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Submissions
Electricity Authority
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Electric Kiwi does not support the DDA project

The Authority's DDA proposals will impose costs on Electric Kiwi as they require us to establish new contracts and will distract rather than help us to compete in the electricity retail market. The Authority seems to think it knows better than entrant retailers what the barriers to their entry to and success in the electricity retail market are.

The Authority should not prioritise DDA over pro-competitive reform projects

The Authority should be addressing the urgent problems with the hedge market (market-making), spot market trading contract, two-tier retail market (saves and winbacks) and other projects that would actually assist with promoting competition.

The fact there are now 37 electricity retailers in New Zealand and 27 in Auckland alone highlights that network access is NOT a barrier to entry or competition.[1] It is unclear on what basis the Authority considers that network access is preventing retailers from entering into the electricity retail market or expanding into different network areas.

The large number of retailers that have entered into the electricity market, while market concentration levels remain stubbornly high, illustrates that retail market problems aren't driven by distributor use-of-system arrangements, but other market failures which have limited to growth of new retailers once they have entered the market. Specifically, issues associated with market concentration of the big-5 vertically-integrated incumbent retailers and the regulatory settings that perpetuate the status quo.

Unnecessary costs imposed on retailers to negotiate new contracts

The proposed amendments will require distributors and retailers to replace their existing UoSAs with new distributor agreements. This is very unorthodox. It means the DDA arrangements will effectively regulate both distributors AND retailers. By way of analogy, the Authority's proposals for regulation of network access would be akin to the Commerce Commission applying Part 4 price control to both the monopoly network businesses and the competitive retail part of the market.

[1] When the Electricity Authority published its voluntary Model Use of System Agreements (MUoSA) in September 2012 there were 13 electricity retailers. When the last DDA consultation was undertaken in January 2016 there were 22 electricity retailers.

The Authority has provided no evidence that retailers, such as Electric Kiwi, should be regulated (forced to enter new contracts) as well as regulating monopoly distributors.

The proposals, if adopted, should provide that electricity retailers have the choice to maintain their current UoSAs, negotiate new contracts or opt for the DDA to apply as the distributor agreement ie the DDA arrangements should only regulate the monopoly part of the industry. The only exception should be where the Authority has identified specific "ever-green" contracts which favour the incumbent retailer.

Closing remarks

Retail market reform is necessary and increasingly urgent. We are frustrated that instead of prioritising what should be important issues such as hedge market development, which the Authority had said would be completed prior to Christmas but is now delayed, the Authority is distracted by low value projects such as the DDA and TPM projects.

The parties that have predominantly raised network access as an issue are incumbent retailers. This is purely out of self-interest to divert attention from where the real barriers to retail competition exist in the electricity market: the issues associated with market concentration of the big-5 vertically-integrated incumbent retailers.

Yours sincerely,

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