31 July 2024

Submissions
Electricity Authority

By email: dda@ea.govt.nz

Follow-up consultation – proposed changes to the default distributor agreement

Meridian appreciates the opportunity to provide feedback on the Authority's follow-up consultation paper on proposed changes to the default distributor agreement (DDA).

In principle, Meridian agrees with the intention of the additional amendments proposed in the consultation paper. Consumers that are not receiving distribution services for more than 24 hours due to an outage should not be charged for those services. Likewise, consumers that request a disconnection in an emergency situation should not continue to be charged for distribution services if the ICP cannot be physically accessed to carry out the disconnection. In both cases, we also agree in principle that retailers should pass on the savings to consumers.

While Meridian agrees with the intent, we consider there to be simpler and more cost-effective ways to achieve the desired outcomes that will further increase the benefits to consumers. Our key comments on proposed core terms in clause 9.10 and 9.11 of the DDA, and the new proposed clause 12A.6 of the Code are set out under the headings below. Drafting suggestions are also included at Appendix A of this submission.

Finally, responses to the Authroity's consultation questions are attached as Appendix B.

Meridian Energy Limited

Level 2, 98 Customhouse Quay
PO Box 10-840
Wellington
New Zealand

Phone +64-4 381 1200
Fax +64-4 381 1272
www.meridianenergy.co.nz

New proposed core term at clause 9.10 of the DDA

Method for advising a Trader of affected ICPs – proposed subclause 9.10(a)

Meridian considers the drafting of this proposed DDA clause to be unnecessarily complex and to give rise to several inefficiencies. The proposed drafting offers a range of ways the Distributor could advise the Trader of affected ICPs including updating the registry status. Leaving processes so open to interpretation will lead to different arrangements in each network and drive additional costs for Traders and reduced benefits for consumers.

In particular, the option to update the registry status would lead to significant operational complications. For example:

- Meridian would need to build new process into its retail platform involving significant time and cost;
- to the best of our knowledge, management of a traded ICP's status in the Registry is currently limited to Traders. Opening this up to Distributors would require Registry changes and add unnecessary complexity and cost; and
- setting the registry status to "Inactive" could cause EIEP4 files to default in error to new customer start dates after any period during which the status of the ICP was "Inactive" (in addition the inactive status may mean customers do not qualify for network distributions if the outage occurs at the time of the qualification date).

Meridian recommends that a single standardized process be described in the proposed new core term and that the process should be for the Distributor to advise the Trader of affected ICPs by providing a separate notice during the next billing cycle. In Meridian's opinion, specifying the next billing cycle would ensure that consumers do not have to wait too long to receive the reduction in cost.

Method for identifying and implementing a reduction in charges – subclause 9.10(b)

In Meridian's opinion, the proposed subclause 9.10(b) specifies an inefficient method for identifying and transferring to Traders the reduction in charges. Rather than setting billed quantities for affected days to zero in the next monthly billing cycle, it would be far simpler to use the same separate notice recommended above to set out the value of credits to be assigned to a Trader. In Meridian's opinion, a separate notice and credit process would:

- allow normal invoicing process to continue unhindered; and

- follow a similar approach to existing Distributor and Trader processes in respect of network company consumer discounts, dividends and service level payments thereby avoiding the costs associated with creating new processes and enabling both Traders and Distributors to implement these changes with speed and certainty.

A Distributor would need to set out the value of credits to be assigned by ICP. In calculating the value of credits to be applied, the Authority should clearly state whether the intention is for:

- all distribution costs to be zero; or
- all distribution costs not based on variable consumption to be zero (e.g. fixed daily charges and any other non-variable charges like capacity or demand charges); or
- only fixed daily charges to be zero.

The proposed DDA drafting specifies that billed quantities should be set to zero, but the term "billed quantities" is not defined.

The current drafting is also ambiguous regarding the identification of days to which the charge reduction (or credit note under Meridian's preferred alternative) must apply. The drafting of clause 9.10(b) specifies that the number of "complete days" is relevant but later in the clause suggests that the day an interruption ends should also be relevant, ignoring the fact that the day an interruption ends will inevitably be an incomplete day. Meridian does not have a strong opinion regarding whether any charge reduction or credit should apply to the day an outage ends. However, it is critical that the drafting clarify this matter.

New proposed core term at clause 9.11 of the DDA

Consistent with Meridian's recommendations in respect of outages for longer than 24 hours, in emergency situations when disconnections cannot be carried out, we consider the simplest process to be a separate notice of credits setting out affected ICPs. Normal invoicing processes could then continue unhindered and there will be far less implementation cost and complexity.

The definition of "billed quantity" is particularly important to clarify in respect of this proposed clause because (unlike an outage) variable consumption may still passively occur at an ICP even though disconnection has been requested. Therefore, the Authority needs to be clear whether the intention is for *all* distribution charges to cease, or only non-variable charges, or only daily fixed charges.

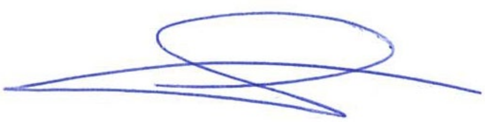
New proposed clause 12A.6 of the Code

Meridian is broadly comfortable with proposed clause 12A.6 of the Code. However, as noted above, drafting that lacks clarity or enables Distributors to adopt a different approach in each network (for example, different file formats, different cycles, different calculations of savings, different invoice/credit process) would impose significant administrative costs on Traders. It is likely that Meridian will <u>not</u> withhold any sum to cover the administrative costs of processing such credits, i.e. we will choose to pass on the savings to consumers in full in these situations. However, we note that:

- if there is variability across networks the higher administrative costs associated with manual processes may prompt us to reconsider; and
- the Authority's proposed allowance of 50% of a single day's reduced distribution charges is likely to be insufficient to cover the actual and reasonable costs to Traders, which Meridian estimates to be around $2 per transaction in a best case scenario (i.e. with a standardized process based on separate credit notes) factoring in:
  - creation of data files that can be read by billing systems;
  - post upload assurance checks;
  - preparing internal communications for frontline staff;
  - management of any resulting customer queries; and
  - internal processing of credit notes from Distributors.

Please contact me if you have any queries regarding this submission.

Nāku noa, nā



Sam Fleming
Manager Regulatory and Government Relations

Appendix B: Responses to consultation questions

	Question	Response
2.1	Do you consider the revised proposed approach in 9.10 is workable, efficient, and effective? Would you propose any alternative approaches? Please describe these approaches in your answer.	See Meridian's comments in the body of this submission. While we support the change in principle, we have recommended several changes to the proposal to make it more workable, efficient, and effective.
2.2	Do you consider it would incentivise distributors to restore electricity supply to consumers more quickly if they did not need to reduce charges for a longer outage period than 24 hours?	There would be less of an incentive if the threshold for reduced charges was more than 24 hours.
2.3	If so, what time limit would you consider reasonable before charges should be reduced (eg, a maximum of 48 hours interruption)?	Meridian agrees 24 hours is reasonable.
2.4	How would this longer period incentivise quick restoration of electricity supply and balance the disruption to the consumer and the consumer's right to receive the electricity they are pay for?	N/A.
3.1	Do you consider new clause 9.11 effectively addresses the identified problem? Would you propose any alternative approaches? If so, please describe these approaches in your answer	See Meridian's comments in the body of this submission. Similar to our comments on 9.10, while we support the change in principle, we have recommended several changes to the proposal to make it more workable, efficient, and effective.
4.1	Do you consider new clause 12A.6 is practical to implement and will deliver benefit to consumers? Please explain why or why not.	Meridian agrees that consumers will benefit. This clause will be practical to implement as long as Meridian's recommended improvements to clauses 9.10. and 9.11 of the DDA are also implemented, ensuring a simple process that minimises costs.

		We agree with paragraph 4.7 of the consultation paper that retailer should have discretion on how this reduction is passed through (eg, as a “miscellaneous credit”, or a direct reduction in the number of days for the daily fixed charge). As long as the consumer receives the benefit the method used at this point does not matter and should simply aim to minimise the retailer’s costs for system changes and operational costs for each supply interruption. It would help if the proposed Code drafting contained a similar acknowledgement for the avoidance of doubt.
4.2	Do you see any issues or have alternative ideas? If so, please explain please explain what these are.	Not at this time.
5.1	Is the revised approach to clause 33.2 appropriate and practical to implement without the need for significant system changes? Please explain your views	Meridian does not have any comment at this time on the proposed definition of ‘use of money adjustment’. We are broadly comfortable and agree that a positive use of money adjustment is necessary to avoid an incentive on the parties to a distributor agreement to shift costs onto each other by treating each other as a bank.
5.2	Does the revised approach to clause 33.2 reduce potential implementation costs? Please explain your views.	Meridian does not have any comment at this time.
6.1	Do you agree with the analysis presented in this Regulatory Statement? If not, why not?	The consultation paper does not provide any evidence or analysis to establish a net benefit of these proposals. Therefore, Meridian has no comment at this time.