

19 April 2016

Submissions
Electricity Authority
P O Box 10041
Wellington 6143

By email: submissions@ea.govt.nz

Dear Sir / Madam,

RE: Consultation Paper – Default agreement for distribution services

Pioneer Energy (Pioneer) appreciates the opportunity to provide submissions on the proposal for a default distribution agreement published by the Electricity Authority (Authority).

While Pioneer is represented by a third party in relation to the rules and arrangements relating to being a retailer, we have a strong interest in these rules and arrangements in the way they enable retailers to enter different segments, different network areas and innovate.

Consistent with our submission in May 2014 on the Authority's consultation paper about more standardisation of use-of-system agreements, we strongly agree with the Authority's comments about the benefits of standard contracts reducing transaction costs.

*"The proposal is expected to promote the efficient operation of the electricity industry by reducing the transaction costs associated with traders and distributors developing, negotiating, agreeing and maintaining distribution agreements."*¹

We agree the provisions for connection of distributed generation under Part 6 provide the same benefits.

*"Benchmark agreements that are conceptually similar to the proposal currently underpin durable regulatory arrangements for forming agreements for connection of distributed generation under Part 6 and for transmission agreements under Part 12."*²

However, we have some concerns about the proposal which are discussed below.

¹ Source: Electricity Authority "Consultation Paper – Default agreement for distribution services" page 53 <https://www.ea.govt.nz/dmsdocument/20343>

² Ibid. page 52

Operational terms to remain discretionary

The proposed Default Distribution Agreement (DDA) is to have a mandatory set of terms and the Code will describe the scope and outline of content of the operational terms but allows discretion for each network company to define its operational terms.

This proposal does not achieve any simplification or standardisation / harmonisation of the terms and definitions that Pioneer has previously submitted on. The operational terms are discretionary to individual distribution companies but this is the area where, in our view, significant benefits can be realised that enable competition, and innovation, and reduce the transaction costs involved in retailing across more than one distribution company.

We strongly suggest default standards for information exchange between all network companies and retailers as well as a default single transport mechanism. We submit that there would be significant economic efficiency gains in a default information exchange standard. Significant resource is required to convert information received from each network a retailer has customers on into a common format that the retailer then uses.

There has been some work by the Authority and ENA on standardisation (but more is needed). We suggest if some agreement has been reached by the network companies and industry on some standardisation that there is the opportunity to include these agreed terms in the DDA, including the operational terms section.

We also suggest that governance of the quality and timeliness of outage information could be improved via this DDA process. Standardisation of the information provided by distribution companies about planned and unplanned outages would result in significant benefits for the customers of distribution companies.

We also query whether the proposed structure of the DDA enables the Authority to mandate standard information exchange arrangements, standard pricing or tariff terms or definitions etc in the future when (if) agreement is reached?

Is a DDA for each distribution company necessary?

We wonder if the new DDA arrangements make it a more level playing field for retailers to 'negotiate' with distribution companies that provide a monopoly service. It's not clear from the proposals that there is any change to this 'balance of power'. The proposed Code says if an agreement cannot be reached the DDA must be signed – which has ultimately been determined by the distributor.

Pioneer queries whether it would be more efficient for the Authority to develop one mandatory UoSA, that includes operational terms, which would be available if a retailer cannot reach agreement with a distributor.

Our May 2014 submission envisaged a default use-of-system agreement which would be available for any retailer and distributor to sign if they could not come to an agreement or did not have the time and resources to negotiate a more tailored agreement. The details of this agreement may not be particularly attractive to any party but would have the major benefit for retailers of being common across all networks and would reduce transaction costs for the counterparties. The actual

existence of a default agreement may encourage more engagement about a more desirable agreement. The default could have appendices where the parties are able to come to an agreement. This one default agreement is analogous to the default benchmark agreement for transmission customers or the default connection agreement in Part 6 of the Code.

It is also unclear whether the CBA fully takes into account the cost of each network company having to develop, consult, finalise and then sign with every retailer on its network the new DDA or agree an alternative agreement.

Other comments

The proposal entrenches the current industry structure by reducing the cost of the relationship between retailers/traders and the distributor. It may be appropriate that the efficiency benefits of this proposal are also available to other market participants – for example an electricity consumer that wants to be a market participant and contract directly with a distributor.

Pioneer is engaged in the regulatory process because we are concerned to ensure market arrangements promote competition, reduce barriers to entry and achieve the efficient end to end delivery of electricity for the long term benefit of consumers.

I would welcome the opportunity to discuss this submission with you.

Yours sincerely



Fraser Jonker
Chief Executive

