pricing structures should promote efficient usage of electricity and encourage investment in distributed generation (including renewable generation), distribution alternatives and technology innovation.</p>	<p>Meridian agrees with the intent of this principle but not if it is applied in a way that makes customers worse off.</p> <p>We also note that the Electricity Governance (Connection of Distributed Generation) Regulations 2007 include pricing principles for connection of distributed generation. We have not compared the proposed distribution pricing principles with the pricing principles that relate to connection of DG but suggest that this be done to avoid any unintended consequences.</p>

	Meridian queries whether the lines companies pricing should “encourage” distributed generation at the expense of other generation or other customers without distributed generation and considering the GPS states “it is important that there are no unnecessary barriers to its development”. Maybe lines companies pricing should “enable” distributed generation as opposed to encourage it.
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Methodological Requirements

The methodological requirements appear detailed but do not seem to have a direct reference to the pricing principles. For example – the question “have the pricing principles been applied in the development of the proposed prices?” could be asked in the compliance stage.

Next steps

The Commission timeline has pricing principles and methodological requirements published by the end of December 2009. We query whether the Commission’s expectation is that all lines companies adopt this principles and compliance reporting for prices effective 1 April 2010 (which must be notified to retailers by 1 March 2010)?

As discussed in our previous submission Meridian would like to see an approach to distribution pricing that helps to reduce costs and increase retail competition.

Yours sincerely



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