



Submission to the Electricity Authority

on

Default agreement for distribution service

19 April 2016

Introduction

1. We welcome the opportunity to submit on the Electricity Authority's consultation paper *Default agreement for distribution services* (DDA).
2. This submission is a high-level response to the Authority's proposal to replace the current voluntary model use of system agreement (MUoSA) approach with a mandated DDA approach. Our detailed views are represented in by the Electricity Networks Association's (ENA) and PricewaterhouseCooper's (PwC) submissions.
3. We do not support the Authority's change in approach and recommend that it adopt the terms in the DDA, with consultation from market participants, as the new MUoSA and continue with its current approach.
4. No part of our submission is confidential.

A summary of our approach to a standard UoSA

5. The Authority has expressed the view that:
 - i) electricity distribution businesses (EDBs) and retailers have been remiss in their efforts to negotiate agreements under the MUoSA;
 - ii) the agreements that have been negotiated to date have materially diverged from the MUoSA;
 - iii) the negotiations held to date have been too costly;

resulting in the competitive electricity market being negatively impacted.

6. We are of the view that the Authority is mistaken and that while this view was understandable in early 2014 participants have since then moved forward and have successfully negotiated UoSA's that materially comply with the MUoSA at a cost that is much closer to the \$5,000 lower bound stated in the consultation paper¹.
7. We released our consultation on our standard UoSA in late September 2015. The consultation was tracking well with over half of the retailers on our network actively participating in the consultation from the start². During the consultation we even had three new retailers join the consultation and provide valuable insight into the process.
8. Our least cost approach has a budget of \$10,000 for the entire process (making our cost approximately \$833 per retailer). We cannot quantify the costs to retailers, but understand that costs incurred have, to date, been similar to our budget.
9. Unfortunately, the release of the DDA on 26 January 2016 stalled our consultation. Both the retailers and we needed time to read through the DDA and consider what impact it had on our consultation. Following discussions with retailers in late February we decided to continue on with the consultation on our standard UoSA with a view to complete the process in May (as opposed to the original March end date).
10. Through our consultation process we have learnt a great deal about our customers (i.e., retailers). We have gained invaluable learnings about individual retailer operations, needs, and service expectations that we would not have gained had we not consulted.
11. The proposed DDA approach will remove what we view as essential discussions between contracting parties. The building of working relationships between EDBs and retailers is in the long-term benefit of consumers. As good relationships between participants support innovation and thereby competition.

Update the MUoSA and keep on track

12. We are of the view that the DDA is a better agreement than the MUoSA. If the Authority were to take into account the views of submitters from this consultation we believe the Authority could release an updated MUoSA that would be superior to the current MUoSA.
13. The changes we made to the current MUoSA during our consultation are largely

¹ Electricity Authority, Default agreement for distribution service—Consultation Paper, 26 January, paragraph 4.4.21.

² Small to medium sized retailers expressed a preference to engage at the second and third round, once the large retailers had commented.

captured by the DDA. If the DDA became the new MUoSA we would not need to have made some of the variations to have arrived at the agreement we now have.

14. It seems to us that the Authority can achieve its overarching mandate, to act in the long-term benefit of electricity consumers, without imposing a mandated DDA. It can meet its mandate effectively and expediently by releasing an updated MUoSA. This simple approach is more likely to result in least cost negotiations and standardisation in a time frame that is acceptable to the Authority.
15. If after this consultation the Authority continues to have lingering concerns that EDBs and retailers are not appropriately incentivised to negotiate using the MUoSA it could set a time period in which such a process must be at least started, if not completed. We are of the view that two years from the publication of the new MUoSA is a reasonable time for EDBs and retailers to have started, if not completed, negotiations.
16. Accordingly, we recommend that the DDA, with changes following submissions, become the updated MUoSA and that market participants be given two years to enter negotiations and update their UoSA.

Closing Comments

17. We hope that our submission is helpful to the Authority. We are happy to discuss our opinions further with the Authority should it find it useful.
18. The main contact for this submission is:

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