

**Draft Distribution Pricing Principles  
and  
Methodological Requirements**

**Submission on the Electricity Commission's Discussion Paper**

**Electricity Networks Association**

**30 October 2009**

The Electricity Networks Association (ENA) represents all 29 electricity distributors. On July 10 2009 the ENA submitted on the Electricity Commission's earlier Consultation Paper on the proposed Model Approach to Distribution Pricing Methodologies.

In that submission we:

- Referred to the Ministerial Review of the Electricity Industry and the new requirements of Part 4 of the Commerce Act, both of which are placing significant pressure on electricity distributors;
- Raised concerns about the potential costs of the model distribution pricing approach in relation to the potential benefits, and suggested an evolutionary development of distribution pricing methodologies rather than a significant and immediate change to the regulatory requirements in this respect;
- Questioned whether the anecdotal evidence provided by retailers that multiplicity in distribution pricing acts as a barrier to retail competition is justified, and whether model pricing approaches are an appropriate tool to address this;
- Endorsed the need for distributors to maintain flexibility in meeting end-user requirements and to innovate;
- Recommended a cautious approach to the Electricity Commission's work stream until the shape of the Commerce Commission's Part 4 regulatory regime for electricity distributors becomes more clear; and
- Supported a principle-based approach to pricing methodologies accompanied by standard definitions where practicable.

Our views have not changed and they are also relevant to the current consultation on the Draft Distribution Pricing Principles and Methodological Requirements.

We acknowledge and support the proposed adoption of a *principles* approach to pricing methodologies which is now, after consideration of submissions from interested parties, the Electricity Commission's recommendation. We note the proposed principles are based on those used by the Commerce Commission in its Gas Authorisation of Vector (Auckland) and Powerco's gas pipeline businesses.

The Discussion Paper, however, proposes a number of refinements to the Commerce Commission's principles. We are concerned that the refinements proposed are contrary to a 'principle' approach and in some instances include broader objectives of the Electricity Commission and the Commerce Commission which are better met by other processes and regulations.

In particular we do not support the proposed principle 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.*

Although the Electricity Commission has wider obligations in this respect, these are already partly provided for under principle (a), while the Commerce Commission is tasked (s54Q) with developing specific regulatory mechanisms to incentivise and avoid disincentives to energy efficiency, demand side management and load control. In addition, other regulations (such as the Distributed Generation Regulations) already impose legislative incentives on distributors in this respect. Pricing methodologies are a very blunt tool for this purpose and we therefore do not support the inclusion of principle f).

The Discussion Paper proposes a set of detailed Methodological Requirements to supplement the Pricing Principles. These are not required, and impose undue limitations on the principles themselves. The Electricity Information Disclosure Requirements for electricity distributors already set out the information that must be disclosed by distributors when publishing pricing methodologies. This, along with a requirement that pricing methodologies must have regard to the pricing principles, is sufficient.

There also appears to be some confusion concerning the mandate of the Electricity Commission to monitor, regulate and 'audit' pricing methodologies. We do not support the proposed disclosure of variations to the pricing methodology, as this is not consistent with the principle approach. In addition we strongly oppose suggestions for distributors to provide cost of supply models, and to seek prior approval of prices. We are opposed, too, to the auditing of models and the publication of long term pricing plans. Instead we support an approach which involves periodic industry-wide reviews of published pricing methodologies to be undertaken by one of the Commissions. This may be similar to the existing Asset Management Plan review process undertaken by the Commerce Commission. Publication of a review report could lead to improvements over time in the quality of pricing methodologies, as distributors would be able to learn from the experiences of others, and from the observations of the reviewer on any compliance issues, and on where examples of best practice may be found.

Finally, we support the initiative proposed at the recent pricing methodology workshop for industry representatives to work together to, where practicable, standardise terminology used in distribution pricing.

Individual ENA members will also be providing submissions reflecting their own pricing priorities.

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