

25 September 2012

Electricity Authority
PO Box 10041
WELLINGTON 6143

By email to: rag@ea.govt.nz

Dear Sir/Madam

Submission on Discussion Paper – Arrangements for managing retailer default situations

Our Submission

1. Marlborough Lines Ltd (MLL) appreciates the opportunity to comment on the Retail Advisory Group's Proposals for arrangements for managing retailer default situations.
2. We generally support the views expressed in the submission made by PricewaterhouseCoopers (PWC) on the same matter made on behalf of 22 Electricity Distribution businesses.

Problem Definition

3. We agree with the problem definition and the need to put in place a mechanism under the Electricity Code to limit financial losses incurred by all industry participants in the event of a retailer defaulting.
4. We see the current situation as unworkable and particularly incongruous with the restrictions recently placed on Distributors to limit prudential security to two months worth of lines charges. In our view two months security is insufficient to cover the losses that would be incurred if a retailer defaulted.

Regulatory Mechanism Required

5. In particular we consider it is necessary to have a regulatory mechanism to ensure that customers are transferred to alternative retailers in an orderly and equitable manner, without undue delay. Our view it is reasonably likely that a retailer default would coincide with high spot prices and therefore other non defaulting retailers may be unwilling to voluntarily pick up the customers of the defaulting retailer.

6. We therefore support both the proposals;
- that all retailers are required to add a condition in their consumers' contracts so that the EA can terminate the contract at any time, or an alternative mechanism that achieves the same result,
 - that non-defaulting retailers will be obligated to accept the consumers of defaulting retailers.

Timeframes in Current Proposal

7. We recognise that a decision to transfer customers to other retailers should not be taken lightly on the basis that a Retailer's customers are their major assets. However we submit that the current timeframes proposed for dealing with default together with the limits on prudential requirements imposed on distributors mean that distributors will be unlikely to be able to avoid financial loss in the event of a retailer default.
8. The submission by PWC on behalf of 22 EDBs outlines the timeframes carefully, and highlights that a loss of three to four weeks is the minimum loss that would be incurred. Our view is that this is a significant loss to be incurred by a distributor especially given that it will have far greater impact than a loss of four weeks of net revenue as the distributors' charges include those payable to Transpower for transmission services.
9. We suggest that the proposal is examined carefully to see if the timeframes can be effectively reduced. In particular we submit that the eight business day notification period provided by the EA to retailer to rectify a default is lengthy. In our view this extended period undermines the impact/consequence of the notification of an 'Event of Default' to the EA by the Distributor.
10. A further area where we consider the timeframes in the proposal could be re-examined is the ten business day notification period provided by the EA to consumers to switch or be transferred. It is our view that a number of good tools are now available to support consumers to make an informed decision and therefore those who will switch voluntarily could do so in a lesser time window. In addition the option that consumers switch themselves to a retailer of their choice at some point after they have been reallocated to a non defaulting retailer will remain open to them.

Termination of Use of System Agreement.

11. We remain concerned with respect to the impact on the rights and obligations of Distributors following the termination of a Use of System agreement with a retailer. Until these issues are resolved we submit that it is vital that a distributor can notify the EA of an 'Event of Default' without actually terminating the Use of System agreement with the retailer, with the balance of the process outlined still occurring.

Summary

12. We appreciate the Retail Advisory Group's work on this matter and consider that a significant amount of progress has been made in this particular area.

13. We appreciate the opportunity to consider the discussion paper and provide feedback on the proposals made.

Yours sincerely

A handwritten signature in blue ink that reads "Katherine Hume-Pike". The signature is written in a cursive style with a large initial 'K'.

Katherine Hume-Pike
Commercial Manager