

File 5/25

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Electricity Commission

Wellington

Submission on the Distribution Pricing Principles and Information Disclosure Guidelines – Dec 2009

Northpower is one of the Electricity Distribution Businesses (EDB's) who are supporting the detailed PriceWaterhouseCoopers (PWC) submission. As such, there is no intention for this separate submission from Northpower to repeat PWC's analysis of the draft Pricing Principles and Information Disclosure requirements, or to duplicate PWC's recommendations.

Northpower wishes to add some comments of a more general nature.

Facilitating Retailer competition

From what we can recall, the Commission's original justification for embarking on a consultation process for (initially) a prescribed Distribution Pricing Methodology and (subsequently) a set of Pricing Principles was to facilitate retailer competition on distribution networks. In our opinion, the consultation process to date, both written and at the workshop, has not identified any barriers to retailer competition associated with distribution pricing methodologies. Rather, the barriers identified so far have tended to be of a contractual nature and these are being addressed in a separate forum.

Consequently, Northpower questions whether the draft Pricing Principles will achieve the original purposes of facilitating retailer competition. If there is confidence that they will, then we suggest that the final documentation of Pricing Principles should contain a statement as to how the Pricing Principles will achieve this goal. As pointed out in Northpower's previous submission (as recorded on page 47 of the latest consultation document), there is already a high level of retailer competition on some networks (including the Northpower network).

Alternative measures to increase retailer competition (redistribution of major generation stations and allowing distributors into retailing) are presently being considered by parliament.

Future changes in direction of distribution pricing

Northpower submits that significant changes will be required in distribution pricing methodologies in New Zealand in the next 2 to 5 year timeframe. These changes will be driven by factors including:

- Introduction of congestion charging relating to transmission grids and distribution networks

- Facilitating energy efficiency initiatives
- Increased deployment of very small-scale distributed generation.

These factors and others will necessitate a move away from distribution pricing which, for mass-market consumers, is currently primarily consumption-based to distribution pricing that has some elements of capacity-based charging.

Therefore it is essential that the final versions of the Pricing Principles are sufficiently flexible to support both the existing pricing methodologies which are dictated by existing regulations, particularly the Low Fixed Charge regulations, and also future “smarter” distribution pricing.

Low Fixed Charge regulations

Northpower has previously pointed out that the Low Fixed Charge regulations are the single biggest influence on distribution pricing for the “mass-market”. Until these regulations are repealed or substantially amended, all other initiatives, including the development of Pricing Principles, are, in Northpower’s opinion, severely constrained. Although the Low Fixed Charge regulations are mentioned in the consultation document, the constraints imposed by these regulations and the importance of facilitating changes has not, in Northpower’s opinion, been given sufficient analysis and weight.

Timing

As PWC has pointed out in their submission, the proposed commencement for information disclosure and review from 1 April 2010 onwards is premature. The process of consulting with retailers and notifying line charges which will be effective from 1 April 2010 has already commenced, consistent with the requirements of the Commission’s Model Use of System Agreement (MUoSA) from which most of Northpower’s Use of System Agreements have been derived. In addition, the MUoSA only permits one price/tariff review per 12 months. Furthermore, the Rules relating to Price Category Codes require changes to Price Category Codes to be notified to the Registry and to the Commission at least two calendar months prior to the effective date which, for 1 April 2010, would be 31 January 2010. Therefore commencement date for information disclosure and review should be 1 April 2011.

Regards



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Network Commercial Manager.