30 October 2009

Kate Hudson
Electricity Commission
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Dear Kate

DISCUSSION PAPER: DRAFT DISTRIBUTION PRICING PRINCIPLES AND METHODOLOGICAL REQUIREMNTS

This letter constitutes WEL Networks' submission on the Electricity Commission's discussion paper on *DISTRIBUTION PRICING PRINCIPLES AND METHODOLOGICAL REQUIREMNTS*

WEL appreciates the opportunity to make this submission.

Background
WEL is a lines company operating in Hamilton and the surrounding Waikato. We provide line services to approximately 84,000 customers.

The Company is owned by the WEL Energy Trust, a consumer Trust.

Submission
WEL Networks would like to make comments in the following areas:

General Comments

Over all WEL supports the Gas Authorisation pricing principles – based on generally accepted economic theory.

We dispute that there is any evidence of transaction costs reducing retail competition.

Specific comments

These are contained in Appendix A.

WEL thanks you for considering this submission and advises that any questions regarding the above issues may be directed to Ron Smale, 07 850 3143.

Yours sincerely

Ron Smale
Commercial Manager

Appendix A

The proposed pricing principles are as follows:

(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; [agree]

(ii) having regard, to the extent practicable, to the level of available service capacity; and [agree]

(iii) signaling, to the extent practicable, the impact of additional usage on future investment costs. [agree]

(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.

(c) Provided that prices satisfy (a) above, prices should be responsive to the requirements and circumstances of users in order to:

(i) discourage uneconomic bypass; and [agree]

(ii) to allow for price/quality tradeoffs. [agree]

(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.

[We agree with this though we must point out that retailers can re-bundle distributor tariffs which could stifle or negate the intentions behind the price drivers designed by the distributor.]

(e) Pricing structures should not place undue transaction costs on retailers and consumers, and should be competitively neutral across retailers.

[Where is the evidence that existing pricing structures affect retailer transaction costs? If some retailers don't want to transparently pass through the distributor costs other retailers may want to and therefore welcome the added complexity so they can offer a cheaper product to their customers. To adequately signal a customer to reduce their peak demand requires distributors to send strong pricing signals during only small periods of time each day and for certain days and months of the year. To truly meet the regularity requirements, distributors need to introduce time based complexity into their pricing. We support having fewer pricing categories that they should reflect a customer use of assets and services. Retailers should be willing to incorporate and pass through true distributor cost signals to their consumers and avoid the temptation to re-bundle these signals to fit their current billing structures. With smart metering becoming available, lines companies will want to send appropriate pricing signals to encourage customers to avoid peak periods and retailers should invest in their systems so they can reflect these signals. Those retailers who don't want to do this will run the risk that customers will switch to a retailer that does.]

(f) Prices and pricing structures should promote efficient usage of electricity particularly during peak periods and encourage economic investment in distributed generation (including renewable generation), distribution alternatives and technology innovation.

[Emphasis should be placed on **when** efficient usage is preferred and that pricing should signal **economic** investment in alternatives to reduce loads during peak periods.]

The proposed methodological requirements are as follows:

(a) Prices should be based on a well-defined, clearly explained and published methodology, with any revisions notified and clearly marked. [agree]

(b) Price development should incorporate, to the extent practicable, an analysis of the cost of service provision that includes:

(i) definition of the classes of service provided and the parameters by which the quality of service in each class are measured;

(ii) an examination of the cost elements that arise from the use, operation and expansion of the network;

(iii) identification of the relationship between the quality of service provided and the level of current and future cost for each class of service;

(iv) an allocation of existing and future network costs to service classes, and an explanation of the cost allocation methodology used;

(v) the translation of allocated costs into service prices at the defined level of quality of service – including the re-allocation of transmission charges while preserving the transmission pricing signal;

(vi) analysis of the extent to which costs are marginal, and whether the associated price components in the tariff structure reflect those marginal costs;

(vii) analysis of the development of time of use prices and critical peak pricing where these can practically be applied;

(viii) estimates of the range of subsidy-free prices for each service class and the extent to which subsidies, if any, are caused by legislation; and

(ix) development of pricing arrangements that will be used to reflect the cost / value of deferral of investment in distribution assets, where this is practicable.

(c) Information relating to standard services on customer class price levels and structures, quality of service standards, underlying costs, price derivation methods and rationale, and medium term price and quality of service strategies should be publicly disclosed.

[Though we agree with (b) & (c) above, many of the terms and technical words used should be defined somewhere to add clarity. Foe one to understand much of what has been said above, one would have to be familiar with the commissions model.]

(d) Underlying service classifications, cost data, cost allocations and other elements that contribute to pricing decisions should be periodically reviewed and updated where relevant to reflect industry developments and changes in user requirements and preferences, methods of service provision and costs.

[When Methodolgy is not changed a simple declaration stating this fact should be all that is required for disclosure.]

(e) Pricing structures should:

(i) consist only of the minimum number of tariffs necessary to meet the provisions of the pricing principles; and [agree]

(ii) employ industry standard tariff formats and nomenclature, where possible. [agree]

(f) Where a change to the existing pricing methodology is proposed to improve compliance with the pricing principles, details of the impact on customer classes and the transition arrangements proposed to mitigate the effect of redistribution of costs and "rate shock" should be publicly disclosed. [agree]

Other

Compliance costs:

The compliance cost enforcing this regulation must be less than the improvement in outcomes to consumers from the regulation. What do these regulations provide that the Commerce Commission disclosure regulations don't already achieve?