

# **Electricity Networks Association**

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## **Draft Distribution Pricing Principles**

**and**

## **Information Disclosure Guidelines**

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

**22 December 2009**

The Electricity Networks Association (ENA) represents all 29 electricity distributors. On 10 July 2009 the ENA submitted on the Electricity Commission's earlier Consultation Paper on the proposed Model Approach to Distribution Pricing Methodologies. On 30 October 2009 we submitted on the proposed Distribution Pricing Principles and Methodological Requirements.

In our 30 October submission we expanded on our earlier submission and in particular:

- Supported the adoption of a principle-based approach to pricing methodologies;
- Noted that the proposed principles introduced a number of refinements to the Commerce Commission's Gas Authorisation principles;
- Raised concerns that the proposed refinements were contrary to a 'principle-based' approach and in some instances included broader objectives of the Electricity Commission and the Commerce Commission which are better met by other processes and regulations;
- Opposed the proposed Methodological Requirements and supported information disclosure guidance in its place;
- Supported periodic external reviews of pricing methodology disclosures for the purpose of assessing compliance and identifying best practice; and
- Supported an initiative to determine common terminology for pricing purposes.

We are pleased to see that many of our suggestions have been incorporated into the latest consultation paper and in particular we support the following recommendations:

- A principle-based approach is adopted for model electricity distribution pricing methodologies;
- That information disclosure guidelines will be used to assist distributors prepare disclosures of their pricing methodologies;
- Periodic independent expert reviews will be initiated to assess compliance with the pricing principles using the information disclosure guidelines; and
- If an EDB's disclosure is deemed to be materially non compliant, persuasion will be used in the first instance to achieve compliance and direct regulation will only be considered if there is no improvement.

The Consultation Paper sets out a proposed timetable for introducing these new processes and for distributors to comply with these proposed requirements. We do not support the proposed timetable however as it is not able to be achieved. Distributors are about to finalise their pricing for the forthcoming pricing year commencing on 1 April 2010. If as proposed, the new principles are to be published in February 2010, the first time these will be able to be included in pricing will be for the following pricing year, commencing 1 April 2011.

In order for the recommendations arising from this project to contribute in a meaningful way to electricity distribution pricing, there must be sufficient time provided to distributors for:

- consideration of the new principles;
- review of current pricing methodologies;
- consultation with interested parties, including consumers;
- modifications to current pricing methodologies if required to incorporate the new principles;
- derivation of new tariff structures if necessary;
- development of an implementation plan;
- notification and consultation with Retailers; and finally
- drafting and publishing the new methodology document.

In addition, the current Information Disclosure requirements for EDBs do not require publication of information relating to compliance with the proposed pricing principles. Under sections 22 and 23 of the Information Disclosure Requirements 2004, distributors are required to:

**22. Disclosure of pricing methodologies—**

Every disclosing entity must publicly disclose,—

- (a) At the beginning of each financial year, the methodology used at the beginning of that financial year to determine the line charges payable or to be payable; and
- (b) Any change in the methodology or adoption of a different methodology, within 1 month of the change or the different methodology taking effect.

**23. Contents of pricing methodology disclosures—**

Every disclosure under requirement 22 must—

- (a) Describe the methodology used to calculate the prices charged or to be charged; and
- (b) Include the key components of the revenue required to cover costs and profits of the disclosing entity's line business activities, including cost of capital and transmission charges, which must include the numerical value of each of the components; and
- (c) State the consumer groups used to calculate the prices charged or to be charged, including—
  - (i) The rationale for the consumer grouping; and
  - (ii) The method by which the disclosing entity determines which group consumers are in; and
  - (iii) For each of these consumer groups, the statistics relating to that group which were used in the methodology; and
- (d) Describe the method by which the disclosing entity allocated the components of the revenue required to cover the costs of its line business activities amongst consumer groups, which must include the numerical values of the different components allocated to each consumer group and the rationale for allocating it in this manner; and
- (e) Describe the method by which the disclosing entity determined the proportion of its charges which are fixed and the proportion which are variable, and the rationale for determining the proportions in this manner.

These requirements focus on the calculation methodologies used by EDBs not the underlying pricing principles that have been used to determine the structures and levels of charges. Accordingly, an expert review of pricing methodology disclosures made at 1 April 2010 will simply identify that it is unclear to what degree distributors' pricing methodologies comply with the proposed principles, since the information will not exist to make an informed assessment. We therefore submit that it would be premature and needless waste of resource to review disclosures made pursuant to the current requirements.

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

Alan Jenkins  
Chief Executive