



9 October 2014

Submissions
Electricity Authority
By email: submissions@ea.govt.nz

Consultation Paper – Proposed Code Amendments: Implementing Retailer Default

Meridian appreciates the opportunity to comment on the “*Proposed Code amendments: Implementing retailer default*” consultation paper. This submission is provided on behalf of Meridian and Powershop.

Meridian supports addressing the issues outlined in a lower cost way

Meridian agrees there are valid reasons for addressing each of the issues identified, but considers that they can be resolved using a more suitable, lower cost approach. While we agree it is important to have in place fundamentals that will ensure the regime can function effectively when required, the arrangements also need to be set up in a way that recognises how infrequently (if at all) information from retailers will be needed.

Maintaining security over customer information is paramount

It is Meridian’s firm preference that customer contact details are held in a secure location, separate from the registry. While we consider one option would be for Traders to have in place audited processes that would enable them to supply customer contact details as required, we accept the Authority may prefer to have this information on hand in a centrally held location.

Meridian does not support incorporating information on customer contact details into the registry. Compared with having the information stored separately, this would be less secure and involve higher costs. Expanding the role of the registry in this way would need to be considered as part of a more comprehensive review of the registry’s functionality.

Several suggested timeframes need to be modified

Meridian welcomes the Authority's proposal to allow retailers some time to comply with metering and distribution-related Code standards but we are concerned that the suggested 20 business day timeframe will be difficult to achieve. We consider 3 months to carry out 'best endeavours' to meet the standards would be more reasonable, for instance, to cater for a situation where large numbers of customers and contracts are involved.

Meridian also considers:

- Customer contact details should be provided quarterly to better balance the importance of having up to date information at hand with the costs to retailers and the likely infrequency of instances where a need for the information will arise. There should be no barrier to retailers updating the information more regularly.
- Reports on valid, technical reasons as to why certain ICPs/NSPs are unable to be supplied should be provided at the time of default. Meridian does not consider this information needs to be collected earlier since it will only be required from non-defaulting retailers nearer the end of the 17 days it will take for the Authority's process to run its course.
- 3 months lead time should be allowed for retailers to undertake 'best endeavours' to supply information on type 2 retailers, who may not be readily identifiable or easy to make contact with. Type 2 retailers themselves should be responsible for arranging a participant identifier to be assigned within this timeframe.

Further work is needed to improve the clarity of the Code

In Meridian's view there are two important aspects of the Code that require further clarification. At present, the Code is unclear on how customers would be allocated in instances where no suitable retailers are able to be found at the final 'compulsory' allocation stage of the Authority's process (e.g. if all retailers submit they are unable to trade pre-pay meters, how will customers with pre-pay meters be allocated?). The Code also does not make clear how retailers who agree a customised exit timeframe with the Authority (under new "Prudential and Settlement" Code provisions), and who will not have the "default" 18 day exit period used in the calculation of their prudential amounts, will not then go on to be able to be exited using the Authority's process. A concern with having the Code unclear on this point is that it could artificially lower the prudential amounts which are set, while the industry bears the full 18 days of exit period default.

We request the Authority considers the above matters further.

Further details on the points raised above are provided in appendix 1 containing our responses to the consultation questions.

If you have any queries regarding this submission please contact me.

Yours sincerely,

A handwritten signature in blue ink that reads "Alannah MacShane".

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Appendix 1: Responses to Consultation Questions

	Question	Response
1	Do you agree with the issues identified by the Authority? Please give reasons.	<p>Yes.</p> <p>The issues the Authority has identified regarding (i) gaining access to customer contact information and (ii) the need to ensure retailers are not compulsorily assigned customers where they are unable to trade align with Meridian’s comments from previous submissions.¹</p> <p>Meridian agrees that retailer default provisions as they are currently drafted do not deal to “type 2” retailers well. We accept the provisions should be framed to apply to traders only, like the Authority has suggested. This will correctly target the regime to potential causers of wholesale market losses (i.e. with ultimate responsibility for meeting wholesale market payment obligations, rather than also applying in instances where a type 2 retailer’s purchases will continue to be met by another retailer).</p> <p>As per our comments below, Meridian welcomes the Authority’s proposals to:</p> <ul style="list-style-type: none"> • Introduce a grace period for retailers compulsorily assigned new customers to meet metering and distribution service-related Code standards. Retailers should be provided with 3 months to undertake ‘best endeavours’ to achieve this. • Correct clause 11.15B for consistency with 11.15C and to more accurately describe the types of default events that may lead to intervention by the Authority to transfer customers. <p>Meridian also considers improvements need to be made to the clarity of the Code in two areas:</p> <ul style="list-style-type: none"> • The way the Authority would expect to arrange the transfer of customers where no suitable retailers are able to be found as part of the final ‘compulsory assignment’ phase of the process. • How the Code will ensure that those who agree a shorter exit timeframe with the Authority (and who go on to have this used to calculate prudential amounts) will need to follow a separate and independent process as a consequence. Our response to Q11 provides further details on this.

¹ Specifically the comments in our 20 August 2013 submission (available: <http://www.ea.govt.nz/dmsdocument/15642>) regarding the need to recognise that the defaulting retailer may at the time where information on their customers is required be dealing with many competing priorities (of receivers, banks etc.) and in our 19 March 2012 submission (available: <http://www.ea.govt.nz/dmsdocument/12731>) that retailers who choose not to trade in a certain areas because of transmission and other risks should not then be required to accept customers in those areas.

	Question	Response
2	Do you have any comments on the functional specification provided in Appendix C for issue 3: information about ICPs at which traders cannot trade?	<p>Meridian considers several adjustments are needed to the Authority's proposed approach for collecting information on types of NSPs/ICPs a retailer cannot supply.</p> <p>The Authority's proposed method for requesting 'unable to serve' NSP/ICP information gives retailers relatively wide discretion in the NSPs/ICPs they are able to specify and it is not clear how the validity and accuracy of the information will be confirmed. From this standpoint, and also because it would be less costly and simpler to implement, Meridian considers it would be preferable for the Authority to instead make use of the registry to compile this information (i.e. use the approach that if a retailer supplies ICPs with certain attributes e.g. meter type etc. they can be assigned more of this type). We do, however, recognise that the information in the registry will not always be of sufficient granularity to prevent retailers being assigned customers they cannot reasonably be expected to take on. We are aware specifically that in using the registry it will not always be possible to determine whether a retailer:</p> <ul style="list-style-type: none"> • supplies TOU sites as half hourly metering isn't confirmation of TOU; • supplies sites in excess of certain kVA ratings; • would ordinarily supply certain sites because of the precise way that network charges are calculated (e.g., using metered monthly values for congestion period demand charges in Powershop's case); • has in the past made use of certain meters as a stop gap measure until new metering can be installed by an MEP the retailer has an agreement with. <p>Meridian submits asking retailers to report on their NSPs/ICPs will be more acceptable in terms of providing the level of detailed information needed but that it needs to be done in a way that limits discretion to apply non-technical considerations and that involves some form of monitoring. It is important in our view to acknowledge the process already has some 'controls' in place in the form of retailers having the ability to supply advice on financial consequences for the Authority to consider ahead of making its final allocation decisions.</p> <p>While we recognise the Authority's retailer default process involves short timeframes, we see no reason why information regarding NSPs/ICPs at which retailers are unable to trade could not be compiled at the time of an actual default. This would ensure the information made available is up to date and accurate and would be considerably lower cost to implement. We don't see why the information will be needed any earlier in the process, since it will only be required from non-defaulting parties.</p> <p>On a separate but related matter, Meridian is concerned that the Authority's process does not currently address how customers will be allocated in instances where no suitable retailers are able to be found. We request this is considered in more detail as part of further work.</p>

	Question	Response
3	<p>Which option would you prefer (option 1 or 2) if providing customer information to the registry? Please give reasons.</p>	<p>Meridian does not support option 1 (incorporating customer contact details into the registry) for several reasons:</p> <ul style="list-style-type: none"> • It is Meridian’s strong preference that customer contact details are kept separate from other registry records. Maintaining security of this information is paramount and strict arrangements that protect against this information being improperly accessed and disclosed are essential. We consider it is important an external interface is avoided because of this. • Having the registry expanded in this way would be a significant step away from the registry’s primary intended purpose (to enable ease of switching). If the role of the registry is to change, this should be considered in a more principled and comprehensive way. • From our own and the Authority’s assessments, it would involve significantly higher implementation costs. By-passing the step of integrating data with the registry will ensure implementation costs are kept to a more reasonable level. <p>As an alternative to option 2 (having customer contact details held in a stand-alone part of the registry), Meridian considers the Authority could instead require Traders to have in place processes reviewed as part of the Reconciliation Participant audit that allow customer information to be supplied in a pre-defined format, at the EA’s request. From a cost perspective, we consider this option is preferable to option 2. We accept the Authority may, however, be inclined to favour option 2 if it is concerned with having the information available on hand at all times.</p> <p>Meridian considers reporting on customer contact information once a quarter (rather than monthly under option 2), would be more appropriate and cost effective.</p>
4	<p>Do you have any comments on the proposed draft format for providing customer information in Appendix D?</p>	<p>It is important that retailers are also supplied with meter read information to allow billing to commence. In a normal course of events this information would be provided during the switching process by the former retailer. Meridian requests the Authority gives further consideration as to the best method for making meter read information available.</p>

	Question	Response
5	Do you agree with the objectives of the proposed amendment? Please give reasons.	<p>Meridian mostly agrees with the objectives that have been specified.</p> <p>Due to the reasons set out in our response to Q2, we consider objective (d) should be revised to the following: “the Authority is aware of any <i>valid, technical</i> reasons why retailers may not be able to trade at certain ICPs”.</p> <p>To keep objective (e) open to the possibility that traders could instead have processes in place to extract customer contact details – as our response to Q3 suggests – it would need to be reworded around the Authority being “able to access” the information.</p>
6	Do you agree with the proposed implementation timeframes for the proposed amendment? If not, why not?	<p>Meridian agrees with the Authority’s proposal to allow retailers some time to prepare for new requirements to report on customer contact details and ICPs/NSPs unable to be supplied. We consider that the suggested implementation timeframes of early 2016 for ICP/NSP information and mid-late 2016 for customer contact details are reasonable. As we mention in our response to Q11, we consider the draft Code needs to be adjusted to make specific provision for the lead time to implement the changes.</p> <p>Meridian requests that the timeframe for retailers to supply information on type 2 retailers is extended to three months rather than the 20 business days proposed. This additional amount of time will make the process less compressed in instances where a participant identifier needs to be assigned. Meridian does not consider there are any clear reasons why type 2 retailer information would be of higher importance than customer contact details or ICPs/NSPs unable to be supplied.</p>

	Question	Response
7	Do you agree the benefits of the proposed amendment outweigh its costs? Please give reasons.	It is not clear to Meridian that the benefits of the Authority's current proposals outweigh associated costs. While we consider the Authority's estimates of the cost of system changes to be in the right order of magnitude, we consider its analysis overstates the extent of the avoided costs for retailers (estimated by the Authority to be as high as \$14.8m, due to costs associated with attempting to contact customers). While the estimates assume an approach involving two postal mail outs and a physical site visit performed for up to a quarter of newly allocated customers, there could be a range of lower cost alternatives (such as emailed notifications) used. We consider at best the extent of the net benefits will be considerably lower than the Authority suggests as a consequence. Overall, we consider it is unclear whether the proposed amendment as it stands will result in net benefits.
8	Do you agree with the Authority's assessment of costs in Appendix E? Please give reasons.	See our response to Q7.

	Question	Response
9	Do you agree the proposed amendment is preferable to the other options? If you disagree, please explain your preferred option in terms consistent with the Authority's statutory objective in section 15 of the Electricity Industry Act 2010.	<p>No. Meridian considers the Authority's objectives could be achieved in a better and more efficient way. In particular, we favour an alternative approach involving:</p> <ul style="list-style-type: none"> • A secure, stand-alone, database of customer contact details, populated quarterly with updated information. • Reports being provided by retailers at the time of a default on valid, technical reasons as to why certain ICPs/NSPs are unable to be supplied. • Retailers having 3 months to undertake 'best endeavours' to supply information identifying type 2 retailers, with type 2 retailers responsible within this timeframe for arranging (where necessary) for a participant identifier to be assigned. • A 3 month 'best endeavours' timeframe for retailers compulsorily assigned customers to meet metering and distribution-related Code standards. <p>We consider addressing the two areas for improvement Meridian has identified (ensuring consistency with assumed prudential exit periods and the process by which unallocated customers are to be assigned) will assist with the Authority's objective around ensuring the process "works effectively in the event of trader default".</p>
10	Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?	See our response to Q9.

	Question	Response
11	Do you have any comments on the drafting of the proposed amendment?	<p>Meridian strongly supports the Authority’s proposed amendments to clause 11.15B(1)(a). We’ve submitted previously these changes are needed to improve the accuracy of the types of ‘qualifying’ default events specified and to ensure consistency with other parts of the Code (specifically, clause 11.15C).</p> <p>As previously mentioned, it is Meridian’s strong preference that the Code provides for customer contact details to be held separately from other registry records (i.e. that option 1 is not pursued). Rather than customer details that are “known to” the trader it would be more appropriate in Meridian’s view if proposed clause 9(1)(jb) were to instead specify details <i>recorded by</i> the trader are to be provided.</p> <p>Meridian considers there are several amendments needed to the timeframes that have been specified:</p> <ul style="list-style-type: none"> • Meridian is concerned that the 20 business day period allowed for complying with relevant metering standards underestimates the scale of the process involved in certain situations. What if there are non-compliant meters to be dealt to? Or where large-scale displacement of customers creates a need for multiple retailers to attempt to negotiate in parallel with the same meter owner? In Meridian’s view a timeframe of 3 months to report back to the Authority on progress in achieving these standards would be more reasonable. • As mentioned in our response to Q6, Meridian considers retailers should be allowed 3 months lead time to provide information on type 2 retailers, rather than 20 business days like the Authority has proposed. <p>We also consider adjustments are needed to provide for the 12-18 month lead time for customer contact information and 6 month lead time for ‘unable to trade’ ICP/NSP information proposed by the Authority.</p> <p>For reasons mentioned above, Meridian considers the amendments should make clear Traders are to ‘use reasonable endeavours’ comply with metering and distribution service-related standards. The same should apply to providing information on type 2 retailers who may not always be readily identifiable or able to be easily contacted. Regarding the Authority’s suggested process for having type 2 retailers assigned (where necessary) participant identifiers, we question why this would be the responsibility of the ICP trader to progress, at their cost, for the benefit of the type 2 retailer.</p>

	Question	Response
11	Do you have any comments on the drafting of the proposed amendment? (cont.)	It is not clear to Meridian how the Code will limit retailer default provisions to those who do not agree a shorter exit timeframe with the Authority (as provided for under new clause 14A.22 of the Code, due to come into effect March next year). Our expectation is that any reduction in the exit period timeframe would only be granted if the retailer had proof they could transfer all customers to an alternative retailer in a shorter timeframe independently of the Code default process. It would be concerning if a disconnect could arise between the timeframe assumed as part of the prudential calculations and what would be realistic to expect in terms of the time to exit a retailer from the market. We request the Authority considers this matter further.