

21 October 2016

Submissions

c/- Electricity Authority

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by email: submissions@ea.govt.nz

SUBMISSION ON DEFAULT AGREEMENT FOR DISTRIBUTION SERVICES – FURTHER CONSULTATION ON Q3

Introduction

- 1 Orion New Zealand Limited (**Orion**) welcomes the opportunity to comment on the “Default agreement for distribution services – Further consultation on Q3” consultation paper (the **paper**) released by the Electricity Authority (Authority) in October 2016.
- 2 Our submission is focused on responding to the Authority’s corrected question 3 – see appendix. This should be read in conjunction with our previous submission. However, the estimates of the number of agreements is used in the Authority’s cost benefit analysis, and as we previously submitted we believe the benefits by way of reduced negotiation cost are significantly overstated in the original paper. Our submission was based on our own experience which is that negotiation takes only a matter of a few days. We can update this information by observing that, since preparing our April 2016 submission, we have signed up three new retailers, and none of those agreements took more than a few days to negotiate, with one being turned around inside 24 hours. The number of agreements to be negotiated or renegotiated is therefore largely moot: there are no material negotiation cost savings to be made irrespective of the number.
- 3 The Electricity Networks Association (ENA) has also submitted on the paper. Orion endorses the ENA submission.

Concluding remarks

- 4 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



Rob Jamieson
Chief Executive

Appendix 1: Response to specific question

Question No.	Question	Response
Q3.	<p>What are your views of the Authority’s assessment of the likely levels of demand for new and replacement UoSA in coming years? Please support your response to this question with reasons and your alternative quantified assessment, if any.</p>	<p>The Authority’s analysis shows that a number of retailers are not attempting to retail in all network areas, we consider that this is to be expected from rational retailers, nor would we expect all retailers to attempt to expand their retailing to all parts of New Zealand.</p> <p>The Authority notes there are on average 11.52 traders (retailers) with a contract on each of the 27 local networks on which the local distributor uses interposed agreements. That is a total of 311 UoSAs which the Authority seems to consider is a large number of complex agreements.</p> <p>It is correct that a retailer might incur costs due to the diversity of agreements across distributors. But the extent of these cost differences is an empirical question and one that we do not believe has been answered. Even in answering it, care would need to be taken to separate the costs associated with different contractual terms and those associated with different operational approaches. We also note that the Authority’s proposal will not resolve this issue as it still requires negotiation of variations which of themselves will incur additional costs.</p> <p>What is clear is that the Authority’s proposal, as we indicated in our April 16 submission, will increase the complexity and number of agreements that retailers must enter into due to the limitation of the DDA to just the distribution service. As it stands it will require the negotiation of a number of additional agreements for the supply of additional services. We believe distribution and additional services can be readily encompassed by a single agreement.</p> <p>In addition, we note that the Authority’s proposed process will itself drive the number of re-negotiations of existing agreements for the distribution service, and the cost of that process. This is because even where both retailers and distributors are happy with existing agreements, the proposed process will require new agreements to be put in place.</p>