DOMESTIC ENERGY USERS' NETWORK

Members

Age Concern NZ
Child Poverty Action Group
Grey Power Federation
Public Health Association
Rural Women NZ

Convenor:
Molly Melhuish, 04-568-4873, 027-230-5911, melhuish@xtra.co.nz
Secretary:
Sarah Free, 04-383-7337
rossar@actrix.co.nz

Cross-Submission to Electricity Authority:
Decision-making and economic framework for transmission pricing methodology review
12 March 2012 Contact: Molly Melhuish, melhuish@xtra.co.nz, 04-568 4873

DEUN's submission to the Transmission Pricing Methodology framework document approved of the principle of market pricing as an option for domestic consumers, on the assumption that this would give them opportunity for genuine choice, between convenience and security of a fixed price, and an opportunity to take a variable price for a small part of their network charges.

At present, domestic electricity users have little incentive to help limit consumption at peak times due to lack of clear pricing signals and lack of information about the loadings on the grid. This can work to their disadvantage if the grid upgrades are then required which must be paid for in higher electricity prices. Pricing plans that incentivise domestic consumers to use power at off peak times rather than peak times reduce the load on the network and help distribution companies manage their transmission costs.

Network charges are particularly important because it is domestic demand that causes almost all "critical peak demand", that is, the demand on the network at times the total demand on the system approaches its top approximately 1%. We therefore applied the "principles" from the document to the retail part of the industry.

The TPM consultation document only covered wholesale transmission markets, a playing field for distribution companies, retailers and major electricity users. Domestic consumers are treated by the industry players as entirely passive. This causes them to be essentially captive to the pricing policies decided by the industry – effectively a cartel supplying domestic consumers.

The other submissions to the document were very revealing in their views of whether market or administered pricing were preferred, in the transmission arena. Virtually all of them remarked that the decisions of the last few years have created huge sunk costs in the grid.

The strong impression from the submissions was that the continuing discussions of transmission pricing methodology were causing regulatory uncertainty, with issues of wealth transfer being raised repeatedly, and resulting lobbying (MRP p. 20). Most preferred an acceptance of the status quo, even for the controversial HVDC pricing. MEUG's submission, prepared by NZIER, Table 1 seems to indicate that market pricing is highly preferred, yet the submission concludes that any changes should be measured against the status quo, rather than methodology starting from the first-principles espoused in the consultation document.

Many have remarked that market pricing makes little sense with a monopoly network. The key efficiency issue is efficient utilisation of the grid [Contact p. 5].

Only one submission, by Orion, addressed the bigger and more interesting issue of distribution pricing methodology, and the fact that the Authority prefers to align the two methodologies. Distribution investment is not largely sunk – most lines companies are in the position that transmission investment was at before the recent wave of decisions. And the aggregate value of distribution assets is some 2.5 to 3 times that of transmission investments. We must not let the tail wag the dog!

In fact a pure market model for distribution pricing has been introduced by The Lines Company (TLC), which is extremely strongly opposed by community groups. This model has features that would never be included in any pricing that was properly negotiated between buyers and sellers.

- Peak load pricing has caused up to doubling of lines charges for some consumers, and a few, even more. The lines charge arising from a customer's peak load(s) only begins many months after the load was actually incurred – and lasts for an entire year thereafter. In the absence of revenue increases, many consumers would have small decreases in their lines bill – while a smaller number would have significant or even very large increases. (In fact the rising network revenues mean that almost no consumers will get a lower lines bill.)
- One example of unacceptable risk has been termed "family risk" – People who have families come to visit have incurred sudden high peak loads – for heating, cooking etc. – which then sets for them an unprecedented lines bill for the whole following year. This in no way reflects after-diversity costs, it is simply punitive.
- These risks are put onto consumers with no information as to whether peak loads are chargeable – they apply only when TLC is controlling hot water loads, but there is no in-home indicator that load controlling is occurring.
- Despite the clear flaws in the TLC methodology and approach, direct charging for lines functions could in principle could lead to more efficient use of the grid and lower costs for the future, so long as consumers have the incentive and knowledge to adjust their load in response to system pressure.
- Critical peak pricing, applied only at times of actual system stress, is used in many countries and is an ideal example of true market pricing that could benefit domestic consumers.

DEUN notes that most of the arguments against market pricing for Transpower apply, often in heightened form, to distribution pricing, but in greater force. Risks imposed on domestic consumers are greater by proportion, many domestic consumers are more harmed than most businesses by fluctuations in power bills, attempts to argue with the monopolist have been unpleasant to say the least.

In conclusion, we concur wholly with Carter Holt Harvey's concluding statement:

"We are very concerned that this debate will not be balanced in that the ability to apply resources both financial and technical by the supply and consumer sectors of the electricity market is significantly different. We recommend that if the Authority elects to proceed with further investigation and consultation on market based approaches, then it reviews with consumer groups such as MEUG, Consumer NZ, Federated Farmers, Domestic Electricity Users Network and Grey Power ways in which it can assist with provision of sufficient resources to allow the consumer sector to contribute fully to the issues."

This, DEUN believes, applies in even greater force to distribution pricing methodology. The Electricity Authority should take responsibility for efficient distribution pricing methodology, free of the pure-market rhetoric that surrounds the "competition, reliability, efficiency" mantra that guides its decisions today. It should specifically engage with both distributors and domestic consumers as to whether and how a critical peak pricing option could be practically introduced.