2 June 2015

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

Review of Secondary Networks – Issues and Options Consultation Paper

Meridian appreciates the opportunity to comment on the above consultation paper.

We agree a default embedded networks UoSA will moderate set up costs for retailers and should be adopted

Meridian considers the RAG's claims of high costs for retailers to negotiate use-of-system agreements (UoSAs) with embedded network owners are generally accurate. In our experience, the types of agreements proposed can diverge considerably from the Authority's model and embedded network guidelines, requiring as a result of this significant legal and commercial review. We estimate that the cost savings involved from having a default agreement apply would be in the region of at least $50,000 per annum.

It is Meridian's preference that the default UoSA:

- Would be deemed to apply unless the parties negotiate alternative terms (rather than apply after, for example, two months, like the RAG has proposed).
- Is closely based on an agreement we are currently working with TENCO to negotiate for a recently commissioned embedded network. We will arrange to discuss this further with the Authority once the agreement is finalised.

Clarity regarding responsibilities for fault management on embedded networks is important and should also be addressed

Meridian considers that clarifying responsibilities regarding fault management for customers on embedded networks would be beneficial, and will likely become increasingly important as embedded networks increase in number.

In terms of the RAG's other proposals regarding embedded networks:

- While we consider the impact on Meridian will only be minimal, we are comfortable with the concept of prescribing a minimum conversion notice period and other proposed changes to the network conversion process being suggested by the RAG.

- Because embedded networks in Meridian's experience typically already use EIEP formats, Meridian is unsure of the value of requiring certain EIEPs to be made mandatory.

Information on customer networks is limited and needs to be improved

It is apparent from the RAG's paper that more information on customer networks is needed. To us, it is concerning that even the number of customer networks in operation is currently unclear.

With customer networks required by legislation to register with the Authority, we consider this creates an important role for the Authority, as a preliminary step, to improve on the information available. The way that customer networks are physically structured means that registry records generally won't enable customer networks to be identified by retailers.

Specific issues identified regarding network extensions are of low concern to Meridian

From Meridian's point of view, the various issues identified by the RAG regarding network extensions are low level. We will be interested to see from submissions whether other parties could be materially affected.

Whilst we do not envisage the benefits to be large from Meridian's perspective, we consider the specific measures proposed by the RAG to address the issues identified (clearer guidance for network extension owners on responsibilities for fault management, and proposed changes to the process of network conversion) are reasonable.

Meridian's responses to the specific consultation questions and further details on points raised above can be found in Appendix One attached.

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Appendix One: Responses to Consultation Questions

	Question	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.	An important implication of the physical features of customer networks and network extensions not made clear in the paper is the low level of visibility this will often create for retailers. This is because the registry as a consequence will not typically provide the level of detailed information needed to identify where customer networks or network extension arrangements apply.
2	Please provide any comments and views on the description of the legal framework for customer networks, embedded networks and network extensions. Please provide any evidence on your comments, where possible.	Meridian's comments are as follows: • In addition to the points made by the RAG at paragraph 2.7.3, Meridian notes that industry participants are obliged to comply with the Code (as required by section 9(1)(b) of the Act) and that failure to register as an industry participant is a criminal offence punishable by a fine of up to $20,000 (as per section 31 of the Act). Meridian queries what, if any, steps are being taken by the Authority to enforce the requirement to register as it applies to operators of secondary networks. • In addition to the points made by the RAG at paragraph 2.7.4, Meridian notes that it is a criminal offence for a retailer or distributor to fail to become a member of the dispute resolution scheme. Again Meridian queries what, if any, steps are being taken by the Authority to enforce the requirement for EGCC membership as it applies to operators of secondary networks. It seems unlikely that there are only 6 customer network owners in the country (6 being the current number registered with the EGCC).

	Question	Response
3	Please comment on the issues identified with customer networks, embedded networks and network extensions. Please provide evidence where possible.	**Customer networks** It is clear from the paper that more information is needed about the customer networks currently in operation. Limited information on even the numbers involved[1] makes it difficult to assess the materiality of possible issues and the value of different proposals. Other implications for retailers in terms of the challenges this creates for confirming affected downstream customers (particularly medically dependent customers) prior to commencing with disconnection are also of concern. Meridian's preference is that the Authority works with the EGCC to address limitations in the information available as a preliminary step to reviewing customer network arrangements. With retailers reasonably constrained in their ability to identify customer networks[2], and customer networks required to register with the Authority under the Electricity Industry Act, we consider this creates an important role for the Authority to obtain the information needed. We also note the further work could align with work the Authority already has planned to improve information on 'Type 2' retailers.[3] **Network extensions** From Meridian's point of view, the specific issues identified in relation to network extensions are low-level. **Embedded networks** Meridian considers the RAG's concerns regarding the costs involved for retailers to negotiate UoSAs with embedded networks are valid. Our responses to questions 11 and 12 provide relevant additional details regarding this. Like the RAG suggests, the high costs involved will be to the detriment of efficiency and potentially also competition. As we suggest in our response to question 15, the effects of clarifying responsibilities for fault management are not expected to be large initially for Meridian but could become more significant as numbers grow.

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[1] The extent of the information provided in the consultation paper being that customer networks are upwards of 4, and potentially in the 'many hundreds'.

[2] As discussed in our response to Q1, generally retailers will not be able to identify customer networks and network extensions using the registry.

[3] Mentioned in paragraphs 3.1.11 - 3.1.13 of the *Retailer Default – Decisions and Reasons Paper,* available at: https://www.ea.govt.nz/dmsdocument/18896.

	Question	Response
4	Please comment on the description of the problems relating to reduced competition, efficiency and reliability of supply.	See our response to Q3 above.
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.	Meridian agrees that a default UoSA should apply. However rather than the RAG's proposal whereby the default UoSA should only apply if after two months (or some other negotiating period) the embedded network owner and retailers have not agreed alternative terms, Meridian's preference is that the default UoSA is deemed to apply unless the parties negotiate alternative terms. As per our responses to questions 3, 11 and 12, we consider a default UoSA will lessen upfront negotiating costs for retailers. Meridian is in the late stages of negotiating a UoSA for a recently commissioned embedded network with TENCO. That UoSA is largely based on the Authority's model UoSA and guidelines for embedded networks. With some small adjustments, we consider the agreement would be an acceptable model for the Code to prescribe. We will contact the Authority to discuss this further once the agreement is finalised.
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.	While the materiality of the benefit is low from Meridian's perspective, we consider the proposed changes to the network conversion process appear reasonable.

	Question	Response
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.	Although the changes will be of minimal impact to Meridian, we are comfortable with the adjustments being proposed.
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.	None identified.

	Question	Response
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.	While we are unsure of its likely effectiveness, and do not perceive benefits to be significant from doing so, we have no issues with *Secondary Network Guidelines* being amended to clarify expectations for secondary network owners regarding fault management (for example).
10	Do you consider there are other viable options, in addition to those considered by the RAG, for improving reliability of supply on secondary networks? Please give reasons for your view.	None identified.

	Question	Response
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?	This largely depends on whether the embedded network owner is proposing a UoSA based on the model, or something more bespoke or historical, which is likely to be drafted more heavily in the embedded network's favour – for example a UoSA that has been used by the embedded network's consultant on other networks. More bespoke types of UoSAs require significant commercial and legal review, with a number of months negotiation and at least some external legal spend normally required. In a number of instances, negotiating a non-standard document forces retailers into the difficult position of assessing the effort of negotiating that agreement against their exposure if the agreement is not in place and can lead to negotiations landing in the "too hard" basket. As the parties should have agreed to a document that is materially consistent with their systems and processes, the ongoing cost of administering a UoSA is reasonably minimal unless unforeseen operational issues or disputes requiring interpretation of the UoSA arise.
12	What estimated cost saving would your organisation receive from the use of a default embedded network UoSA?	A ballpark figure of at least $50,000 per annum in internal resource and external legal cost savings.
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?	Because embedded networks typically in Meridian's experience already use EIEP 1, 2, 3 and 12 we are unsure whether a requirement to do so would be of value.

	Question	Response
14	What would be the cost saving to your organisation from adopting the notice period in the RAG's preferred option?	Not expected to result in any material cost savings.
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?	Clarity around these obligations would be beneficial to all parties, especially the customer. We don't currently experience a large volume of work in this space, but believe that this issue will only increase in importance as embedded network numbers continue to grow.
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.	As per our response to Q5, we consider a default embedded network UoSA will materially lessen upfront negotiating costs. Determining the precise effect the proposal will have on competition is difficult, but we agree it could have an enabling effect and seems in line with the Authority's competition-related objectives.

	Question	Response
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?	Having already completed a comprehensive review of the EA's model for local networks and a more high-level review of the EA's Model UoSA Embedded Network drafting guidelines, we don't believe that the cost to review a proposed default embedded network UoSA will be significant – between $5000 and $10,000 in total.