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Electricity Authority
Level 7 AON Centre
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By email: DDA@ea.govt.nz

Horizon Energy Distribution Limited (Horizon Networks) submission on Default distributor agreement and consumption data template improvements

1. Thank you for providing us with the opportunity to provide feedback on the Default Distributor Agreement (DDA) and consumption data template improvements.
2. Horizon Networks is a small trust-owned Electricity Distribution Business (EDB) serving over 25,000 consumers in the Eastern Bay of Plenty region. As a trust-owned EDB, we have a strong consumer focus and seek to benefit both our Shareholder Trust Horizon and the communities we serve.
3. While overall many of the individual changes will have a minor impact on Horizon Networks, we are not persuaded that consumers will benefit from the proposed changes to the DDA.
4. In addition to the submission below and expressing support for the submission made by Energy Networks Aotearoa, Horizon Networks would like to emphasise the following:
 - Core term 9.10 is unnecessarily prescriptive and will introduce extra cost with no extra benefit. Horizon Networks does not support the proposed change.
 - Core term 4.8 could require EDBs to have regard to the specific circumstances of each *individual consumer* and the effect an outage may have on that consumer, in planning for and executing an outage. This is unworkable in practice and unlikely to benefit consumers in general.
 - Horizon Networks believes the Electricity Authority has not demonstrated that the proposed changes to the DDA will provide a net benefit for consumers.
 - Horizon Networks supports the proposed changes to the consumption data template.

The proposed prescriptive core term 9.10 setting out the process to refund fixed charges is unnecessary and expensive to implement

5. Clause 9.10 makes a voluntary recorded term a mandatory core term. Horizon Networks does not support this change. The proposed process is unnecessary and overly prescriptive. As written, it will introduce significant additional costs in order for Horizon Networks to comply, while adding no value to consumers as Horizon Networks already has processes that achieve the same outcome.
6. The prescriptive requirements for the refund of daily (fixed) charges in the event of an outage ignores established industry processes that efficiently achieve the same outcome for consumers. Horizon Networks does not charge traders for ICPs that have an 'inactive' status on the network. By maintaining the status on the registry (a requirement under clause 9(1)(j) of Schedule 11.1), our billing system can automatically refund traders on a schedule aligned with their wash-up cycle, regardless of whether the site becoming 'inactive' was due to a fault on the network or another reason.
7. This proposed new obligation under the DDA will require Horizon Networks to develop an alternative mechanism to identify and manually process these out-of-cycle credits, and then integrate those credits back into the datasets used for regulatory disclosures and billing.
8. For individual customers, particularly residential customers, individual credits would likely be very small sums. Additionally, the majority of these credits would be given as a result of events outside of the EDB's control and the cost is unlikely to incentivise improved services from EDB's.
9. Horizon Networks further notes that, unlike transmission services (with which the Electricity Authority makes a comparison in its consultation paper) distribution services are far more susceptible to isolated outages, and

numerically fewer customers than would be affected by a transmission outage. This means that Transpower would be unlikely to incur substantial administrative costs to issue credits.

10. Horizon Networks estimates this new requirement would introduce significant additional costs to comply with. Horizon Networks considers that the proposed change will have negligible financial benefit, and no material improvement in services, compared to the established process.
11. **Horizon Networks recommends:** Clause 9.10 is reframed as an operational term so that the requirement to refund traders can be done utilising existing systems and processes to achieve the same outcome.
12. In addition to the process issues described above, it is important not to confuse the provision of line function services with the provision of electricity to consumers.
13. Line function services includes both the provision and maintenance of works that are used for the conveyance of electricity¹. Outages are when EDBs spend the most time and effort in providing line function services, to ensure that supply is restored to consumers as soon as practicable.
14. Costs to deliver line services are largely fixed, and removing an EDB's ability to recover this revenue from the affected consumers can, in extreme circumstances create cashflow issues for an EDB, and will result in the unrecovered revenue being allocated to other consumers through the revenue wash-up process.

Core term 4.8 would require EDBs to evaluate potential loss to individual consumers in planning and scheduling an outage.

15. Core term 4.8 makes a voluntary recorded term a mandatory core term. The proposed clause requires EDBs to schedule Planned Service Interruptions to minimise disruption to customers.
16. Horizon Networks understands that the Electricity Authority has proposed this change because, as the party responsible for any planned outages on its network, the Electricity Authority considers the EDB is best placed to minimise the outage's disruption to consumers.
17. The wording of this clause is ambiguous. In principle, Horizon Networks agrees that disruption should be minimised, where it is reasonably practicable to do so. However, if the interpretation is that the obligation is owed to each customer individually then the EDB is placed in an untenable position that could put it in breach of the DDA² by having to:
 - Understand individual consumer's needs and schedule outages that minimise disruption to individuals, without knowing their specific needs or plans for the day of the outage.
 - Balance the economic and social impacts of the outage³, and pick who will have power and when.
18. Requiring EDBs to minimise every individual customer's level of disruption due to an outage is unworkable and is likely unenforceable.
19. Additionally, it can be argued that individual consumers who face a material economic loss due to planned outages are best placed to manage that risk and make decisions regarding if they should source an alternative supply of power for the time of the planned outage.
20. **Horizon Networks recommends:** Clause 4.8 be clarified to ensure EDBs are not required to have regard to the particular circumstances of an individual customer and the resulting impact of planned outages on that customer. The obligation should be to minimise the impact of an outage on the delivery of network services to customers generally.

¹ The Electricity Act 1992 defines line function services as: *line function services means—*
(a) *the provision and maintenance of works for the conveyance of electricity;*

(b) *the operation of such works, including the control of voltage and assumption of responsibility for losses of electricity*

² For example scheduling and outage that will impact residential homes (typically away during the day) and commercial premises (need power during the day), and EDB will not be able to comply with 4.8 and minimise disruption for both types of consumers.

³ It is not clear how an EDB would need to quantify the economic and social impact of an outage that affects businesses (economic impact) and residential consumers (social impact) and the priority order for restoring individual consumers.

There is a risk of conflict with the Commerce Commission's jurisdiction regarding price/quality regulation

21. As noted in the Electricity Authority's letter to the Commerce Commission dated 3 August 2023, the Electricity Authority anticipates the amendments *will, or are likely to, affect the Commerce Commission in performing its functions or exercising its powers regarding electricity lines services under Part 4 of the Commerce Act 1986*.⁴
22. The Commerce Commission regulates the quality standards for price/quality regulated EDBs. The Commerce Commission uses network-specific SAIDI and SAIFI targets, and these targets are linked to an incentive scheme that can limit the revenue recovered if targets are exceeded, and if extreme, result in an investigation by the Commerce Commission of the EDB.
23. A key concern Horizon Networks has, is that the proposed changes to the DDA deal with the contractual entitlements of individual retailers or customers on the network. For the DDA to regulate these matters, the average targets across the network shouldn't be used as a de facto *minimum standard* for individual consumers.
24. We also note that the Electricity Authority is not explicitly permitted to regulate price⁵. Any changes that affect the amount of revenue EDBs can recover, how prices are charged or how often prices are updated may conflict with the jurisdiction of the Commerce Commission under Part 4 of the Commerce Act 1986, without explicitly being permitted under clause 32(4) of the Electricity Industry Act 2010.

The cost-benefit analysis does not demonstrate a new benefit in changing the DDA template

25. Horizon Networks appreciates that undertaking a cost-benefit analysis for a suite of related Code amendments is complex and it is not realistic to evaluate each item separately. However, the published cost-benefit analysis does not consider three key points that will alter the outcomes:
 - The cost of updating the DDA (excluding the consumption data template) outweighs the benefits to consumers.
 - The costs of developing new systems and processes for the proposed new obligations have not been considered.
 - The costs of consulting on changes to operational terms have not been considered.

The cost of updating the DDA (excluding the consumption data template) outweighs the benefits

26. The cost-benefit analysis provided by the Electricity Authority covers two distinct changes. Firstly, there are the changes to the DDA itself, and secondly, there are changes to the consumption data template.
27. The Electricity Authority estimates that the net benefit to consumers, over 15 years for making these two changes is between \$195,000 and \$440,000.
28. Horizon Networks is concerned that combining the two proposals into one cost-benefit analysis does not provide a clear picture of the impact of each change on consumers.
29. Horizon Networks has reframed *Table 1: Summary of the Code amendment's benefits and costs* from the consultation paper to separate the DDA costs and benefits and the consumption data template costs and benefits.

Benefit / Cost	Present value amount
Changes to the DDA template	
The ongoing incremental benefit from traders and distributors expending less effort negotiating distributor agreements	\$50,000 Range: \$45,000 – \$55,000

⁴ https://www.ea.govt.nz/documents/3853/Section_54V_letter_from_Electricity_Authority_to_Commerce_Commission.pdf

⁵ Clause 32(4) explicitly allows the Electricity Authority to set quality information in related to access to transmission and distribution networks and set pricing methodologies for Transpower and EDBs.

The incremental benefit from traders and distributors periodically providing distributor agreements to the Authority upon request rather than upon the agreement coming into force	\$2,500 Range: \$1,500 – \$3,500
Incremental dynamic efficiency benefits from more vigorous competition amongst electricity retailers	Not quantified, but expected to be material
The incremental cost associated with distributors updating their respective DDAs	\$4,000 Range: \$3,000 – \$5,000
The incremental cost associated with distributors and traders entering into updated distributor agreements	\$90,000 Range: \$80,000 – \$100,000
The incremental cost associated with distributors and traders updating and/or creating new procedures	\$6,000 Range: \$5,000 – \$7,000
Quantified estimated (average) net benefit for updates to the DDA	-\$47,500
Changes to the consumption data template	
The one-off incremental benefit from traders and distributors expending less effort negotiating agreements for the provision of consumption data	\$300,000 Range: \$200,000 – \$400,000
The ongoing incremental benefit from traders and distributors expending less effort negotiating agreements for the provision of consumption data	\$65,000 Range: \$60,000 – \$70,000
Quantified estimated (average) net benefit for updates to the consumption data template	\$365,000

30. Based on this interpretation of the information provided in the consultation paper, consumers would receive the most net benefit if the Electricity Authority were to update the consumption data template and make no changes to the DDA.
31. **Horizon Networks recommends:** Any final decision made by the Electricity Authority separately quantify the costs and benefits of the two proposals, to demonstrate how each will provide a net benefit to consumers.

The costs of developing new systems and processes for new obligations have not been considered

32. The cost-benefit analysis does not appear to consider the implementation costs associated with meeting the new obligations. For example, developing and maintaining systems and processes to comply with the proposed wording of clause 9.10 is expected to introduce significant additional costs for Horizon Networks.
33. Horizon Networks has not gone through an exhaustive list of the new obligations and the cost to implement and expects the costs faced will differ by EDB. However, these costs have not been considered by the Electricity Authority in its cost-benefit analysis.
34. **Horizon Networks recommends:** Prior to any final decision being made on this issue, the Electricity Authority attempts to quantify the costs placed on EDBs due to new obligations, including where related terms have become operational or core terms. The Electricity Authority should also quantify if there will be a net consumer benefit in making these changes.

The costs of consulting on changes to operational terms have not been considered

35. Horizon Networks notes that clause 6(2) of Schedule 14A.4 states:

A distributor must, before making a default distributor agreement available on its website, consult each participant that the distributor considers is likely to be affected by the default distributor agreement, on the operational terms that the distributor proposes to include in its default distributor agreement.

36. The introduction of the proposed new operational terms would trigger this requirement. The need for EDBs to consult and the costs associated with consultation have not been considered as a part of this consultation.

37. **Horizon Networks recommends:** Prior to any final decision being made, the Electricity Authority quantifies the cost EDBs will face to consult on the new operational terms and considers those costs in its analysis.

38. Horizon Networks also notes that changes to core terms can result in EDBs making consequential changes to operational terms, such as Schedule 1. These impacts and the timeframes for consultation should be considered when making any final decision on changes to the DDA.

Operational terms need to remain flexible enough to reflect the different ways EDBs manage their networks

39. Horizon Networks notes that many of the related terms have become operational terms. In general Horizon Networks supports this simplification, particularly where the goals of the operational terms are being met. However, Horizon Networks opposes the introduction of new substantive performance obligations and liability exposure via operational terms or any intention to make operational terms core terms.

Operational terms can be modified to meet participants' operational needs

40. Horizon Networks understands that operational terms can be modified, so long as they meet the overarching requirements set by the Electricity Authority in Part 12A of the Code.

41. Many of the examples of operational terms do not align with Horizon Network's operational needs. Horizon Networks intends to modify them accordingly to achieve the requirements set out in the Code.

42. If this interpretation is incorrect then the costs of complying with the proposed Code amendments will be materially higher than what the Electricity Authority has posed, and the cost to consumers will outweigh the benefits. As a result, if the interpretation is incorrect, Horizon Networks considers that the Code amendment should not go ahead as it will not further the Electricity Authority's statutory objective.

Regulations should not force EDBs and traders to have the same views as the Electricity Authority regarding Service Guarantee payments

43. Horizon Networks considers the proposed service guarantee payments are a penalty. Making clause S1.8 a core term is forcing EDBs and traders to agree that service guarantee payments are not a penalty, even if an EDB holds a contrary view.

44. Outcome-based regulation should look to set expectations on behaviour rather than force regulated parties to agree. In the case of service guarantee payments, this would require EDBs to calculate service guarantee payments (if any) in a way that ensures service guarantee payments aren't a penalty.

45. **Horizon Networks recommends** clause S1.8 be reframed to set an expectation that service guarantee payments (if any) are set in a way that ensures the payments are not a penalty.

Service Guarantee payments should only be made to traders

46. The proposed new core term S1.7 requires EDBs to make service guarantee payments (if any) to customers, where the customer makes a request directly to the EDB.

47. This proposed new obligation places a burden on EDBs to replicate trader's systems and processes to handle and collect personal information and bank account details, authenticate the identity of the consumer, verify if the consumer is the customer at the affected ICP and then manage and interface with each consumer.

48. This new obligation is unnecessary, as traders already hold this information and have an obligation to pass payment to the relevant customer. To require EDBs to implement systems that replicate trader customer management systems is unnecessary.

49. Additionally, there is a risk of double handling of service guarantee payments, where both the customer (or multiple representatives of the customer) are going directly to the EDB for payment, at a similar time to the trader seeking the same payment from the EDB.
50. The interests of consumers would be best met by making this obligation permissive rather than an obligation. This way EDBs would not have to replicate traders' systems and processes but could choose to do so when it is more efficient and is in the interests of prompt resolution with the consumer.
51. **Horizon Networks recommends:** Cause S1.7 be amended to state "... in the interests of prompt resolution, the Distributor may pay the Service Guarantee Payment directly to the Customer."

Horizon Networks has further technical feedback regarding some clauses

52. **Clause 7.3.** Horizon Networks notes there are two issues with the drafting of this clause. The first, and most important issue is that the proposed drafting of this clause will prevent EDBs from making an annual price change if the EDB is required to make an out-of-cycle price change under this clause.
53. **Horizon Networks recommends:** Clause 7.3 be amended to allow EDBs to make price changes annually, even if the alternative price change mechanism is triggered.
54. **Clause 7.3.** Horizon Networks believes regulators (and by extension consumers) would benefit if EDBs were permitted to make price-based changes based on the instruction from a regulatory body.
55. **Horizon Networks recommends:** Including the ability to make price-based changes based on an instruction made by a regulatory body (the regulatory body may not necessarily be the Electricity Authority or Commerce Commission). This will allow EDBs to be more responsive to regulatory needs ahead of any complex and lengthy process to change the law. We believe this change would benefit regulators and by extension consumers.
56. **Clause S5.26.** This clause appears to reference a timeframe in S5.13. However, S5.13 does not have any timeframes in it.
57. **Clause S5.29.** We note this is an operational term that does not allocate costs and risks to the party best placed to manage them. Traders are best placed to manage the risks and costs of providing notifications, as they determine the methods of communication that are best suited for their customers. As this is an operational term, Horizon Networks will align this with its existing operational approach to handling of these costs. **Horizon Networks recommends:** The Electricity Authority update this example operational clause to allocate costs to the trader. This will align with the goal of promoting the efficient operation of the Electricity Industry by allocating costs and risk to the party best placed to manage them⁶.

Horizon Networks supports improving access to data via a change to the consumption data template

58. Horizon Networks supports the proposed changes to the consumption data template and improvements to the format, use and timing of the provision of consumption data. Accurate data is necessary to support informed decisions and an efficient transition to a low-emissions economy.
59. Horizon Networks support improvements to allow traders to authorise EDBs to procure the data directly from metering equipment providers (MEPs) but note that this agreement is between the trader and the EDB, so any dispute (including disputing what constitutes reasonable costs) would be between the EDB and the trader.
60. Horizon Networks also notes this is an interim step to improving access to metering data, and the Electricity Authority's *Delivering key distribution sector reform work programme* is looking at enabling MEPs to contract directly with EDBs to provide ICP-level data. Horizon Networks expects the Electricity Authority is coordinating these workstreams to ensure alignment and synergy between the DDA and any proposed Code changes.

⁶ Paragraph 5.10 in the consultation paper:
https://www.ea.govt.nz/documents/3851/Part_12A_Code_amendment_proposal_consultation_paper.pdf

In conclusion, Horizon Networks supports changes to the consumption data template but has concerns that the impact of amending the DDA has not been fully assessed

61. The DDA is the core contract between EDBs and retailers for the provision of line services. Making changes to the DDA is not trivial and will incur costs for all parties.
62. Overall, the changes to the DDA are, in places overly prescriptive and are likely to result in higher costs for consumers without the same level of benefit. Horizon Networks does not support the proposed changes to the DDA, on the basis that there are more efficient options. We also consider that the proposed changes do not demonstrate that the communities and consumers Horizon Networks serve will benefit from the changes.
63. The proposed changes to the consumption data template appear to provide a net benefit for consumers. Horizon Networks supports these proposed changes.

Yours Sincerely



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HORIZON ENERGY DISTRIBUTION LIMITED

APPENDIX A: FORMAT FOR SUBMISSIONS

Questions	Comment
<p>Q1. Do you agree Issue 1, summarised in paragraph 2.21 and described in paragraphs 2.21 to 2.32 and Appendix B, is worthy of attention?</p>	<p>Horizon Network understands the issue that that the Electricity Authority considers needs to be addressed is that of recorded terms in the DDA introduces inconsistencies that are less aligned with the Electricity Authority’s statutory objectives⁷.</p> <p>Horizon Networks agrees that the use of recorded terms gives EDBs and traders the flexibility to vary the terms of the agreement to meet both organisations’ needs. This will naturally result in inconsistencies.</p> <p>Inconsistencies do not mean that individual agreements are misaligned with the Electricity Authority’s statutory objective. While there may be merit in improving alignment for some clauses, a wholesale change to remove this flexibility will not in all cases promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.</p> <p>Horizon Network agrees that the Code should be regularly reviewed and maintained, so it is worthy of attention.</p>
<p>Q2. Do you have any feedback on the Authority’s assessments of changes to recorded terms, as set out in Appendix B and Appendix C?</p>	<p>Yes. Please refer to our cover letter.</p>
<p>Q3. Do you agree Issue 2 is worthy of attention?</p>	<p>Horizon Networks understands that the Electricity Authority considers the efficient operation of the electricity industry would be promoted by replacing the existing obligations of EDBs under the Code to provide any new or varied distributor agreement to the Electricity Authority with an obligation to provide their latest agreements upon request.</p> <p>Horizon Networks agrees that this is worthy of attention and supports changes that reduce the compliance burden on EDBs.</p>
<p>Q4. Do you agree Issue 3 is worthy of attention?</p>	<p>Horizon Networks understands that the Electricity Authority believes the transaction costs associated with the sharing of consumption data could be reduced.</p> <p>Horizon Networks agrees that this is worthy of attention and the proposal will reduce the transaction costs associated with access to consumption data. We agree that this work is impactful and should be prioritised, as access to data and being able to use consumption data is a barrier to supporting efficient investment decisions that can ultimately support a lower-cost transition to a low-emissions economy.</p>

⁷ The Electricity Authority’s statutory objective is covered by clause 15 of the Electricity Industry Act 2010: Objectives of Authority

- (1) The main objective of the Authority is to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.
- (2) The additional objective of the Authority is to protect the interests of domestic consumers and small business consumers in relation to the supply of electricity to those consumers.
- (3) The additional objective applies only to the Authority’s activities in relation to the dealings of industry participants with domestic consumers and small business consumers

Questions	Comment
Q5. Do you agree with the objective of the proposed Code amendment? If not, why not?	<p>Horizon Networks understands the objective of the Code amendment is to address issues 1-3.</p> <p>Horizon Networks agrees that the objective of any Code amendment should be to address the issues or problems identified.</p>
Q6. Do you agree the benefits of the proposed Code amendment outweigh its costs?	<p>No. The costs of developing new systems and processes to comply with the new obligations relating to service standards and related credits are significantly higher than what is proposed in the paper.</p> <p>This view is covered in detail in paragraphs 25 to 38 of the cover letter.</p>
Q7. Do you agree the proposed Code amendment is preferable to other options? If you disagree, please explain your preferred option in terms consistent with the Authority's statutory objectives in section 15 of the Act.	<p>Horizon Networks agrees that the proposed changes to the consumption data template are preferable to other options, and making this change will result in a net consumer benefit.</p> <p>As a suite of amendments, the proposed changes to the DDA appear to not provide a net consumer benefit. As a result, Horizon Networks considers consumers would be better off if the Electricity Authority excluded the problematic changes as outlined in our cover letter.</p> <p>Individually some of the proposed changes to the DDA may be cost-neutral or provide a minor benefit (where it does not alter existing obligations) but this is greatly outweighed by the costs of the unnecessarily prescriptive requirements and the costs to consult and implement the proposed changes.</p>
Q8. Do you agree the proposed Code amendment complies with section 32 of the Act?	<p>No.</p> <p>The regulation of quality standards is already regulated by the Commerce Commission under Part 4 of the Commerce Act.</p> <p>The proposal to regulate quality standards already regulated by the Commerce Commission places EDBs in an untenable situation where it is possible for either regulator to set contradictory standards which would mean EDBs can't comply with both standards.</p> <p>We also note that the Electricity Authority is not permitted to regulate price. Any changes that affect the amount of revenue EDBs can recover or how prices are charged or how often prices are updated may conflict with the jurisdiction of the Commerce Commission under Part 4 of the Commerce Act 1986, without explicitly being permitted under clause 32(4) of the Electricity Industry Act 2010.</p>
Q9. Do you have any comments on the drafting of the proposed Code amendment?	<p>Yes. Please refer to our cover letter.</p>