



31 July 2024

Submission to the Electricity Authority on amendments to the Default Distribution Agreement

Electra Limited (Electra) owns and operates the electricity lines and assets in the Kāpiti and Horowhenua districts. Electra is proudly 100% locally owned by the Electra Trust, a consumer trust, for the benefit of the approximately 47,000 consumers in the region.

We welcome the opportunity to submit on the Electricity Authority's (Authority) *Follow-up consultation – proposed changes to the default distributor agreement*. Electra participated in sector discussions and fully supports the Electricity Networks Aotearoa's (ENA) submission.

Through our ownership model, we operate with the consumers' best interests as a top priority. We are deeply concerned by the issues the Authority has raised in the consultation paper, which they believe need addressing, and the apparent lack of understanding of how distributors operate.

Electra wishes to highlight, emphasise and expand on certain aspects of the ENA's submission.

Imposing reliability and quality standards is the role of the Commerce Commission

"The Commerce Commission (Commission) incentivises EDBs to maintain reliability through quality incentives and severe penalties (including fines of up to \$5 million) for failing to deliver the reliability expected."

The Authority involving itself separately in imposing penalties on distributors for reliability and quality is at odds with a clear and efficient operating regulatory environment and will muddy the priorities for distributors.

If the Authority believes that the current incentives are too weak or do not promote appropriate behaviours, it should make its concerns clear to the Commission, as that regulator is best placed to take meaningful action.

For the avoidance of doubt, Electra does not believe there is a failure in reliability and quality standards harming consumers' long-term benefit and is offended at the implication that we are failing them when they need our attention, expertise and action the most.

We encourage the Authority to reconsider its policy intent and engage further with stakeholders to consider the problem definition underpinning this proposed solution more fully.

Costs grossly outweigh the benefits and contradict the Authority's pricing principles

Since 2008, we have had 12 supply interruptions that exceeded 24 hours, and the extended outage was due to factors such as severe weather. These 12 events impacted approximately 2,910 consumers in total, so if the Authority's proposal had been in place, we would have returned around \$741.61 in total to the retailers of these 2,910 consumers; the retailer would then have returned at least 50%. This means the impacted consumers would have received somewhere between \$0.2548 and \$0.1274 each.

We have optimistically estimated that, on average, it would have taken 3 minutes per consumer to identify the impacted ICPs and process the return of the fixed charge proportion, which equates to an estimated cost of around \$0.5360 per consumer.

Therefore, our estimates show that the costs are 2.1 times higher than the potential benefit consumers might have received. As worrying as this gross misalignment of any consumer benefit is, we are deeply concerned that the Authority is asking distributors to operate contrary to the Authority's own pricing principles. As the ENA's submission makes clear, *"refunds are likely to be funded by a cross-subsidy from other consumers and/or higher future prices for the recipients of the refund."*

The poor design of this proposal means that if the Authority tried to fix one failing aspect of the 'solution', it would simply create a larger failure elsewhere.

That is, if the size of the refund is increased so that it exceeds the costs of administration and so increases the amount of refund that actually lands in a consumer's hands, then the Authority will have exacerbated its cross-subsidy problem for distributors – all without creating any incentive whatsoever for a distributor to change their behaviour.

Again, for the avoidance of doubt, Electra does not believe there is a failure in reliability and quality standards harming consumers' long-term benefit and is offended at the implication that we are failing them when they need our attention, expertise and action the most, such as in the 12 events referred to above.

Restoration is about good industry practices and safety – not a few cents

In the Consultation Paper, the Authority states that it wants *"distributors to be incentivised to restore service to consumers as quickly as possible during interruptions."* This suggests that we are either currently insufficiently incentivised or have failed in our duty to do so. Given the fact that over the last ten years, we have restored 99.63% of interruptions within 24 hours, we are concerned that the Authority is perceiving a failing that does not exist.

When supply is interrupted, we follow good industry practices to restore supply safely and in a focused and targeted way. There is a lot more to restoration activity than just doing it 'quickly'.

It is impossible to restore supply to everyone immediately, so trade-offs are necessary to serve our communities best. We, not the Authority, are best placed to identify these and act on them.

For example, we prioritise reconnecting critical infrastructure and emergency services. We also have to decide how to apply our limited resources for the best interests of the communities we serve. So we may choose to focus on reconnecting areas of the community that are typically high users at the time of an outage, such as commercial or industrial areas, and community services such as schools, hospitals and care centres, in an outage that occurs in the middle of the working day versus what we know are mostly empty residential areas, and vice versa in an outage on a cold winter evening.

During periods of extended outages, especially during major storm conditions, distributors are often working under extreme circumstances with 'all hands-on deck', working long hours and incurring significant response and restoration costs.

Extended outages to individual consumers are not the result of distributors' lack of focus. The proposal, however, suggests we focus on the most numerical 'bang-for-buck' rather than the areas of our communities that need supply the most.

Closing comments

We do not believe that the proposed changes are in the long-term best interests of consumers nor protect the interests of domestic and small business consumers. Contrary to the Authority's remit, the proposals are fundamentally contrary to their interests.

If the Authority is concerned that our practices are prolonging interruption times, then we should have that conversation in an informed manner so that all stakeholders appreciate the problem trying to be solved.

Nothing in this submission is confidential, and it can be published on the Authority's website verbatim.

Yours sincerely



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