Submission on the Electricity Authority's Consultation on:

The Retail Advisory Group's   **Review of secondary networks; Issues and options paper**

submission completed by

Auckland International Airport Limited

Executive Summary

The purpose of this paper is to provide feedback regarding the Electricity Authority's consultation of the recent Retail Advisory Group's (RAG) Review of Secondary Networks.

In summary, Auckland International Airport Ltd (AIAL) supports initiatives that improve transparency and communication such as standardised data exchange protocols, however AIAL does not support the RAG's preferred option of introducing a default Use of System Agreement (UoSA) or mandated time restrictions on negotiations.

The key grounds being there is already an existing model Agreement published by the Authority. Using this as a baseline for negotiation allows for the flexibility in outcome required to optimally support the highly varied nature of secondary network operations to the ultimate benefit of the consumer in terms of prices and reliability of supply. There is also already in place a requirement upon industry participants (within the Code) to negotiate in good faith.

As evidence to support this view; the two most recent UoSAs negotiated with AIAL each took less than half a day to reach agreement, which also demonstrates the ease of access to markets and retail competition.

Introduction

Auckland Airport supports and will assist in the development of outcomes that will deliver the greatest benefit to New Zealand, and is grateful for this opportunity to be involved in a review of how secondary networks operate within the New Zealand electricity market.

Auckland Airport will provide its perspective on secondary network operational performance as a line owner and distributor of electricity within an embedded network of approximately 380 consumers.

Through a whole of system approach and the introduction of issues and options additional to those identified by the RAG, it is hoped that we can develop changes that benefit the market overall and avoid the law of unintended consequences assisting one part of the market to the detriment of another destroying overall value for the customer.

In general it was somewhat difficult to respond due the preferred option being a path (towards developing another model/default UoSA) and not a defined product, thus making quantified costs difficult to determine at this stage.

AIAL welcomes the opportunity to work with other industry participants to improve the sector's efficiency productivity through promoting competition, improving reliability of supply

General comments and responses to the consultation paper follow.

No.	Question	Auckland Airport's Response
1	Please provide any comments and views on the description of the characteristics for customer networks, embedded networks and network extensions. Please provide evidence on your comments and views, where possible.	Auckland Airport supports the Guidelines for Secondary Networks version 8 in relation to the description of characteristics of embedded networks. The Guidelines form the basis of its business to business participant operations.

2	Please provide any comments and views on the description of the legal framework for customer networks, embedded networks and network extensions. Please provide evidence on your comments, where possible.	Auckland Airport is registered with the Electricity Authority as a line owner, distributor and reconciliation participant. Auckland Airport accepts its responsibilities and obligations under the Code in relation to the description of the legal framework of embedded networks.

3	Please comment on the issues identified with customer networks, embedded networks and network extensions. Please provide evidence where possible.	Auckland Airport has UoSA existing with all retailers trading on its embedded network.

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Customer Network (CN) specific issue:

Consumers do not have a choice of Retailer, however CNs improve the efficient operation of the electricity industry by improving the value returned (bulk supply) while reducing the Retailers' costs and relationship management efforts.

Customer Networks also have the ability to engage Retailers and negotiate better services/pricing for their consumers due to their aggregate volume and value to the retail market.

The RAG has raised that some Retailers consider the cost of negotiating a UoSA is considered too great in comparison to the number of individual consumers that a Retailer might win on an embedded network, a consumer network enables them to compete and win a much greater volume of consumers relative to efforts invested.

Embedded Network (EN) specific issue:

Based upon the existence of a model UoSA and the recent experience of negotiating two new Agreements with (small) Retailers, AIAL has seen no quantifiable evidence that supports the existence of difficulties or costs that inhibit market entry or competition.

Generic Secondary Network issues:

Auckland Airport provides a 24/7 faults and power quality service for its tenants [connected customers]. The nature of the airport operation requires a high level of response. These established procedures are well known to Auckland Airport tenants and retailers.

Regarding the conversion of a secondary network to a different form (CN, EN or NE), it is agreed that there is a lack of clarity in the process. AIAL would support increased definition regarding timely notice periods, process and the appropriate responsibilities for Retailers and Distributors, and also removal of a Retailers right to refuse the disestablishment/transfer of ICPs in order to facilitate a transition if these protocols were adhered to.

Lastly, AIAL submits that fixed gateway charges disincentivise market improvement initiatives.

Where a local network connects to a secondary Network Supply Point (NSP, or gateway), fixed charges often apply that are based upon capacity provided to the secondary network. However, revenue for the secondary network is recovered based largely

| 4 | Please comment on the description of the problems relating to reduced competition, efficiency and reliability of supply. | Auckland Airport has seen no quantifiable evidence to support that competition is lessened, retailers have operational difficulty, or that reliability levels are reduced on an embedded network.

Recent evidence supports the view that Retailers have no difficulty negotiating UoSA and competing to supply consumers (refer Q11).

Regarding improved reliability of supply within secondary networks, desktop research supports the case that where a secondary network operator has a core business other than the distribution network there are increased commercial drivers in place to ensure greater efficiency in supply above and beyond that of local network operators which have limited or no end user relationship.

However, it would admittedly be difficult to acquire sufficiently robust data to analyse the impact upon economic productivity from secondary networks outages vs. for example, local network outages (which tend to impact much larger geographic areas) in terms of total customer hours (downtime/outage) and subsequent losses in economic value and/or quality of life of the consumers directly and indirectly affected. |
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5	Do you agree that a default embedded network UoSA will promote retail competition by making it easier and less costly for retailers to supply consumers on embedded networks? Please give reasons for your view.	In Auckland Airport's experience, active retail competition has existed since 1999 and continues to improve with the increasing numbers of smaller Retailers entering the market.
		Auckland Airport supports in principle, options that will simplify and/or deliver improvement that will benefit industry participants and the end consumer.
		However, in the case of a default UoSA, consideration to the unique characteristics of embedded networks and respective size of the parties would need to be given. Larger participants, e.g. Retailers (excl. new entrants) and Local Networks have greater expertise, resources and commercial power when interacting with smaller parties.
		A default UoSA should support the smaller party in any relationship; the embedded networks and smaller retailers, and lay out clear requirements upon all participants.
		Airport vs. retirement village (apartment buildings, commercial multi-tenanted office buildings or shopping malls) embedded networks each have unique requirements. A default embedded network UoSA would need some flexibility/variation from the standard version, although the majority of content could remain constant.
		There already exists a model UoSA that provides for exactly this outcome; the majority of the work done to improve simplification and decrease costs, and enable appropriate variation to support the unique requirements of each relationship.
		A 'fall back' period (such as the 2 months suggested in the RAG's Review) before one party can force the adoption of a contract may 'incentivise' a party to not negotiate in good faith depending upon the exact nature of a default UoSA (which is as yet undetermined).
		Additionally a 'fall back' period should only be able to be invoked by the smaller party to any negotiation.
		However, again, there already exists the requirement to negotiate in good faith (see Section 12A.2(1) of The Code). Duplicating existing regulatory mandates would likely increase the costs of business rather than advance the goal of an efficient market benefitting the end consumer.

6	Do you agree with amending the Code to prevent an embedded network owner from decommissioning an NSP before the status in the registry of the associated ICPs is also changed? Please give reasons for your view.	Auckland Airport supports the proposed approach as it will lead to operational efficiency of the industry.
7	Do you agree with mandating a minimum notice period for converting an embedded network or network extension through amending the Code? Please give reasons for your view.	Auckland Airport supports the proposed approach. The Secondary Network Guidelines can be updated at the next review.
8	Do you consider there are other viable options, in addition to those considered by the RAG, for improving operational efficiency in respect of secondary networks? Please give reasons for your view.	Yes. Auckland Airport has not seen quantified evidence to the materiality of any current problem or that proposed changes to the existing regulatory framework will benefit the end consumer in terms of competition-benefitting prices, or improved efficiency and reliability in supply. Auckland Airport as a customer experience focused organisation, committed to developing business to business relationships and operational excellence that ultimately benefits the end consumer has recent evidence of how simple it is for Retailers to enter agreement and operate on an Embedded Network.
9	Do you agree the secondary network guidelines should specify expectations on secondary networks (particularly network extensions) to identify and allocate responsibility for business to business interactions, for example responsibility for fault management? Please give reasons for your view.	Auckland Airport supports improved clarity of responsibilities within the market, i.e. the proposed approach that expectations and responsibilities of Retailers and Secondary Network operators should be specified in the guidelines. There are a number of unique characteristics of secondary networks, airport vs. retirement village for example, where the application of specific expectations may need to be varied according to use. These amendments to the guidelines would greatly assist the parties, particularly where those secondary network owners are unfamiliar with the industry.

10	Do you consider there are viable options, in addition to those considered by the RAG, for improving reliability of supply on secondary networks? Please give reasons for your view.	Yes, response as per Q8 and Q4.
11	Based on your experience, what is the average time and cost for a retailer and an embedded network owner to negotiate and thereafter administer an embedded network UoSA when the retailer is entering the embedded network for the first time?	Recently, two new (small) electricity Retailers entered into Use of System Agreements (UoSA) after less than a half day of negotiation (each), and commenced competing for supply of consumers. This minimal investment provides evidentiary support that under the current regulatory framework efficient retail competition exists.
12	What estimated cost saving would your organisation receive from the use of a default embedded network UoSA?	In the absence of an example default UoSA, awareness to the impact upon AIAL's operations any potential additional costs or savings is unquantifiable. It is projected there would be an upfront cost of change however any ongoing increase to operational costs (or savings) would be passed on to the customer and so not material.
13	What would be the cost saving or additional cost to your organisation if embedded network owners were required to use EIEP 1, 2, 3 and 12?	Auckland Airport and its agents support the use of EIEP as an efficient industry mechanism. Specifically EIEP1 & 3 are already in use, and EIEP12 is under consideration. A 'one off' additional cost, followed by a nominal cost saving is anticipated.
14	What would be the cost saving to your organisation from adopting the notice period in the RAG's preferred option?	There is no cost saving identifiable, however appropriate and timely communication is deemed good practice and irrespective of regulation AIAL would endeavour to work with and provide satisfactory notice of a status change to all involved parties (e.g. Retailers).
15	What would be the cost saving or additional cost to your organisation from clarifying with consumers on embedded networks that the embedded network owner has responsibility for the management of faults, not retailers or local network owners?	From Auckland Airport's perspective where tenants (and retailers) are aware of Auckland Airport's 24/7 faults management exists, there is neither a cost saving nor additional cost.

16	Do you agree that the adoption of a default embedded network UoSA will enhance retail competition on embedded networks? Please give reasons supporting your answer.	Auckland Airport has seen no quantifiable evidence to suggest the default embedded network UoSA alone will lead to enhanced retail competition. Further points to this effect have been made in earlier responses. Auckland Airport welcomes the opportunity for retailers to become more innovative with their products and services.
17	What is the cost estimate for your organisation to review and comment on a draft default embedded network UoSA, prepared using the Authority's model local network UoSA and the Authority's guidelines for drafting embedded network UoSAs?	Due to the variables in negotiating the unique characteristics of, for example, the airport's requirements into a draft default embedded network UoSA, a cost estimate is unknown. It is anticipated to be significant however due to the complexities of incorporating provision for the unique character and requirements of the different natures of embedded network operations. However if such a default embedded network UoSA was provided in draft form, Auckland Airport would like the opportunity to evaluate its costs and benefits.

Auckland International Airport Limited (AIAL) welcomes and thanks the Electricity Authority for the opportunity to provide feedback on this consultation paper.

Signed on behalf of the Auckland International Airport Limited by

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