

File 5/25

21 October 2009

Electricity Commission
Wellington

Submission on Draft Distribution Pricing Principles + Methodological Requirements discussion paper dated 30 September 2009

Northpower's feedback to the Commission as follow-up to the workshop on 12 October 2009 is outlined in the following paragraphs.

Enabling retailer competition

The primary reason given for embarking on the development of a distribution pricing methodology (and, subsequently, principles) was to remove perceived barriers for retailer competition.

In Northpower's opinion, the evidence presented at the workshop on 12 October 2009 implied that distribution pricing was not a significant barrier to retailer competition and, in fact, the existing structures provided opportunities for small new-entrant retailers to gain an initial foothold in markets of interest to them.

From another perspective, the Northpower network already has, by some measures, a very high level of retailer competition. The proportions of ICP's on the Northpower network for the three retailers with the most ICP's are currently 42%, 27% and 19%, with another four retailers sharing the remaining 12% of ICP's. There are a variety of reasons for this situation, many of them not involving Northpower.

So Northpower submits that regulating distribution pricing methodologies is unlikely to have any significant additional positive effect on the level of retailer competition.

Pricing principles

Northpower continues to support the development of a set of low-level principles for distribution pricing. However, these need to be both "low level" and "principles" to allow for innovation, individuality and flexibility in each distributor's pricing.

Distributors could report in general terms as to whether their pricing was already broadly consistent with the principles, whether they were moving progressively towards the principles, or if there were reasons why they would not adopt some of the principles. However, the concept of auditing specific compliance would appear to contradict the broadness required in pricing principles, as opposed to the detail of a pricing methodology.

Development of low-level pricing principles (rather than a rigid methodology) would also be more consistent with the "persuasion and promotion, provision of information and guidelines, rather than regulations and rules" outcomes required by the GPS, as outlined in paragraph 4.3.6(a) of the 30 September 2009 discussion paper.

Retailer issues

Several issues presented to the workshop as matters of concern to retailers were revealed (in the review towards the end of the workshop) as contractual matters, rather than pricing issues.

Northpower supports the formation of a working group to review these specific issues, but these issues do not justify a more general review of pricing methodologies.

Common terms

Northpower considers that there could be significant benefit in gaining industry-wide agreement on some common terms such as “Domestic”.

As an example, Northpower utilises the definition of “Domestic” from the Electricity Act and the Low Fixed Charge regulations to classify general connections of a residential nature. Remaining general connections are classified as “non-domestic”. We are aware that others, including some retailers, classify general connections as either “domestic” or “commercial” which creates a slightly different split and is an ongoing source of confusion and misunderstanding for retailers, distributors and customers.

Low Fixed Charge regulations

As mentioned in previous submissions, in Northpower’s opinion, the Low Fixed Charge regulations constrain aspects of distribution pricing and stifle innovation. Northpower presently allocates the line charges for general connections on the basis of whether or not the premises meet the criteria for domestic premises. If the Low Fixed Charge regulations were abolished, Northpower would be able to reconfigure the line charge pricing to be more consistent with the small/medium/large/very large categories on the basis of capacity rather than consumption, as required for the Information Disclosure.

Compliance costs and consistency

Northpower is concerned by additional compliance costs which will arise from any new monitoring regime for distribution pricing. Already, distribution pricing is subject to compliance (and hence compliance costs) through requirements to disclose line charge tariff pricing and methodology, the revenue aspects in the annual Information Disclosure requirements (and associated audits), notification requirements in the Low Fixed Charge regulations, and price/quality thresholds assessments and associated audits.

In addition, the Electricity Commission and the Commerce Commission are both developing regimes for monitoring distribution pricing methodologies, which has the potential for duplication and/or inconsistencies. Northpower urges the two commissions to work closely to ensure there is clarity over each commission’s respective mandates in relation to distribution pricing and the practical application of these mandates.

Regards



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