

Guidelines for consulting on distributor tariff structure changes

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Overview

This document provides guidance for distributors and traders on the scope, approach and process of consultation required by Clause 12A.7 of the Code regarding tariff structure changes proposed by distributors.

Glossary of abbreviations and terms

Authority	Electricity Authority
Board	Electricity Authority Board
Code	Electricity Industry Participation Code 2010
ICP	Installation control point
MUoSA	The model use-of-system agreement published by the Electricity Authority
Price category	The price category and associated eligibility criteria set out in the distributor's price schedule that determine the tariff rate(s) that apply to an ICP.
Regulations	Electricity Governance Regulations 2003
Tariff rate	A price component within a price category which, when combined with a relevant quantity and, if more than one tariff rate for a particular price category, summed together, determines the line charges that apply to an ICP for a billing period.
Tariff structure	A distributor's price categories, associated eligibility criteria and tariff codes that are used to determine a tariff rate for an ICP.
UoSA	Use-of-system agreement

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Introduction

1. Part 12A of the Code requires that certain distributors consult with each trader on their network(s) in respect of proposed changes to the distributor's tariff structures that may materially affect one or more traders or consumers.¹ This requirement applies to changes made by distributors from 1 May 2012.
2. On 28 October 2011,² the Electricity Authority (Authority) advised its intention to develop voluntary guidelines for such consultation. The Authority consulted with interested parties in April/May 2012³ and has finalised these guidelines after considering submissions on that consultation paper.
3. The purpose of the consultation guidelines is to facilitate meaningful and more effective engagement between distributors and traders during the early stages of the tariff structure development process.
4. The Authority considers that adoption of these consultation guidelines will benefit distributors, traders and ultimately consumers by promoting good practice and greater standardisation of approach across distributors when tariff changes are made.
5. These consultation guidelines set out a generalised approach to consultation of distributor tariff structure changes. If agreed in advance by the distributor and all relevant traders, it is reasonable in some circumstances to conduct a more simplified process that could omit or modify some of the process steps or information set out in these guidelines.
6. The Authority intends to monitor the uptake of the consultation guidelines and facilitate future improvements where these are indicated. This monitoring will be undertaken as part of the model use-of-system agreement (MUoSA) monitoring regime, which as at June 2012 is currently in development, with an expectation that it will be completed by September 2012.
7. These guidelines are intended to assist distributors to comply with their obligation to consult in Part 12A of the Code. If these guidelines are inconsistent with the Code, distributors must comply with the Code.

Structure of the consultation guidelines

8. The consultation guidelines consist of three elements:
 - (a) *scope of the consultation process* – this section provides guidance intended to clarify the scope of the consultation process covered by these guidelines;

¹ Clause 12A.7(2).

² Electricity Authority, *Information Paper and Summary of Submissions – More standardisation of distribution arrangements: Amendments to Code*, 28 October 2011. Available at: <http://www.ea.govt.nz/our-work/programmes/market/consumer-rights-policy/model-arrangements/distribution-tariff/>.

³ Electricity Authority, *Voluntary consultation guidelines for proposed changes to distributors' tariff structures – Consultation Paper*, 26 March 2012. Available at: <http://www.ea.govt.nz/our-work/consultations/retail/voluntary-consultation-guidelines-distributors-tariff-structures/>.

- (b) *consultation principles* – provide high-level guidance and require interpretation and adaptation to develop a “fit-for-purpose” consultation process; and
- (c) *good practice guidance* – provide, for each consultation principle, a number of more specific, defined approaches, procedures and actions, which will be necessary to implement an efficient and effective consultation process.

Scope of the consultation process

9. Part 12A of the Code requires that certain⁴ distributors consult with each trader on their network(s) in respect of proposed changes to the distributor’s tariff structures that may materially affect one or more traders or consumers.⁵
10. Changes that may materially affect one or more traders include, but are not limited to:⁶
 - (a) a change by the distributor to the eligibility criteria for one or more of the distributor's tariff rates;
 - (b) a change by the distributor to the distributor's tariff structure by the introduction of a new tariff rate; or
 - (c) a change by the distributor to the distributor's tariff structure that means that one or more of the distributor's tariff rates are no longer available.
11. The Code does not specify when consultation must commence or how long it should take. Therefore, the relevant distributor will need to determine when the consultation process will commence. Further guidance on project planning is provided in the following section.
12. Distribution use-of-system agreements (UoSAs) are likely to contain additional consultation requirements in respect of tariff structure change to those required by the Code. Those requirements must also be adhered to by the parties. The consultation principles and good practice guidelines in the following section take into account the relevant MUoSA clauses governing tariff structure changes.
13. The consultation process ends when the distributor has completed all consultation activities and reached a final decision on all of the changes it intends to make to its tariff structure at that time. Activities required subsequently, such as obtaining internal approvals and notifying traders of the changes, are not part of the consultation process and are not included within the scope of these guidelines.

Consultation principles and good practices

14. Table 1 sets out the proposed consultation principles and their associated good practices.

⁴ Those distributors who have one or more consumers connected to their networks to whom the distributors do not send accounts for line function services directly are required to consult. Refer clause 12A.7(1).

⁵ Clause 12A.7(2).

⁶ Clause 12A.7(3).

Table 1: Proposed consultation principles and good practices

Tariff structure change consultation principles	Associated tariff structure change consultation good practice guidance
A. Consultation definition and approach	
<p>1. The word “consultation” does not require agreement (although it does require more than mere telling or presenting).</p> <p>2. “Consultation” cannot be equated with “negotiation”. Negotiation implies a process that has as its objective arriving at agreement (although in consultation the tendency is, at least, to seek consensus).</p> <p>3. The distributor must approach the matter with an open mind, and must be prepared to change or even start a process afresh.</p>	<p>Good practice includes:</p> <ul style="list-style-type: none"> • an engaged, communicative and interactive process with all affected traders over the full consultation period; • clarity and consistency in explaining issues, options and proposals; • transparency and even-handedness in dealing with interested traders and their submitted feedback; • transparency in the distributor’s decision-making process; • identification of areas where consensus is achieved and where it is not; and • no pre-determination of any particular outcome, including being open to the possibility that, through the consultation process, any or all of the tariff structure change proposals may be abandoned or modified in response to feedback received.
B. Form of consultation	
<p>4. There are no universal requirements as to the form of consultation, and any type of interaction (whether oral or written) that allows adequate expression and consideration of views will be sufficient.</p>	<p>It is not appropriate to have a 'one size fits all' approach to seeking feedback from interested parties. Distributors may adopt a flexible approach to the form that a consultation may take, depending on the circumstances, to ensure that consultation is effective. Good consultation practices include the adoption of:</p> <ul style="list-style-type: none"> • a staged approach that reflects the relative complexity of the changes proposed, for example, canvassing a range of options considered, then narrowing those options to a preferred option and then consulting on implementation; and

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	<ul style="list-style-type: none"> • at appropriate stages, the use of: <ul style="list-style-type: none"> ○ detailed written proposals developed by distributors, that include the information set out in section D of this Table 1, and written responses from traders; and/or ○ focused briefings and workshops conducted with individual traders and/or groups of interested traders.
C. Consultation process and timeframe	
<p>5. Consultation must be allowed sufficient time, and genuine effort must be made. Consultation involves the statement of a proposal not yet finally decided on, listening to what others have to say, considering their responses, and then deciding what to do.</p>	<p>The law requires that sufficient time is provided for consultation. In practice, this requires that a comprehensive project management approach is adopted at the outset. A firm implementation date will normally be decided by distributors in accordance with any UoSA minimum requirements relating to change frequency and notice periods. Longstanding industry practice is that the implementation of tariff structure and/or tariff rate changes occurs annually on 1 April, although other dates are possible.</p> <p>In developing a project plan, critical milestone dates, such as those derived from UoSA-required minimum notice and response periods, and the need to obtain internal approvals, must be factored in. At times, dates driven by the implementation of regulation, or changes to regulation or law, may impact on project plans.</p> <p>In addition, the time necessary to properly consider feedback on a proposal not yet finalised can at times exceed planned allowances. It is prudent to allow for contingencies in project plans.</p> <p>The Commerce Act Information Disclosure Requirements⁷ require a distributor to publicly disclose any change in pricing methodology or adoption of a different methodology one month before prices determined in accordance with the change or</p>

⁷ Commerce Commission, *Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012*, 16 January 2012, Part 2, clause 2.4(2). Available at: <http://www.comcom.govt.nz/part-4-review-of-electricity-information-disclosure-requirements/>. Note that as at the publication date of these guidelines, a final determination has not yet been made.

Tariff structure change consultation principles	Associated tariff structure change consultation good practice guidance
	<p>the different methodology take effect.</p> <p>It is good practice to share an outline of the development plan with interested traders at an early stage.</p>
D. Information provided	
<p>6. For consultation to be meaningful, the distributor must make available sufficient information to enable parties who are consulted to be adequately informed to make “intelligent and useful” responses.</p> <p>7. Reference should be made to the Electricity Authority distribution pricing principles, the extent to which the proposed changes are consistent with those principles, and the rationale for any inconsistencies with those principles.</p>	<p>Good consultation practice for tariff structure change proposals includes providing at appropriate stages in the process the following information, even-handedly to all interested traders, in a level of detail that is scaled to the relative complexity of the changes being sought:</p> <ul style="list-style-type: none"> • provision of relevant background, such as an outline of the relevant issues faced by the distributor, the strategies and policies it has developed that seek to address those issues and the methodology that it has followed (or intends to follow) to develop a revised tariff structure; • options the distributor has identified and the rationale used in proposing one or more preferred options (including how the proposed option(s) adhere(s) to the pricing principles); • a summary of all submissions received and the distributor’s responses to those submissions; • the eligibility criteria for each price category (such as usage type, metering requirements etc); • a mapping table showing how ICPs in proposed discontinued or modified price categories may be allocated to alternative price categories; • a comprehensive schedule of the indicative proposed tariff rates for each price category; • an assessment of the impact of the proposed changes on ICPs relative to existing tariff rates – an analysis by price category for mass-market ICPs, and by ICP for larger and any individually priced ICPs, is appropriate; and • where a price category change proposal provides

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	<p>trader/consumer-elected options, the distributor should provide additional guidance as may be necessary to make all relevant eligibility criteria clear.</p>