

## **1. Information disclosure requirements**

At the Pricing Issues Consultation Group meeting on 6 March 2003, the Secretariat proposed a format for information disclosure by the DNSPs, to be included as a requirement in the 2004 Determination. This paper provides more detail on the proposal and the information which would be required to be disclosed by DNSPs at each stage.

*(Note that these are proposals from the Secretariat and not the Tribunal).*

### **(i) 'Strategy Statement' by each DNSP**

*Each DNSP publish a once-off, forward looking report at the beginning of the regulatory period. This could be referred to as the 'Strategy Statement' and would contain the following:*

- The medium term pricing strategy*
- Approach taken to calculating prices, including cost allocation methodology*
- Demonstrate satisfaction of the relevant pricing principles*
- Outline the proposed capital expenditure program, expected consumption and maximum demand over the medium term and how prices relate*
- Outline potential non-network alternatives and current/future demand management projects*
- Outline expected service levels over the medium term*
- Forecast financial performance of the network business over the medium term*

It is proposed that the DNSPs submit a draft 'strategy statement' to IPART in March 2004. This would be based on the Tribunal's draft 2004 determination, to be released in November 2003. IPART would assess the 04/05 pricing proposals against the draft document. A revised 'strategy statement' could be issued in July 2004 to reflect the final determination (released March 2004), and used for the basis for 2005/06 prices.

It is envisaged that the document would contain the following detail:

- A description of the prescribed distribution services, customer classes and regions for pricing, including a description of components of charges such as the demand, energy and fixed components
- Outline of the medium term pricing strategy, including a comparison of current tariffs (in average c/kWh), with the proposed 'target' levels – being the tariffs that the DNSP will seek to move towards over time
- A comparison of the current balance of the components of the tariffs (eg weight placed on the fixed, energy and demand components) with proposed 'target' tariff structures
- An outline of any proposed rationalisation of tariffs (eg merging or obsoleting of current tariffs or new tariffs) and whether there is likely to be a change in the cost allocation methodology, or other factors, which affects the structure of the charges
- Demonstrate satisfaction of the relevant pricing principles, including an estimate of the range of subsidy-free prices (for DUOS component)

- An outline of the cost allocation approach used in determining prices and as the basis of the pricing strategies. This includes the basis for allocating 'shared' costs
- Medium term capital expenditure forecasts, including major projects for asset replacement/augmentations, and areas of emerging capacity constraints
- Forecasts of consumption, growth and maximum demand
- Forecast financial performance of the network business over the medium term.

**(ii) 'Annual Prices' document by each DNSP**

*When the annual prices are implemented, the proposal is for DNSPs to provide a report for the public explaining the change in prices. It would contain:*

- List of new prices
- Discuss the changes in prices or structure, and any new or obsolete tariffs
- Explain how the prices meet the price-constraints and weighted average price cap
- Demonstrate the impact on typical customer's bills and forecast average prices (based on typical bill categories as set by the ESAA)
- Explain how these prices fit in with the medium term pricing strategy, or any change in the strategy (substantial change to the strategy would require a new 'Strategy Statement').
- Outline the expected levels of service and projected capital expenditure projects that will occur during the year
- Outline the expected consumption for major customer classes and maximum demand for the year

It is proposed that this be submitted to IPART with the annual pricing submission for assessment. It could be released publicly with the final approved prices.

**(iii) Comparative Price and Service Report – produced by IPART**

*Using information from the Regulatory Accounts, the proposed 'Annual Prices' document from each DNSP, and the DNSP network management reports produced for the Ministry of Energy & Utilities, IPART would produce a public report based on the previous financial year. It would outline each DNSPs' historical performance on financial, operational and service quality data for the previous financial year, with forecasts where available.*

The intention of this document would be to disclose actual financial year information, such as revenue, operating costs, capital expenditure, partial productivity measures, consumption by customer class, average prices, and service standard results for the year as currently presented by IPART in the comparative price & service report.

IPART would begin compiling the report after the receipt and approval of the Regulatory Accounts after 30 October each year. IPART would provide a draft to the DNSPs by end of January, for release approximately February/March.

## 2. Annual pricing proposals timeline & assessment process

At the Pricing Issues Consultation Group meeting on 6 March 2003, the Secretariat proposed to outline a timeframe for DNSPs to submit their pricing proposals to the Tribunal for compliance assessment. The timeframe is to incorporate the operation of the default pricing provisions.

For a typical year, the proposed process is outlined below, with 2005/06 prices chosen as an example. In effect, it provides that the DNSPs must submit their pricing strategies to the Tribunal, approximately 11 weeks prior to the implementation date on 1 July.

The timeline is intended to provide retailers, both second tier and standard retailers, with sufficient notice of final network prices in order to introduce retail prices on 1 July. During the assessment period, IPART Secretariat needs to liaise with the DNSPs and provide advice on compliance as early as possible, in order to give the DNSP's maximum time for addressing non-compliant issues.

Action	Time to assess	Approx date (05/06 prices)
1. IPART to provide pricing template and outline of 'annual pricing document' to DNSPs for review and completion		Wed 3 Mar 2005
2. DNSPs submit pricing proposals to IPART, including draft annual prices document to IPART	~ 20 working days for completion	Wed 6 April 2005
3. IPART to notify DNSPs of compliance/ non-compliance <ul style="list-style-type: none"> <li>- If compliant =&gt; DNSPs to notify retailers and customers, with public release of 'annual prices' document required</li> <li>- If non-compliant =&gt; DNSP submits alternative proposal</li> </ul>	~ 20 working days for Tribunal assessment	Fri 6 May 2005 <i>(note Easter public holidays to be accommodated)</i>
4. Final date for DNSPs to submit an alternate proposal to IPART	3 working days for DNSP	Wed 9 May 2005
5. Final date for notification of compliant pricing proposal by IPART <ul style="list-style-type: none"> <li>- If compliant =&gt; DNSPs to notify retailers and customers with public release of 'annual prices' document</li> <li>- If non-compliant =&gt; default arrangements enacted</li> </ul>	10 working days for Tribunal assessment	Wed 25 May 2005
6. 2005/06 distribution prices come into effect	Prices to Retailers 25 working days prior to 1 July	1 July 2005

It is recognised that the TUoS component of the tariffs would be based on estimates of the transmission charges from TransGrid, given that the actual charges are not available until mid-May. The resulting difference would be accounted for by the transmission correction mechanism.

*(Note that these are proposals from the Secretariat and not the Tribunal).*

### **3. Default provisions**

In the event that a compliant pricing proposal has not been received and assessed by IPART by the final date (25 May above), the default provisions will apply, until a complying proposal is submitted. The Secretariat expects that this will only occur in exceptional circumstances. Once the default provisions are invoked, the subsequent pricing proposal will need to demonstrate compliance with the weighted average price cap and the price-constraints over the shortened time period. The Tribunal would consider an implementation date which allows the Tribunal time to assess the proposal and for retailers to adjust for the new prices.

#### **Secretariat's proposal**

1. If  $(CPI-X) > 0$ , for the DNSP in that year, DUOS prices will not change on 1 July.
2. If  $(CPI-X) < 0$ , for the DNSP in that year, the Tribunal may change DUOS prices on 1 July by  $(CPI-X)$ , or an alternate amount.

Under both scenarios, prices may be changed at a future date set by the Tribunal based on a compliant pricing proposal submitted by the DNSP.

#### **DNSP's proposal**

1. If the prices in place for the DNSP would collect less than the allowable weighted average price in the following year, prices will not change on 1 July. Prices may be changed at a future date set by the Tribunal based on a compliant pricing proposal submitted by the DNSP.
2. If the prices in place for the DNSP would collect no more than 5% above the allowable weighted average price in the following year, the Tribunal will not change prices 1 July. Prices will be changed at a future date set by the Tribunal based on a compliant pricing proposal submitted by the DNSP, which proposal must be submitted within 5 working days.
3. If the prices in place for the DNSP would collect more than 5% above the weighted average price cap in the following year, the Tribunal may change prices by its discretion on 1 July, and will notify the affected DNSP, Retailers and customers of its decision. Prices may be changed at a future date set by the Tribunal, based on a compliant pricing proposal submitted by the DNSP.

### **4. Alternate 'price change' date**

The current Pricing Principles and Methodologies document contains a provision that allows the Tribunal to approve a 'Price Change Date' other than 1 July, if a request is received from the DNSP. This occurred for 2002/03 prices which were implemented on 1 August 2003. The Secretariat proposes to continue with this provision.