

22 December 2009

Electricity Commission  
Level 7, ASB Bank Tower  
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Wellington 6143

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## **SUBMISSION ON DISTRIBUTION PRICING PRINCIPLES AND INFORMATION DISCLOSURE GUIDELINES**

- 1 Orion New Zealand Limited (**Orion**) welcomes the opportunity to respond to the Distribution Pricing Principles and Information Disclosure Guidelines consultation paper (**the paper**) released by the Commission in December 2009.
- 2 We are pleased to see that the Commission has proposed a principles based approach to distribution pricing, underpinned by information disclosure. We fully endorse this approach. Our remaining comments focus on minor administrative and technical aspects of the proposal.
- 3 We attach as a schedule responses to the Commission's specific questions.

### **Proposed information disclosure guidelines**

- 4 In general we agree with the proposed information guidelines but suggest the following minor changes which we think will provide additional clarity:
  - 4.1 Guideline (a) could be more clearly expressed as "*Prices should be based on a well defined, clearly explained methodology, with any material revisions to the methodology notified and clearly marked.*" to make it clear that it is the methodology changes that need to be marked, not the price changes or the routine changes in quantities that occur each year. This point is acknowledged by the Commission, at least in relation to changes to prices, at paragraph

4.1.7 of the paper which states “Changes to price levels need not be reported.”

- 4.2 Guideline (c) (i) should be expressed as “*employ industry standard terminology ~~tariff formats and nomenclature~~, where possible;*” as it is the methodology that is the subject of the guidelines, not the format of the pricing information.

### Timing of reporting

5 We agree with the paper’s proposal that:

- 5.1 distributors first use the information disclosure guidelines to report against the pricing principles in March 2011 (for the 1 April 2011 – 31 March 2012 financial year<sup>1</sup>;
- 5.2 distributors will by 31 July 2011 receive an independent expert’s draft report on the compliance of each distributor’s pricing methodology against the pricing principles, and distributors should in turn should report on the expert’s findings by August 2011; and
- 5.3 the Commission will publish a summary of the independent reviews by 30 September 2011.

6 With respect to the Commission’s proposals regarding disclosure for the April 2010 to March 2011 year:

- 6.1 We agree that each EDBs will be required to publically disclose its pricing methodology under requirement 22 of the Original requirements<sup>2</sup> and that the contents of the pricing methodology so disclosed must satisfy requirement 23. We also agree that it may be informative for both the Commission and EDBs, as a learning exercise, to have an independent expert report on the compliance of each EDB’s pricing methodology with the pricing principles by 31 July 2010, and to produce a summary of those reports.
- 6.2 However, we do not agree that any useful learning can be achieved for either the Commission or EDBs by carrying out the step of EDBs reporting on the expert’s findings to the Commission by August 2010.

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<sup>1</sup> Paragraph 5.15

<sup>2</sup> **Original requirements** means the Electricity Information Disclosure Requirements issued 31 March 2004 including all subsequent amendments to those requirements (including the Electricity Information Disclosure Amendment Requirements (No 3) 2008)

This is because EDBs will almost certainly have published new prices, and possibly also the associated pricing methodologies based on their *current* practices, before the pricing principles are finalised and published in February 2010<sup>3</sup>. It does not seem appropriate or reasonable to require distributors to respond to an assessment against the *new* pricing principles, given that their current pricing methodologies will not have been specifically designed to comply with those principles.

- 7 We therefore recommend that the first formal assessment and review of the pricing methodology disclosures against the principles be carried out in relation to those made for the April 2011 to March 2012 year.

#### **CONCLUDING REMARKS**

- 8 Thank you for the opportunity to make this submission. If you have any questions relating to this submission, please contact Bruce Rogers (Pricing Manager) DDI 03 363 9870 email [bruce.rogers@oriongroup.co.nz](mailto:bruce.rogers@oriongroup.co.nz).

Yours faithfully



Bruce Rogers  
**Pricing Manager**

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<sup>3</sup> Paragraph 6.1.1

**Schedule: Responses to specific questions**

<b>Q No.</b>	<b>Question</b>	<b>Response</b>	<b>General comments in support of response</b>
1	Do you agree with the wording of the proposed principles? Please give reasons where you do not agree.	Yes	
2	Do you support the concept of information disclosure guidelines rather than the more prescriptive methodological requirements?	Yes	
3	Do you agree with the wording of these proposed information disclosure guidelines? Please give reasons where you do not agree.	To a large degree	We believe the minor changes proposed in paragraph 4 in the body of our submission will provide additional clarity.
4	Do you agree with the proposed process and timetable for reporting? Please give reasons where you do not agree.	Mostly	See our comments in paragraphs 5 to 7 in the body of our submission