Simply Energy
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Submission
Electricity Authority
Level 7, ASB Bank Tower
2 Hunter Street
Wellington
By email: submissions@ea.govt.nz

14 October 2019

Dear Sir/ Madam

Consultation Paper – Default Distributor Agreement

Simply Energy strongly supports the implementation of a Default Distributor Agreement (DDA).

However we think the proposed changes will miss a once in 5-10 year opportunity to capture an additional $90M per year of benefits as summarized in the following table and detailed in our submission.

	Benefits that will not be captured by the DDA and Code amendments	
	Opportunities to address issues that create value now	**Benefit ($M p.a.)**
1	Eliminate requirement for traders to run duplicate billing processes to support distributor reporting.	$ 1
2	Treat prepayment of Network charges as Prudential Security	$ 1
3	To incentivize adoption of and compliance with standards provide a mechanism to dispute an invoice when EIEP1 files are non-compliant	$ 50
4	For disputes relating to compliance with regulated standards provide access a dispute mechanism through the Code Breach process	as per 3
	Opportunities to encourage proactive investment in systems that support industry efficiency	**Benefit ($M p.a.)**
5	Set out a timeframe for reviewing and mandating non-regulated EIEP files	$ 10
6	Regulate for a default EIEP1 methodology where participants cant' otherwise agree	as per 3
7	EA to Review the industry IT mechanisms for moving data between participants e.g. consider a mandatory API framework.	as per 5
	Longer term issues	**Benefit ($M p.a.)**
8	Eliminate the requirement for trader to network EIEP1 files	$ 30
	Part 12	**Benefit ($M p.a.)**
9	File with Customer information	$ 1
10	Distributors and participants to comply with EIEPs	as per 3
	Total estimated benefit	**$ 93**

As proposed, the DDA and Code amendments reflect a summary of historic industry contract terms. There has been little attempt to make even minor changes that could lead to efficiency benefits or to flag future changes that would spur the industry to invest in standardization and efficiency required to for these changes.

With some minor changes the hard work done to-date on the DDA could be used to capture an additional $2M per year immediately and create a sustained focus by industry participants on implementing operational changes that we estimate will capture an estimated $60M per year for the long term benefit of consumers.

The balance of our submission sets out

- Changes that could be made to the DDA and Code that would create material efficiency without requiring participants to develop any additional capabilities
- Opportunities that will require capability development that the EA could encourage by clearly signaling to the industry that will underpin investment in efficiency.
- Other feedback on the consultation document.

We would welcome the opportunity to discuss any of these items with your or provide further clarifying information.

Yours Sincerely
Stephen Peterson

Director
Simply Energy Ltd

Opportunities to create value through the DDA and Code Amendments

Opportunities to address issues that create value **without requiring participants to develop any new capabilities**	
Make it explicit in the DDA and Code that traders are not compelled to duplicate billing processes to support distributor reporting	**Situation** Schedule 2 of the DDA says *The Trader must provide consumption information to the Distributor, and the Distributor must calculate Distribution Services charges payable by the Trader, in accordance with the following:* *(a) the Trader must provide to the Distributor all information that the Distributor reasonably requires to enable it to calculate the Distribution Services charges payable by the Trader to the Distributor in accordance with EIEP1, EIEP2 and EIEP3;* *(b) the Trader must provide the information by 5:00pm on the 5th Working Day after the last day of each month;* *(c) the parties acknowledge that the Distributor's Pricing Structure is based on the Distributor receiving consumption volume information from the Trader using:* The EIEP1 standards also says Unless otherwise agreed between the parties, a trader must deliver any EIEP1 initial file containing billing information for the previous month to the distributor by 1700 hours on the 5th business day (business day as defined in the Code) of the current month. Distributors consider it reasonable to require a set of data for all ICPs registered with the trader in the month by BD5 even through traders may not have billed ICPs. The distributors requirement for complete sets of data by BD5 is arbitrary and inconsistent with the all the protocols i.e. under As Billed methodologies only the ICPs that have been billed by BD5 need to be reported. A complete dataset is also not possible to provide due to the uncertainty in the switching process and back switches. This means under the current operation of the market distributors must be able to deal with incomplete datasets that are washed up through time. If retailers provide files with missing data, distributors have the right and ability to invoice retailers based on genuine estimates that can be washed-up as more accurate and complete data becomes available as per the clause 9.2 of the DDA. 9.2 **Late, incomplete, or incorrect information**: If the Trader does not provide information to the Distributor in accordance with Schedule 2 by the 5th Working Day after the last day of the month to which the Tax Invoice relates, or any information provided by the Trader is incomplete or materially incorrect, the Distributor may estimate, in accordance with Good Electricity Industry Practice, the Trader's Tax Invoice for Distribution Services. Distributors must also **Problem**

	The requirement on traders to provide complete data sets by BD5 means traders must support a dedicated business process for distributors to estimate any missing data and generate EIEP1 files. If deliver of complete data was not a requirement then traders could generate the EIEP1 files after they had completed billing reducing their costs and reducing the opportunities for variance between amounts billed to customers and amounts charged by distributors. In our view it is not reasonable for the distributor to insist on provision of data in a time frame that drives additional cost into a trader's operation which creates no overall benefit to the industry as distributors must have the capability and run processes to deal with washups and errors including the ability to estimate invoices when insufficient data is provided by traders. We note this reporting requirement particularly dis-advantages new entrants who need to invest in systems and processes to manage the complexities of calculating complex and line tariffs for the benefit of their suppliers rather than focusing their scarce resources on their customers. **Recommended Solution** We recommend amending the Code and DDA to make it clear that traders should not be required to run a separate process to support distributor reporting timelines but rather provide data as it can reasonably be expected to be reported off trader processes that support the billing of their customers. Therefore we propose modifying the DDA from *(b) the Trader must provide the information by 5:00pm on the 5th Working Day after the last day of each month;* to *(b) the Trader must **endeavour** to provide the information **for the prior month** by 5:00pm on the 5th Working Day after the last day of each month. The Trader must provide the information **for the month preceding the prior month** by 5:00pm on the 5th Working Day after the last day of each month;* And making it clear that this clause over-rides the EIEP1 protocol's business rules. We estimate this change could reduce trader costs by ½ an FTE plus system costs which is conservatively over $1M per year across industry participants. Note that this cost disproportionally impacts new entrants as they lack scale to spread fixed costs over. As distributors already deal with incomplete data sets that are washed up through time there should be no additional cost to them.
Treat prepayment of Network charges as Prudential Security	**Situation** Some distributors estimate and invoice line tariffs in advance rather than monthly in arrears – supplementing their prudential security position over and above the amounts specified in the Code. For example, Orion invoice traders line charges monthly in advance. Their invoice estimates also included demand charges that arise during winter months but are billed in summer. **Problem** This is a problem as it un-necessarily ties up trader working capital and is a work around that bypasses the intent of the regulated terms on distributor prudential.

	Recommended solution and benefit We suggest that the Code be amended to require that distribution prepayments are treated as prudential security amounts and are included for the purpose of interest payments. This action (for Orion alone) could release ($186M [1i]/ 12 =) $15M of working capital creating ~ $1M p.a. of debt cost savings.
To incentivize adoption of and compliance with standards provide a mechanism to dispute an invoice when EIEP1 files are non-compliant	**Situation** Our experience has demonstrated that it is difficult to get compliant invoice support data (EIEP1) from many distributors (especially replacement or partial replacement files). **Problem** Data sent that is non-compliant creates significant administration overhead for us (and we would assume other traders) which we estimated is ~20FTEs across all traders in the country. Furthermore, our experience suggests there are billing errors in the order 0.5% to 1% of revenue or $150M to $300M per year that are ultimately passed onto consumers as risk premiums (we estimate that $50M saving per year could reasonably be achieved). Currently there are few incentives on participants to improve compliance with EIEP1 (or other) standards. **Recommended solution** We recommend modifying the dispute mechanism under the DDA to explicitly specify an amount (say 5% of an invoice total) that can be held back where compliant EIEP1 supporting data hasn't been provided for the invoice. We note that Section 9.7 of the DDA Disputed Invoices does not work as drafted because it requires that the disputing party provide a detailed reason (including the disputed amount) which assumes that invoice supporting data is available and we note that if a distributor does not provide EIEP1 data in the specified format that can be used to validate an invoice it is very difficult for a trader to validate or dispute that invoice. Therefore we suggest clarifying section 9.7 of the DDA by adding the a sentence as set out below. 9.7 Disputed invoices: If the Trader or the Distributor disputes a Tax Invoice (which includes a Revision Invoice) issued under this clause 9, the party disputing the invoice ("Disputing Party") must notify the other party ("Non-disputing Party") in writing and provide details as to the reasons why the Disputing Party disputes that invoice within 18 months of the date of the Tax Invoice ("Invoice Dispute"). **If the Distributor has not provided EIEP1 data in the prescribed format to the Trader, the Trader may dispute the invoice for an amount of up to 5% of the invoice.**
For disputes relating to compliance with regulated standards provide access a dispute	**Situation** The DDA provides for a Dispute Resolution procedure that is expensive with appointment of mediators, arbitrators and ultimately the courts. **Problem**

[1] Orion's network revenue FY2019 as published in its annual report.

mechanism through the Code Breach process	Lack of access to a breach process for operational disputes is a barrier to incentivizing operational improvements. The industry a simple and cost effective mechanism to address operational disputes without needing or risking being dragged into expensive mediation or court battles. The DDA only provides for access to mediation and courts of law for disputes. Mediation and Arbitration are expensive (~ $5K per day) – prohibitively so for smaller traders. This cost discourages useful commercial tension that could be harnessed to raise the efficiency of the trader – distributor relationship creating benefits that would ultimately flow to consumers. **Recommended solution** The Distributed Generation regulations (Part 6) have demonstrated the effectiveness of providing, not just legal access, but also economic access to a contract dispute mechanism via the Electricity Authority's breach process. Specifically, distributed generators embedded in local networks have been supported by regulation to have pragmatic commercial negotiations with distributors on commercial terms because they have had the ability to economically take a dispute to the EA who has the expertise to assess technical breaches. Therefore we proposed that for disputes in respect of compliance with the Code or regulated standards the DDA's Dispute Resolution Process replicates the effect of the default dispute resolution process set out in Section 6.3 of the Code (https://www.ea.govt.nz/code-and-compliance/the-code/part-6-connection-of-distributed-generation/schedule-6-3/) We note that distributors are already effectively managing their commercial relationships with this dispute process.
Set out a timeline to implement changes that will encourage proactive investment in systems that support industry efficiency	
Set out a timeframe for reviewing and mandating non-regulated EIEP files	**Situation** Lack of mandated EIEP file types and lack of default methodologies within the file types means that traders and distributors need to deal with hundreds of variations of files rather than less than 20 across the 13 EIEP file types as summarized in the following table.

File	Report versions to support specs		Estimated non standard versions		Total
EIEP1: Detailed ICP billing and volume information	12	Four methodologies x Initial/Replacement/Partial Replacement	30	Retailer and Network variancts. Most issues with replacement and partial replacement files	42
EIEP2: Aggregated billing and volume information	1				1
EIEP3: Half hour metering information	1	I R X - but can default to R			1
EIEP4: Customer information	9	I R X x Site Contact/ Account Contact/ End Customer Contact	10		19
EIEP5A: Planned service interruptions	2	Initial and Updates	50		52
EIEP5B: Unplanned service interruptions	1		25		26
EIEP6: Fault notification and service requests	1		25		26
EIEP7: General installation status change	1		25		26
EIEP8: Price category changes	1		25	Emails and spreadsheets	26
EIEP9: ICP physical address change notification	1		25		
EIEP10 ?					
EIEP11: New connection information	1		25		
EIEP12: Delivery price change notification	1		15	Spec is wide so permits large number of variants	16
EIEP13: Consumption Data	3	A B and C			3
Total	**35**		**255**		**238**

Regulated files formats
Health and Safety implications

We have included a table summarizing the types of outage notifications from networks as an example of the lack of automation and standardization where EIEP standards are not mandated.

Problem
This lack of standardization means there is little incentive to invest in automation in core industry processes. It also means that there is a higher that necessary level of health and safety risk as outage notifications can't be processed without human intervention so are subject to time delays and errors.

Assuming a cost of $10 per transaction (non-automated vs. fully automated) and ~ 1 million transactions per year the cost to consumers is in the order of $10M per year.

Recommended actions
We suggest the EA is clear with the industry on its intent to regulate to require the use of standards within a two-year time frame.

Regulate for a default EIEP1 methodology where participants cant' otherwise agree	**Situation** With reference to the above table we estimate that there are ~ 40 variants of the EIEP1 files that as a trader we either need to produce or consume. **Problem** It is expensive to build and maintain the systems to support this range of files. **Recommended action** If the EA signaled that there was a default methodology that either traders or distributors could require be used this would reduce the number of variants that would require support from 40 to 4 (made up of RM replacement + As Billed (2) x Initial and Replacement (2)) Not only would this save IT costs to build and then maintain file interface jobs but it would support much more effective reconciliation of distribution charges that would reducing supplier cost risk and lower prices to consumers. A default methodology will require some traders and distributors to invest in IT systems that can process the default files so the timeframe for compliance should be set at two years.
Develop modern mechanisms for	**Situation** The electricity industry moves data around within a technology framework that is 20 years old.

moving data between participants	**Problem** This framework is not fit for purpose as it has a long cycle time (monthly vs. instant), subject to manual intervention and does not support innovative new participants coming into the market. Many of the industry processes are much better suited to API calls rather than csv file transfers. **Recommend action** The urgently undertake a review of the IT tools and framework underpinning industry data exchange and set expectations industry transition to use the new tools.
Longer term issues for further iterations of the DDA	
Eliminate the requirement for traders to create billing data on networks behalf.	**Situation** Traders run the meter data management and billing processes on behalf of distributors. **Problem** The cost of IT 10 years ago may have reasonably justified requiring traders preparing the billing files on behalf of distributors. Today the increased sophistication and low cost of systems and infrastructure mean it is quite manageable for each distributor to create their own invoice data. Furthermore, the lack of investment by distributors in systems to capture and manage data on their networks (with some notable exceptions like Counties Power and Waikato Electricity) means distributors lack the data to understand the increasingly complex two-way time variant power flows and quality issues on their networks or to model with certainty power flows that drive future network investments. **Recommended action** We suggest that the EA signals to distributors that the EA will consider changes to the DDA that will mean - traders will no longer be required to provide EIEP1 files to distributors, and - that distributors will need to put in place arrangement with MEP's to directly access ICP meter data so they can generate their own invoices - that the existing costs of the metering will be split between the traders and distributors Eliminating the requirement of traders to provide EIEP1 files to distributors would have multiple benefits including - Reduced barriers to entry for new entrant retailers due to distribution line tariff complexity - Distributors would gain access to high quality load data that can be used to better inform investment and operational decision making improving network efficiency. In the context of NZ's decarbonization and material load growth there is an opportunity to create capital savings as a material percentage of many $B's of potential network investment. - Stronger incentives for retailers and networks to reconcile data resulting in reduced losses and UFE that we think could reasonably reduce energy costs by ~ 1% or $30M per year.

Response to Consultation Questions

Q1. What are your views on the problem definition? Specifically:

a. the efficiency problem

We agree that use of system agreement generate higher-than-necessary costs

However we note that the problem of negotiating distributor agreements represents only a small part of the problem with use of system agreements. The much larger problem and opportunity is in the changes that could be made to the distribution agreements to create standardization of information exchange between traders and distributors. These changes can reduce costs, improve end customer health and safety and encourage new entrants to provide long term benefit to consumers.

b. the competition in retail markets problem

We agree - use of system agreement limit retail competition

c. the competition in related services problem.

We agree - use of system agreement limit competition in contestable services

Q2. What are your views on the revised:

a. Part 12A proposal

The following points are in addition to the points noted in the previous section

Section	Issue and Suggested Remediation
Schedule 12A.1, Appendix A Income distribution services 4 File with Customer information	**Problem** As drafted distributers can unilaterally specify a file format for customer information exchange. This means traders are required to support multiple formats and deal with the lack of clarity around the information required. For example, is the customer information required for the site contact, account holder or in the case of secondary retailers the secondary retailers' account holders? The cost of bespoke processing of network distributions is ~ 20 Networks x 20 Retailers x $2K per year = $800K per year **Recommendation** We suggest the Code should specify a default EIEP standard e.g. EIEP4, even if the current standard requires further development to support distributor requirements. This would enable traders to develop a single report that could be automated across all networks.

Schedule 12A.1, Appendix C Provision of consumption data	**Problem** As drafted, there is no specification on the format of data requests or responses. This means traders will be expected to support a wide range of formats increasing costs for traders and distributors. Traders only hold part of the data that networks require. **Recommendation** We recommend provision that allow for traders to require distributors to get data directly from MEPs and that the MEPs should pro-rata their metering costs between retailers and distributors.
Schedule 12A.2 Other provisions applying to distributor and participant arrangements Distributors and participants to comply with EIEPs	**Problem** Both traders and distributors are required to manage ~ 40 EIEP1 file types variants. As drafted the Code provides no mechanism for a trader or network to standardize on a single EIEP1 methodology that would support automation and efficiency of data exchange processes. The lack of access to default standards misses the opportunity to provide a pathway to radically reduce transactions costs and reduce revenue/cost risk for participants. **Recommendation** The Code should be amended to provide for either participant to select the use a default EIEP1 methodology if they don't agree otherwise.
Schedule 12A.3 Requirements for distributors and traders on embedded networks (interposed) 9 Distributors to consult concerning changes to pricing structures	**Problem** Embedded Networks will typically seek to follow local network pricing. To the extent that they do, as a trader, we don't need or want to consult with the embedded network owner on changes to pricing structures. Also we don't want embedded network owners to be prevented from following local network pricing structures because they haven't had the opportunity to consult with traders. **Recommendation** We recommend modifying (1) A **distributor** must consult with each **trader** trading on the **distributor's embedded network** in respect of the **distributor's** pricing structure for the **consumers** with which the **distributor** does not have a contract in respect of the conveyance of **electricity** before making a change to the pricing structure that materially affects 1 or more **traders** or **consumers**. To (1) A **distributor** must consult with each **trader** trading on the **distributor's embedded network** in respect of the **distributor's** pricing structure for the **consumers** with which the **distributor** does not have a contract in respect of the conveyance of **electricity** before making a change to the pricing structure that materially affects 1 or more **traders** or **consumers** unless that pricing structure

	changes is the same as local network where the distributor's embedded network is connected.

b. DDA template proposal

The following points are in addition to the points noted in the previous section

Section	Issue
9.7 Disputed invoices	**Situation** The DDA provides for invoice disputes for up to 18 months from the date of the Tax invoice. We note that the means that any subsequent invoices that wash up a billing period will be disputable for a period of 18 months from the date of their invoice. If the Trader or the Distributor disputes a Tax Invoice (which includes a Revision Invoice) issued under this clause 9, the party disputing the invoice ("**Disputing Party**") must notify the other party ("**Non-disputing Party**") in writing and provide details as to the reasons why the Disputing Party disputes that invoice within **18 months of the date of the Tax Invoice** ("**Invoice Dispute**"). **Problem** This is a problem because - This is not a reasonable commercial term. There is no other industry that we are aware of where a supplier can revise its invoices to customers over 18 months. - The current DDA wording provides for extending invoice disputes for years. Disputes timeframes should be time bound with reference to the consumption period. - An 18 months dispute timeframe puts an asymmetric risk on traders. If a network finds an error in the invoicing e.g. they have put an ICP on the wrong price code or mis-specified a capacity charge, they can wash this up to the trader 19 months after the consumption period. At this point a trader is unlikely to have the ability to recover any under-charged line tariff from their customer exposing them to a loss due to an error on the part of the distributor. **Recommended action** We think the period for disputes and washups should (**at least)** be aligned with the energy market washup cycle i.e. 14 months after the billing period (not tax invoice date), there is no further ability to raise disputes in invoices related to that period. Furthermore we believe it would be sensible to reduce the dispute period further e.g. to 7 months (in line with the 7 month washup cycle) as this would create a more timely focus by distributors and traders in ensuring that the amounts invoiced and paid are accurate.

Q3. What are your views on the draft Code, appended to this paper, which would introduce the proposal?

See prior comments

Q4. What are your views on the Regulatory Statement? Specifically:

a. the efficiency costs and benefits
b. the costs and benefits in the retail market
c. the costs and benefits in the related-services market.

We think the regulatory statement fails to capture the majority potential benefits of implementing a DDA and the corresponding code amendments.

We have identified some of the additional benefits and estimated that there is ~ of $90M per year of benefits that could be captured from this process that currently are not being considered as set out in the following table.

	Benefits that will not be captured by the DDA and Code amendments	
	Opportunities to address issues that create value now	**Benefit ($M p.a.)**
1	Eliminate requirement for traders to run duplicate billing processes to support distributor reporting.	$ 1
2	Treat prepayment of Network charges as Prudential Security	$ 1
3	To incentivize adoption of and compliance with standards provide a mechanism to dispute an invoice when EIEP1 files are non-compliant	$ 50
4	For disputes relating to compliance with regulated standards provide access a dispute mechanism through the Code Breach process	as per 3
	Opportunities to encourage proactive investment in systems that support industry efficiency	**Benefit ($M p.a.)**
5	Set out a timeframe for reviewing and mandating non-regulated EIEP files	$ 10
6	Regulate for a default EIEP1 methodology where participants cant' otherwise agree	as per 3
7	EA to Review the industry IT mechanisms for moving data between participants e.g. consider a mandatory API framework.	as per 5
	Longer term issues	**Benefit ($M p.a.)**
8	Eliminate the requirement for trader to network EIEP1 files	$ 30
	Part 12	**Benefit ($M p.a.)**
9	File with Customer information	$ 1
10	Distributors and participants to comply with EIEPs	as per 3
	Total estimated benefit	**$ 93**

The standard for Network Outage Notifications are not mandated resulting very low adoption of standards

NETWORK COMPANY	Supplier Account Code	MANUAL / AUTOMATED	FORMAT
Electricity Invercargill	ELIN	Manual	Excel/Text
The Lines Company	LINE		
Alpine Energy Ltd	ALPE		
Aurora Energy Ltd	DUNE	Manual	Excel
Buller Electricity Ltd	BUEL		
Centralines	CHBP		
Counties Power Ltd	COUP		
EA Networks	EASH	Manual/Automated	Excel
Eastland Network Ltd	EAST	Manual	Excel
Electra Limited	ELEC		
Horizon Energy Distribution Ltd	HEDL	Manual	Text
Mainpower New Zealand Limited	MPOW	Manual	Excel
Marlborough Lines Company	MARL	Automated	Text
Nelson Electricity	NELS		
Network Tasman	TASM	Manual	Excel
Network Waitaki	WATA	Manual	Text
NorthPower Limited	NPOW, NPWR	Automated	Text
Orion New Zealand Limited	ORON	Manual	Excel
OtagoNet Joint Venture	OTPO		Receiving Notifications E-mails
Powerco Ltd	POCO	Manual	Excel
Scanpower Limited	SCAN		
The Power Company Limited	TPCO	Manual	Excel
Top Energy Ltd	TOPE		
Unison Networks	HAWK		Receiving Notifications E-mails
United Networks	UNET		
Vector Networks	VECT		They notify the customer
Waipa Networks Ltd	WAIP	Manual	Excel
WEL Networks	WAIK, WASN	Manual	Text
Wellington Electricity Lines Ltd	CKHK		Receiving Notifications E-mails
Westpower Limited (ElectroNet)	WPOW	Manual	Excel

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