Distribution pricing methodology

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Contact Energy presentation

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Core issues

1. Unnecessary complexity…….
   a. Needs to be trade-off between desire for economic purity and administrative burden
      i. General connection summer/winter pricing
      ii. General connection summer/winter/day/night loss factors
      iii. Excess pricing/loss factor zones
2. Unpredictable input costs at ICP level……..
   a. UFE related charges
      i. WDM - uses reconciled volumes
      ii. RDM - ICP quantities scaled to reconciled quantities
      iii. Published loss factors not reflective of total losses trends
   b. Profile assumptions & wash-ups
      i. WDM General Connection c/kWh pricing
      ii. WDM General Connection congestion period pricing
   c. Non price charges
      i. Transpower administration charges
      ii. Remote signal service charges
   d. Transparency problematic
   e. Transfer of revenue risk

Core issues continued

3. WDM fails to reflect delivery service is to ICP not GXP
4. Controllable load incentive insufficient
    a. weakened by WDM
        i. mandatory hot water load control for emergencies only (Orion)
        ii. hefty penalty for uncontrolled hot water (Alpine)
    b. mandatory hot water controllable load (several distributors)
5. Capacity charges for domestic customers problematic for low user compliance
6. Pricing structure can be a problem for billing
    a. Some power factor charges
7. Administrative burden
    a. WDM reconciliation cycle invoice reversals/rebills
    b. Advance estimated billing followed by wash-ups in arrears
    c. CPD prices for small end customers

Optimal distribution pricing structure

1. ICP based (RDM)
2. All prices predictable and billable, no scaling – certainty of cost & potential transparency by ICP
3. Single definition for domestic customer based on low user regulations
4. No capacity charges for domestic customers, impacts low user compliance
5. Avoid distinction between residential & non-domestic variable rates with same capacity except as required by regulation (low user option)
6. Accept a level of cross subsidy within network region unless material difference in costs, noting that regulated low user pricing already distorts cost-reflective pricing
7. If necessary limit geographic splits to urban/rural
8. General Connection pricing should reflect standard metering limitations until widespread deployment of AMI
9. Pricing signals to incentivise off peak (C, D/N), with sufficient differential to incentivise controllable load and load shifting rather than mandating controllable hot water
10. Avoid summer/winter pricing for General Connections
11. Small number of fixed charges based on capacity bands for > 15kVA
12. Avoid complex loss factors (S/W/D/N) for at least General Connections

Other issues

1. Pricing schedule to be complete within itself – notes to ensure clarity, price category and tariff codes
2. Most but not all distributors pass through loss rental rebates transparently
3. Vacant period line charges not directly recoverable, no customer
4. Requirement to disconnect to stop line charges, potential avoidable cost
5. Embedded network growth adding significant costs for retailers