

Principles or model approaches to distribution pricing

Rob Jamieson

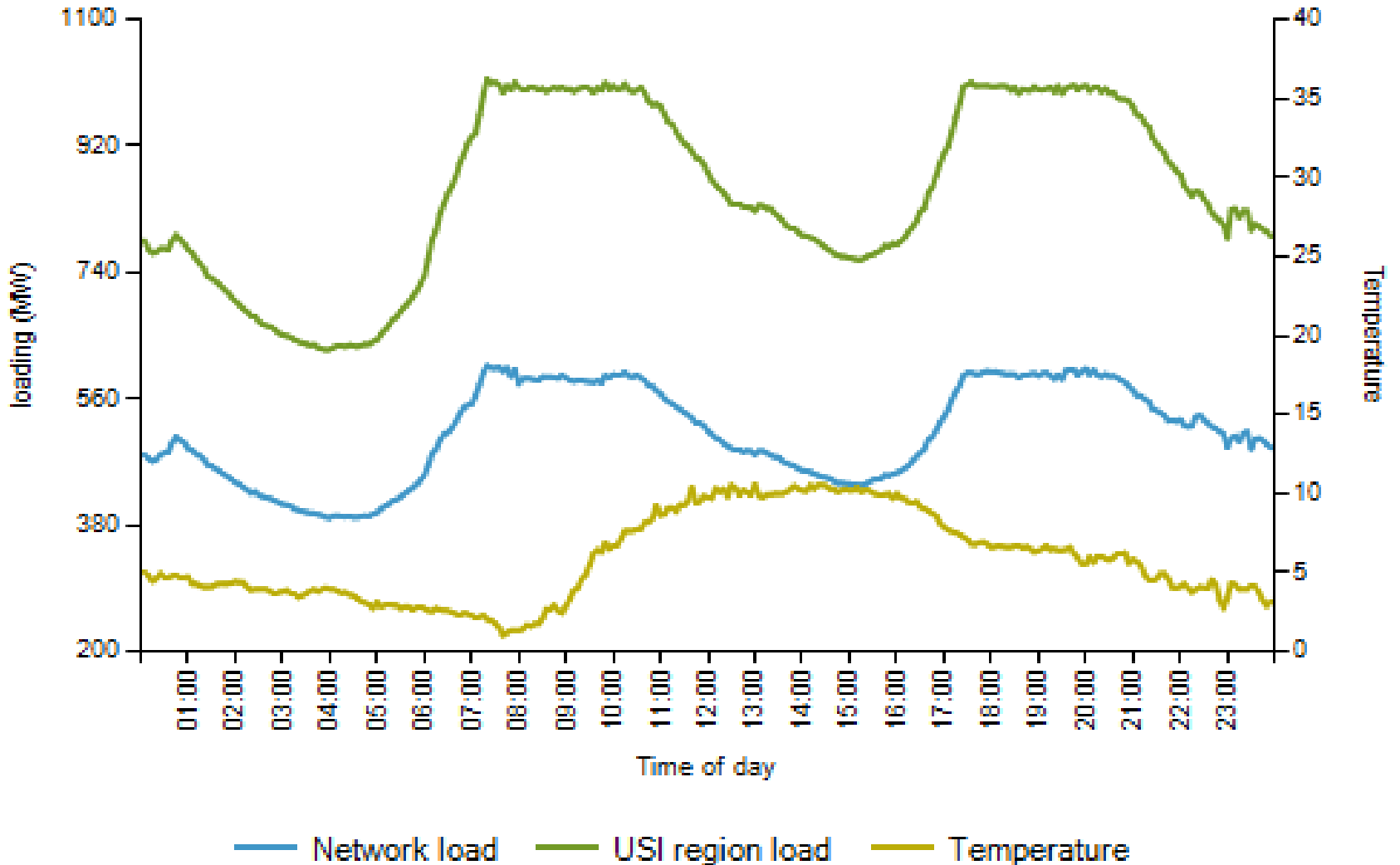
Context

- EC distribution workstreams
 - Distribution pricing
 - Load control - rights
 - Model agreements
- 40 year+ investments
 - DG, electric cars, power quality, safety & reliability expectations in a more complex world
 - What vision are decisions being made within?
 - Ofgem view – industry should generate vision not regulator
 - Vision starts with today's reality...

USI coordinated peak management

- Example of innovation
 - trying something new
- Electricity Commission & Transpower support
- Mainpower, Alpine, Westpower, Tasman, Marlborough, Buller, Electricity Ashburton cooperation
- International interest

Network load, upper South Island region load and temperature



Smart meter rollouts

- Great majority of houses in Orion area now have smart meters
 - International leadership
 - Theoretical problem of ripple receiver removal managed through relationships (see previous graph)

A Vision: Local System Operators

Networks act as both asset owners and system operators

- Transparency & coordination across asset ownership boundaries will be of even greater value
 - Ripple to hot water, coordinated control across multiple networks, transmission S.O./LSO coordination
- The LSO is a framework to allow & support innovation & asset ownership by multiple parties
- Consistent with international view of networks as market enablers & the recognition of the value of coordination in all markets (not just electricity)
- The challenges on our doorstep require local innovation & coordination
 - It will be challenging to keep existing levels of power quality & reliability let alone improve these (e.g. DG & electric cars)

Specific comments

- “The Commission has commenced a project to develop pricing principles or model approaches... as stated in the Government Policy Statement (GPS), in particular:
 - an initial preference for a voluntary approach which the lines businesses can be evaluated and monitored against...”
- Does not give sufficient weight to:
 - Para 7 innovation
 - Para 40 engagement with local communities on trade-offs

The paper & its recommendations

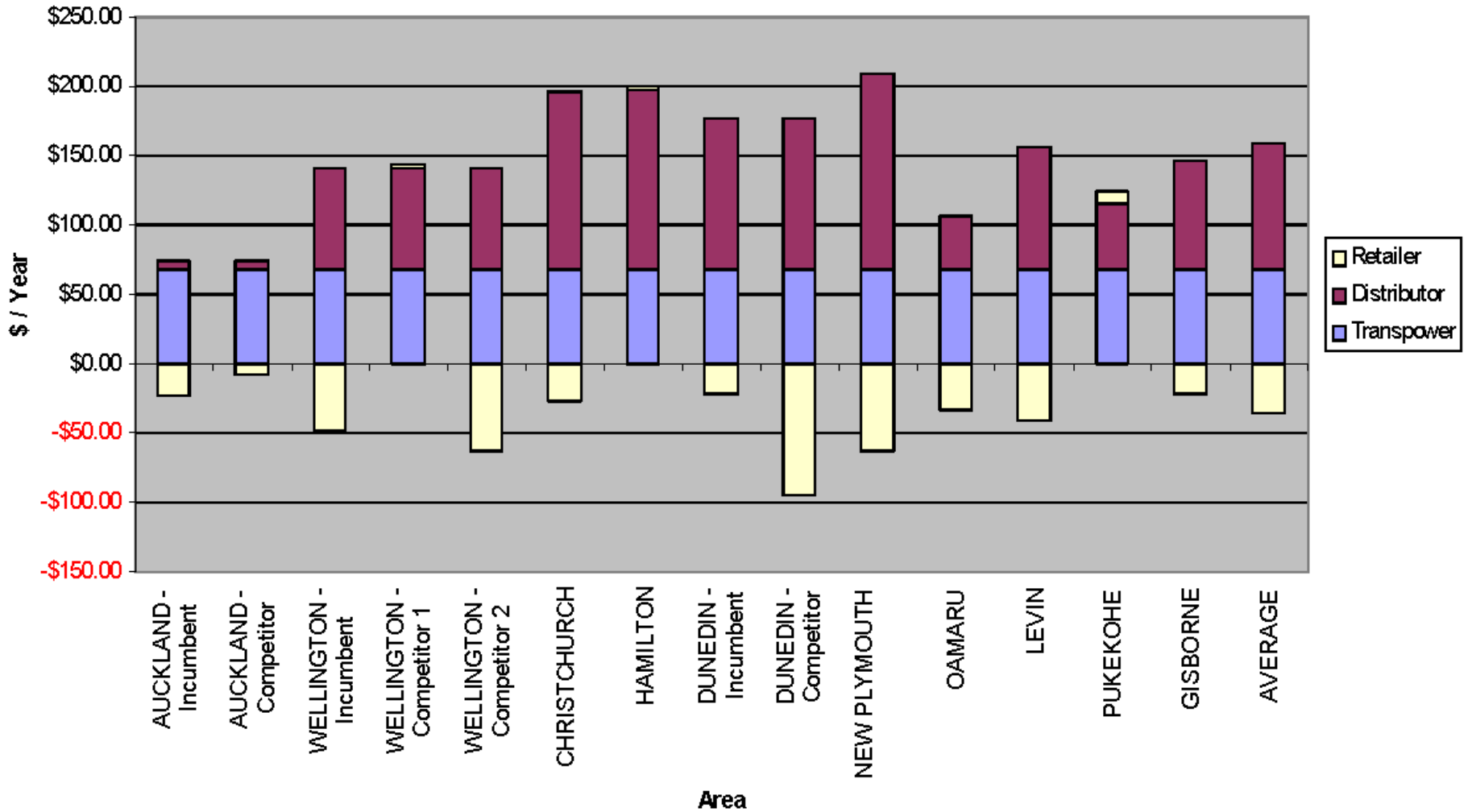
- Insufficient recognition of actual experience
 - Often contradicts theory
- Would create an unnecessary barrier to innovation
 - Para 6.8 comment should praise NZ.
 - Overseas jurisdictions seek help from us
- EC model would be the **ONLY** template for ComCom input methodologies; so effectively is mandatory for 7 years
 - Principles far better match to ComCom Part 4 work
- Sidetracked into retail vs. wholesale
 - Relevant counterfactual is ‘ability to do either’
 - Therefore wrong cost/benefit

Load Management and Metering Project

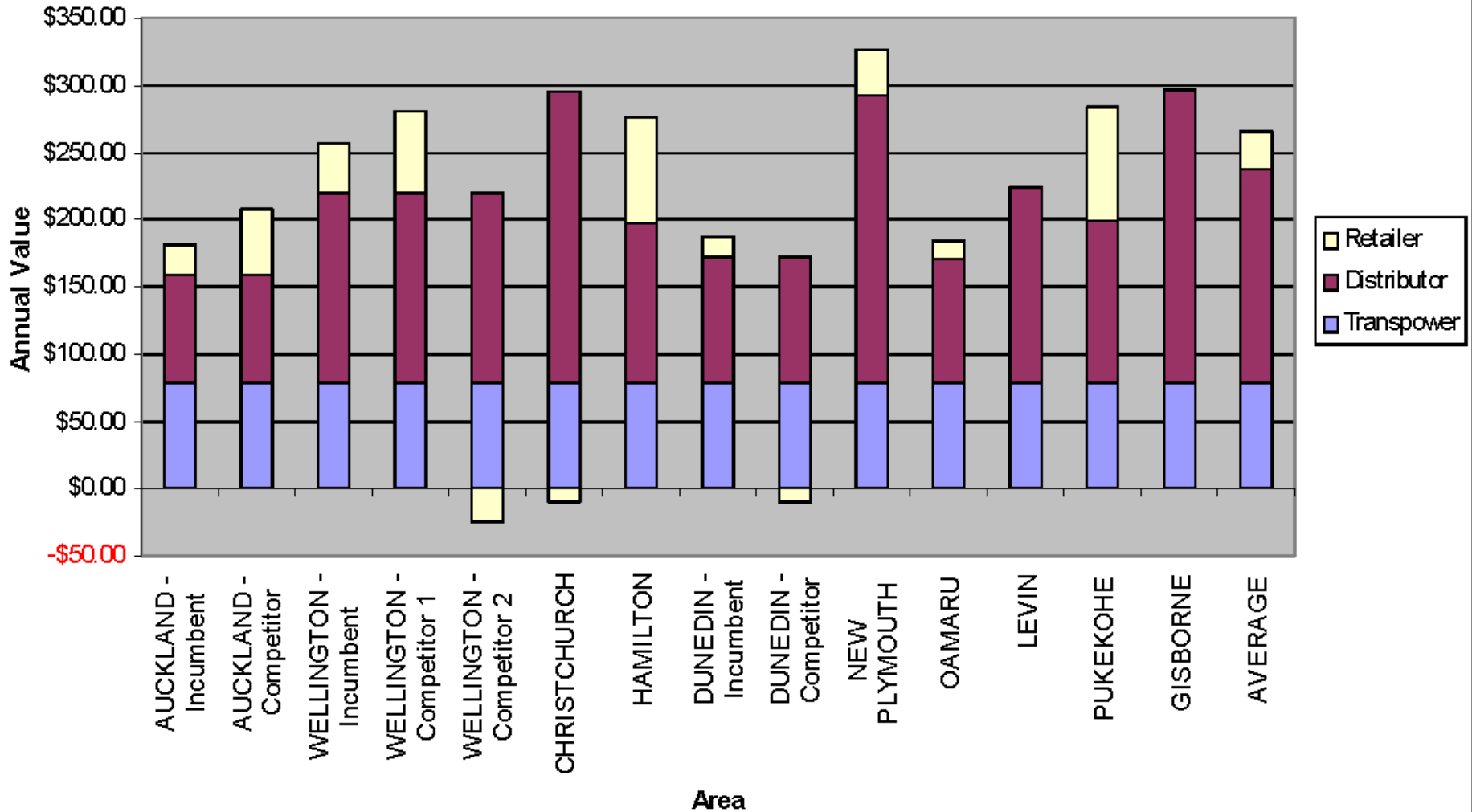
Phase 1 – Existing Capability

RMAG Meeting
27 September 2006

Value of Controlled Load - Day



Value of Controlled Load - Night Only



Pricing as a basis for positive customer relationships



Actual experience

- Important to learn the lessons since PAWG 2005
 - Smart meters are arriving – retailer innovation more likely – not the time to blink
 - The value is in coordination & relationships
 - EC's work in 2006 by Neil Walbran shows non-dilution by WDM
 - Commerce Commission
 - gas pricing principles work; Meyrick recommended high level principles only – PAWG too detailed
 - Potential ComCom input pricing method – for 7 years!

New problem definition required

- What are the barriers preventing distributors from rationalising legacy pricing methods & innovating?
 - 1st step: Seek specific feedback from retailers & distributors on this problem definition
- Identify pricing principles for input methodologies