

8 May 2012

Submissions
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by email: submissions@ea.govt.nz

SUBMISSION ON CONSULTATION GUIDELINES FOR DISTRIBUTOR PRICE STRUCTURE CHANGES

- 1 Orion New Zealand Limited (**Orion**) welcomes the opportunity to comment on the “Voluntary consultation guidelines for proposed changes to distributors’ tariff structures” consultation paper (the **paper**) released by the Authority in March 2012.
- 2 Our submission is in two parts:
 - 2.1 Comments on key aspects of the paper,
 - 2.2 Responses to the paper’s specific questions as an Appendix.
- 3 The Electricity Networks Association (ENA) has also submitted on the paper. Orion supports the ENA submission.
- 4 We generally support the consultation process as set out in the paper, and we are comfortable with most of the principles, guidance and scope elements. Orion carries out extensive consultation when we consider changes to pricing structures. Our comments are thus relatively minor queries and points of clarification.
- 5 **Table 1, comments on para 5** which discusses the consultation process and timeframe.
 - 5.1 While it is true most distributors change their prices each year, it is not



really accurate to state that structural changes “recur” annually. Structural changes are, we believe, unusual. However, we acknowledge that the price change date sets an absolute end date in terms of consultation timings.

- 5.2 We are not sure of the relevance of the transmission change notification date to a structure change consultation timetable? The timing of annual transmission price and charge changes is reasonably well known and signalled in advance. However that is (normally) nothing to do with the *structure* of distributors’ pricing and associated consultation. We would normally consult on structural changes well before transmission price change notifications are received. If the transmission pricing methodology itself was being changed, then other participants would be as aware as distributors of the process and timing. Hopefully that process itself would give distributors adequate time to consult on how those changes might affect the distributors’ pricing structures, but that could well be beyond distributors’ control. On the other hand, as distributors currently have to rebundle transmission pricing, any change to transmission pricing does not necessarily lead to a change in the structure of distributors’ pricing.
- 5.3 Where the price structure change reflects regulation or law change, the distributor may not be able to comply with a normal process and time frame for consultation, and the consultation itself must be rather moot if the change is required by law?
- 6 The guidelines should thus make it clear that they only apply where the distributor initiates the structure change process. Where other change drives the process, distributors should only have to consult as much as is reasonably possible over the available timeframes.
- 7 **Table 1, comments on paras 6 and 7**, which discuss the information provided.
- 7.1 We are surprised that it is suggested (first bullet point) that the distributor outline what pricing signals it wants retailers to reflect in retail prices. The Authority has recently decided – correctly in our view - not to include a proposed requirement that retailers pass through distributor price signals. We think the unbracketed part of this bullet point is sufficient. There will be all sorts of reasons why distributors want to change pricing structures.
- 7.2 The third bullet point continues a confusion that the Authority has created by introducing the term “tariff rates”¹ - which we do not understand - but in

¹ We do not use the terms “tariff” or “tariff rate” at all. We have connection categories each of which has an associated set of one or more pricing components, business rules and explanatory information. Some components in some categories are optional. We remain

any case we do not think the paper means the *actual prices* in this context? Consultation does not in our view require a “comprehensive schedule” of proposed new prices. It could reasonably be expected to include and explain the *structure* of any new prices, perhaps with *indicative* prices. Actual prices will be finalised following consultation and establishment of the new structure as part of the normal pricing process.

- 7.3 The fourth bullet point around rate shock analysis presumably only applies where the retailer is interposed? We would not expect to consult with retailers over the introduction of or change to individualised pricing where we bill the customer directly. The guidelines could usefully use the Commerce Commission’s definition of “rate shock” which is a change that causes charges to increase by more or less than 10%.

Scope and materiality

- 8 We are not sure why this section of the paper is structured differently to Table 1?
- 9 In our view the discussion in para 2.5.2 of the paper does not correctly reflect the Code. 12A.7 (3) of the Code describes *types* of changes; it is not a materiality test. 12A.7 (4) leaves it open for the distributor to not consult where a change of the type listed in 12A.7 (3) is not material. The Code itself does not include a materiality test, so the guidelines should probably do so?
- 10 By way of example, Orion routinely makes minor changes to eligibility criteria for our connection categories, and the business rules for the application of our prices. These changes do not change the structure of our pricing, and in our view they are seldom if ever material in the sense that they should be the subject of a full-blown consultation process as envisaged by the guidelines. They are normally just tidying up or clarifying questions that have arisen over the previous year.
- 11 Para 2.5.3 of the paper seems to repeat much of the discussion in Table 1, para 5?

Other matters

- 12 Para 3.5.1 of the paper sets out some Retailers’ Forum consultation guidelines. However, the Paper does not say what they are for in this context? Regarding

unsure whether “tariff rate” is supposed to be the equivalent of a connection category or a pricing component. We will continue to use language which we, and we believe retailers, understand.

3.5.1 (e) we agree with the sentiment and proposed approach, but we don't think that this relates to consultation around pricing *structure* changes.

Concluding remarks

- 13 Thank you for the opportunity to make this submission. Orion does not consider that any part of this submission is confidential. If you have any questions please contact Bruce Rogers (Pricing Manager), DDI 03 363 9870, email bruce.rogers@oriongroup.co.nz.

Yours sincerely

A handwritten signature in black ink, appearing to be 'BR', written in a cursive style.

Bruce Rogers
Pricing Manager

Appendix: Responses to specific questions

	Question	Response
1	Do you agree with the proposed consultation principles and good practices? If not what changes do you suggest and why?	<p>Yes, in general. We consider that Orion already has a robust consultation process in place and that this is broadly consistent with the proposed guidelines.</p> <p>However, we think the paper confuses <i>price</i> changes with <i>pricing structure</i> changes. The consultation envisaged is likely to be and indeed should be more about concepts and approaches rather than actual prices.</p> <p>The paper indicates that material pricing structure changes are quite common. We do not believe that they are.</p> <p>See also the comments in the body of our submission.</p>
2	Do you agree with the proposed scope of consultation process by distributors? If not what changes do you suggest and why?	<p>Yes, in general.</p> <p>The Authority needs to develop a definition or some guidance around the term “materiality”, and then decide how this should be reflected in the guidelines. The discussion in the paper with respect to the Code is in our view incorrect in interpreting 12A.7 as providing a materiality test.</p> <p>See also the comments in the body of our submission.</p>
3	Do you agree that the Authority has taken appropriate factors into account in developing the consultation guidelines?	<p>Yes, in general.</p> <p>See also the comments in the body of our submission.</p>
4	Are there any other factors the Authority should also take into account? If so please provide details.	<p>See the comments in the body of our submission.</p>