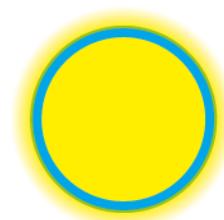


25 October 2016

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

Via email: submissions@ea.govt.nz



Dear Sir / Madam

Default agreement for distribution services – Question 3

This is Powerco's submission on the Electricity Authority's (the Authority) consultation paper *Default agreement for distribution services – Further consultation on Question 3*, dated 11 October 2016.

General Comments

Powerco welcomes the opportunity to provide comment to on the Authority's assessment of the likely levels of demand for new and replacement UoSAs in coming years. This question was previously asked by the Authority in their consultation paper of January 2016 but missed in the submission format provided for that consultation.

Powerco noticed the omission of Question 3 from the initial consultation paper and provided a response in our submission of 19 April 2016. For completeness we include that response, updated with further information, in the table below.

Since April 2016 Powerco has had the opportunity to discuss our Model Use of System Agreement (MoUSA) with several new entrant retailers. These retailers have expressed no concern with Powerco's MoUSA. We provide this as a further example of how competition is increasing on our footprint with the existing agreements in place.

Thank you for the opportunity to provide comments on this consultation. If you wish to discuss any of the points made, or clarify any matters, in the first instance please contact Lynette Taylor tel. (06)968 6235, email lyn.taylor@powerco.co.nz.

Question 3

No	Question	Powerco's response
3	What are your views of the Authority's assessment of the likely levels of demand for new and replacement UoSAs in coming years? Please support your response to this question with reasons and your alternative quantified assessment, if any.	<p>We agree with the Authority that there will be an increase of demand for UoSAs in the coming years and generally retail competition is a positive market characteristic.</p> <p>However, we have reservations over the stated premise that easing access to the market will lead to increased competition and consumer benefits. There are currently 16 retailers operating on the Powerco network, with a total of 22 electricity retailers in New Zealand serving four million people. This compares with 18 in the UK serving sixty million and 14 in Australia serving 22 million.</p> <p>A natural side effect of increased competition is a greater probability of</p>

		<p>failure for those companies who are unable to meet the changing demands of the market. In the electricity industry the failure of a retailer impacts everybody: other retailers who are likely to pick up their customers, generators who may not get paid for energy produced and distributors who may not receive payment for distribution or pass through costs (e.g. transmission).</p>
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There is little benefit in attracting new entrants to the market who are unable to generate a sufficiently sound financial base to ensure security in the long term. Failure of a retailer, as seen with E-Gas, benefits nobody and least of all the consumer. As such we consider the Authority needs to reassess if the increased competition goal is the outcome it is looking for.

We would suggest that ease of retailer entry is not the significant issue that the Authority needs to be looking to address. Powerco has engaged with several new entrant retailers in recent months who have expressed no concern with Powerco's model use of system agreement. Instead, we suggest, it is the generation profile/target market that is more important. Similarly we do not agree that the decision for a new retailer to enter the market, or an existing one to move to a new network area, is based on the ease of gaining access to that network. The business decision will, to a greater extent, be based on the business opportunity, generation profile, likely customers and target market of the retailer. We do not envisage that the changes proposed will have any material effect on the number of new entrants either to the sector or network areas.

Yours sincerely



Richard Fletcher
General Manager Regulation and Corporate Affairs