31 July 2024

Electricity Authority Te Mana Hiko
PO Box 10041
Wellington 6143

By email to dda@ea.govt.nz

Tēnā koutou

SUBMISSION ON PROPOSED AMENDMENTS TO THE DEFAULT DISTRIBUTION AGREEMENT

Unison Networks Limited (**Unison**) is an electricity distribution business (**EDB**) operating in Hawke's Bay, Taupō and Rotorua. Centralines Limited (**Centralines**) is an EDB operating in Central Hawke's Bay.

Unison and Centralines support the Electricity Networks Aotearoa's submission. This submission emphasises our concerns with some proposed amendments. Answers to the consultation questions are in **Appendix A**.

There is no net benefit to the consumer – costs must be recovered

We do not consider that consumers' interests are promoted by the proposed amendments to clauses 9.10 and 33.2. The Commerce Commission (**Commission**) has decided what the appropriate price quality trade-off is to meet consumers long term interests. Aligned with the purpose of Part 4 of the Commerce Act 1986, the revenue entitlement set through the Default Price-Quality Path (**DPP**) or Customised Price-Quality Path (**CPP**) impacting an EDB is required to promote the Part 4 outcomes (in s 52A).

We view the potential to provide rebates as an appropriate goodwill gesture by EDBs in rare circumstances. Rebates should be at the discretion of the EDBs, considering their potential to delay revenue recovery, their impact on consumer interests, commitments from retailers, the nature and scale of the event and subsequent damage to the network, and consumer expectations.

Our primary concerns are that the Authority's proposed amendments to clauses 9.10 and 33.2 will:

Cl 9.10

- undermine the Commission's promotion of Part 4 outcomes and the revenue entitlement established in a DPP or CPP; or
- suspend charges until a later period which contradicts cost-reflective and locational pricing principles. Delaying recovery of costs comes at no net benefit to the consumer, and potentially higher prices over the long-term. Consumers will pay before or afterwards for the service the rebates relate to;

Cl 33.2

- require significant billing system changes at considerable cost. This is disproportionate to the benefit to the consumer (who will absorb that cost). We are happy to discuss cost estimates with the Authority directly.

Other proposed amendments

The new clause 9.11 is considered reasonable.

The new clause 12A.6, which mandates retailers to pass through distribution charge reductions, is required to ensure the consumer receives the short-term benefit.

Ngā mihi

Rachael Balasingam / Tomas Kocar
REGULATORY MANAGER / PRINCIPAL REGULATORY ADVISOR
rachael.balasingam@unison.co.nz / tomas.kocar@unison.co.nz

Appendix A: Submission consultation questions

QUESTIONS	COMMENT
Q2.1 Do you consider the revised proposed approach in 9.10 to be workable, efficient, and effective? Would you propose any alternative approaches? Please describe these approaches in your answer.	No, we consider the revisions unworkable, inefficient and ineffective for the reasons in our cover letter and below. Currently, electricity distribution infrastructure costs are spread across pricing periods, ensuring equity across pricing categories. In addition to the administrative burden mandating rebates would cause, EBDs will be faced with forecasting uncertainty relating to unplanned outages that will impact their timely revenue collection. These additional infrastructure costs are currently spread across pricing periods. To adequately fund the higher costs incurred during unplanned outages, EDBs will be required to redistribute costs among consumers, either through forecasting practices or in the next pricing period. For example, consumers who are in more remote locations where commercial forestry trees falling on lines impacts the reliability of their electricity supply (noting EDBs cannot control fall distance zone trees and, in any event, the costs to EDBs to do so in all cases would be prohibitive). If costs were recovered in the next pricing period, there could be considerable pricing volatility for some consumers who will be subject to increased prices after severe weather events to correct the impact of the rebate. This does not achieve a beneficial outcome for the consumer – i.e. they may pay the same amount subject to volatility (receive a rebate one year to receive a higher price the following year or face increased prices ahead of time). A rebate issued to all affected ICPs is not workable as the lack of low voltage (LV) visibility may not allow for this to be executed accurately. We do not consider there is an equitable manner to proceed with the change. The Registry does not deal with hours, and therefore a move to days would potentially be workable but would result in EDBs being 'over-penalised' because an hour could lead to full day's rebate.
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 for a longer outage period than 24 hours?	Unison and Centralines strive to restore power as quickly as possible in any unplanned outage scenario. For Unison, this is incentivised by the Commission's regime and achieves its intent to ensure no material deterioration of quality (fundamental to the price-path set by the Commission). Centralines is not subject to a DPP or CPP but is consumer trust owned. Its owners have visibility

	over its performance and drive improvements as required, managing price quality trade-offs that are consistent with its consumer owners' expectations. In major events, the cause of extended outages is often factors beyond the EDBs control restricting EDB access, such as police restrictions on accessing a pole (following car vs. pole), and roads and bridges being closed for safety reasons after slips and floods following severe weather events. In Cyclone Gabrielle, flooding of Transpower's Redclyffe Substation was the main cause of the extended outage to most of Napier. Rebates will have no impact on reducing outages in those circumstances. We view rebates as appropriately a good will gesture by EDBs in rare circumstances. They are justifiably at the EDBs discretion as they must be balanced against their ability to delay recovery of revenue (and whether it will be in the interests of their consumers), commitments from retailers, the nature and scale of the event and subsequent damage to the network, and the expectations of their consumers.
Q2.3 If so, what time limit would you consider reasonable before charges should be reduced (e.g., a maximum of 48 hours interruption)?	Based on the weather events experienced over several years, at least 48 hours or preferably longer due to the external (out of EDB control factors) that often prevent restoration work commencing in that period.
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?	As above, a longer than 24-hour period (before eligibility for reduction in charges) would not have an impact on the speed of restoration. It would, however, reduce the administrative burden and related cost to executing any mandated rebates. Rebates can delay the recovery of necessary revenue required to meet price-quality outcomes under Part 4. Following significant events, this delay may force EDBs to borrow to cover the resulting shortfall. Ultimately, this can increase the cost of electricity line services for consumers and lead to cross-subsidisation to cover the cost of debt.
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.	The new clause seems reasonable.
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.	No, please note answers to Q2.1. The retailer must **not** retain any part of the distribution charge reduction. Any reduction to distribution revenue in one year leads to a wash-up amount in a later period plus time value of money. That would contribute to unfair recovery by the retailer, introduce a financeability issue for EDBs, and potentially lead to cross-subsidisation and an increase in charges to consumers in later years.

Q4.2 Do you see any issues or have alternative ideas? If so, please explain please explain what these are.	We consider consumers understand that EDBs incur costs to deliver services during extended outages. If the Authority proceeds with the amendment, an alternative that reduces the impracticality (but does not remove it) is: • increasing the period to 2-3 days; and • rebates being issued to consumers who apply for the rebate (this will address the fact EDBs do not always have LV visibility). Retailers must then be required to pass on the distribution rebate to the consumer in full.
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.	No. The revised approach would involve changes to our billing systems and would come at a considerable cost. At a minimum, time is required to implement this approach. We would be happy to discuss cost estimates with the Authority directly.
Q5.2 Does the revised approach to clause 33.2 reduce potential implementation costs? Please explain your views.	No. On the contrary, the revised approach would increase implementation costs. This is disproportionate to the potential benefit for the consumer.
Q6.1 Do you agree with the analysis presented in this Regulatory Statement? If not, why not?	No. The proposal does not promote statutory objectives set out in section 32(1) of the Electricity Industry Act and does not recognise critical elements of the Commerce Act 1986 Part 4 regime and their effectiveness, including the reason consumer trust owned EDB may be exempt from a price-path (because its consumer owners can exercise control over price and quality). As above, the likely impact for significant events is that reduction in revenues will result in borrowing costs, which will end up being charged to consumers in later periods. The suspension of charges also seems to contradict cost reflective and locational pricing. The perspective of electricity retailers may be to more immediately recover lost margin when a customer refuses to pay for their power bill after or during a prolonged outage. This should, however, be left to the competitive retail market to calculate the lifetime value of customers to account for these eventualities. EDBs do not have visibility of that likelihood and the ability to mitigate the risk through direct customer communications and contracts with customers. At a minimum, clause 24.5 of the current DDA terms should align with any penalties the Authority imposes on EDBs. Currently that excludes several factors outside of EDB control (for justified reasons). Current cl 24.5 supports why it is inequitable to financially penalise EDBs for extended outages.