

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

Northpower Submission to the Electricity Authority

The logo for Northpower, featuring a stylized orange 'N' icon followed by the word 'Northpower' in a sans-serif font.

Part 12A clause 9.10 (refund of charges)

| Questions | Comments |
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| <p>Q2.1 Do you consider the revised proposed approach in 9.10 is workable, efficient, and effective? Would you propose any alternative approaches?</p> <p>Please describe these approaches in your answer.</p> | <p>The proposal is technically workable but it is not efficient or effective. Our proposed alternative is the status quo.</p> <p>We repeat our previous submission. In addition, we submit that:</p> <ul style="list-style-type: none"> - Inappropriate risk allocation: The proposal is that consumers should not pay for a failure of electricity supply during an outage - presumably given that consumers don't cause those outages. However, the solution then imposes risk entirely onto distributors who also don't always cause those outages and who incur additional costs themselves in relation to outages. Service interruptions are due to a number of reasons, often outside of the control of the distributor (including adverse weather, third party interference, upstream outages and vegetation). - Increased cost / no net benefit: Even if the Authority considers it appropriate to allocate risk to distributors who cannot fully control those risks, those costs will be covered by consumers anyway through distribution pricing. All consumers connected to a distribution network will ultimately fund the refund of consumers who suffer from an outage through their lines charges. In addition, they will also fund the additional administrative/process costs participants incur to comply with the proposed new requirement. - Supply windfall assumption: The proposal assumes distributors charge for the supply of electricity and therefore if there is no supply, consumers should not pay for supply. However, distributors charge for the supply of <i>assets</i> which have capacity to distribute electricity. Those assets must exist and be maintained at all times, including during an outage where the distributor must repair and reinstate them (i.e. that is the service that customers are paying for in their distribution charges). There is no cost saving windfall to distributors during an outage. Unlike the generation of electricity, the assets and cost to maintain the lines assets do not reduce, in fact, they usually increase in responding to an outage event (for example, during Cyclone Gabrielle repairing the network cost Northpower around \$6m). |
| <p>Q2.2 Do you consider it would incentivise distributors to restore electricity supply to consumers more quickly if they did not need to reduce charges</p> | <p>No. There are already strong incentives in place for distributors to restore assets required for electricity supply as quickly as possible:</p> <ul style="list-style-type: none"> - As a trust owned distributor, our consumers are also effectively our shareholders and our service is focussed on delivering to our shareholders the level of service they expect. |

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| <p>for a longer outage period than 24 hours?</p> | <p>- Many distributors are quality controlled and are regulated by the Commerce Commission for acceptable quality standards. The Authority should not be mandating refunds where the overall quality may be acceptable within other regulatory limits. Although Northpower is not price quality regulated, we do set the targets as if we were.</p> <p>Therefore, same as Q2.1, we don't think mandating clause 9.10 is appropriate.</p> |
| <p>Q2.3 If so, what time limit would you consider reasonable before charges should be reduced (eg, a maximum of 48 hours interruption)?</p> | <p>Same as above.</p> |
| <p>Q2.4 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?</p> | <p>Same as above.</p> |

New Part 12A clause 9.11 (Reduction of charges due to state of emergency)

| Questions | Comments |
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| <p>Q3.1. 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.</p> | <p>This might be better addressed in Part 11 (Registry information management) of the Code as it is effectively backdating the disconnection date to the date when it was requested rather than when the disconnection is completed only when the ICP cannot be accessed for disconnection due to state of emergency.</p> <p>However, this has to be a genuine disconnection where electricity is no longer required at the premise (for example, vacant property or ready for decommission) rather than a temporary disconnection (with intention to be reconnected) as a means to avoid paying line charges. Otherwise, consumers who disconnect to avoid distribution charges</p> |

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| | temporarily will simply increase the pool of distribution costs to be recovered from other consumers who do not request a disconnection. Such a result would favour consumers who have the resources to understand the system, which will socialise the cost across consumers who do not, through increased line charges in future. |
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New Code clause 12A.6 (retailers must pass-through reduction in distribution charges)

| Questions | Comments |
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| Q4.1. Do you consider new clause 12A.6 is practical to implement and will deliver benefit to consumers? Please explain why or why not. | We agree that retailers must pass-through reduction in distribution charges under the basis that clause 9.10 does get mandated. However, as explained in Q2.1, we don't think mandating clause 9.10 is appropriate. |
| Q4.2 Do you see any issues or have alternative ideas? If so, please explain please explain what these are. | N/A |

Code clause 33.2 (definition of 'use of money adjustment')

| Questions | Comments |
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| Q5.1 Is the revised approach to clause 33.2 appropriate and practical to implement without the need for significant system changes? Please explain your views. | We strong advise against introducing a use of money adjustment for refund of charges. This is because, one of the key reasons for not introducing use of money adjustment in the DDA is that network billing is often based on significant amount of estimates from retailer submitted consumption data, which makes it difficult and unnecessary to determine what the right data is and therefore where there has been an under or over charge. EDBs manage those estimates by processing multiple wash-ups later on with no use of money interest adjustments. |
| Q5.2 Does the revised approach to clause 33.2 reduce potential implementation costs? Please explain your views. | We currently do not have any use of money adjustment in the DDA and we are not aware of any concerns from any retailers to date. Therefore any changes will introduce an increase in implementation costs and ongoing administration costs. |

Regulatory statement

| Questions | Comments |
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| Q6.1 Do you agree with the analysis presented in this Regulatory Statement? If not, why not? | We do not agree with the analysis, as discussed in Q2.1 |



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