

Session 2

Retail pass-through of efficient distribution tariffs

Distribution pricing conference

17 August 2016

What is the issue?

Consultation paper stated that:

- Distributor's price structures don't align with their costs and do not signal the cost of new capacity to network users.
- Distribution prices should encourage consumers to take actions that reduce current or future network costs and not encourage consumers to make decisions that increase the price of electricity paid by other consumers

However, the benefits of distributors adopting cost-reflective tariffs depend on consumers responding to the newly established price signals. For this to occur, the price signals need to be passed through to consumers by their retailer.

What did submissions say?

A number of distributors stated:

- retailers won't pass-through cost-reflective distributing tariffs and that the benefits of distribution tariff reform will not be fully realised.
- the Authority needs to take steps to facilitate or even mandate pass-through.

Retailers say its not a problem competition will ensure that consumers will be provided what they want.

Competition will ensure efficient pass-through of cost reflective distribution tariffs

New Zealand has a highly competitive electricity retail market

The competitive process places pressure on retailers to adapt their tariff structures, otherwise they risk their competitors over-taking them because:

- Retailers that do not pass-through cost-reflective distribution tariffs will create transfers between consumers.
- Participants in a competitive market have incentives to target those consumers who are subsidising the usage of others.

