

29 June 2015

The Retail Advisory Group  
Electricity Authority  
PO Box 10041  
**WELLINGTON**

**Via email: [submissions.mailbox@ea.govt.nz](mailto:submissions.mailbox@ea.govt.nz)**

Dear Chair

**Re: Review of secondary networks**

Thank you for the opportunity to provide feedback on the review of secondary networks.

***Secondary networks are increasing in prevalence, but where is the benefit for end consumers?***

Secondary networks, in particular embedded networks, are becoming an increasing concern to Contact Energy Limited (Contact), as in many cases they are resulting in significant cost and complexity without any corresponding benefit to consumers.

While the Authority's objective is "*competition, reliable supply and efficiency in the electricity industry for the long-term benefit of consumers*", embedded networks appear to be at odds with this. In particular, where network extensions are converted to embedded networks, the loss of revenue to local networks ultimately increases network charges to all consumers who remain directly connected to the local network.

In our view, while this paper identifies the ongoing effects and additional effort required to deal with secondary networks, the paper fails to address the high initial establishment costs, the motivation for embedded networks and whether they are providing any benefit to end consumers.

Initially embedded networks were limited to large shopping centres forced to comply with regulated line-energy separation and major private networks with multiple consumers, however over the last 10 years we have seen huge growth in the number of embedded networks, many with very few connected consumers.

From an end consumer's perspective, it is hard to see any benefits being derived from embedded networks. To this end we would encourage the Retail Advisory Group (RAG) to compare the bills of end consumers before and after a change from a network extension to an embedded network, to establish whether any consumer benefits are being derived.

Likewise it is also unclear when ICPs on an embedded network are decommissioned (and the supply arrangement reverts to a customer network with tenant billing and no choice of retailer), whether the affected consumers benefit from the change. Given the Authority's focus on transparency, it may be useful for the Authority to look more closely at the impact of any changes on end consumers.

***Prescriptive guidelines now required***

Given the increasing conversion to secondary networks (in particular embedded networks) and the questionable value they are delivering for end consumers, Contact considers more prescriptive guidelines and/or Code changes are required for secondary networks. Set out in this submission are some of the matters Contact would like to see addressed. This includes making the secondary network benefits (or lack of benefits) clear to consumers and property owners contemplating options for electricity supply.

The Code needs to regulate for specific information to be provided, with a minimum notice period before a proposed change is considered valid, in order to ensure retailers have adequate time to assess the impact of the change on the customer, the retailer's own systems, and to enable sufficient time to communicate that change.

The most common examples that impact customers and that need to be considered within the Code are:

- transfer of ICPs from a network extension to embedded network
- change of ownership of embedded network and associated transfer of ICPs
- purchase of embedded network by local network owner and associated transfer of ICPs
- change from network extension or embedded network to customer network, and associated decommissioning of ICPs

Attached as Appendix One is Contact's template provided to secondary network owners or agents to complete when contemplating a change in electricity supply arrangements.

Our responses to the Authority's specific questions can be found below.

Should you have any questions on this submission please contact:

Rod Crone: 04 462 1265 or Louise Griffin: 04 496 1567

Yours sincerely



Louise Griffin  
**Regulatory and Government Affairs Advisor**

Question #	Question	Response
Q1.	<p>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.</p>	<p>Contact generally agrees with the characteristics set out in section 2.1.2 of the issues and options paper.</p> <p>However, as outlined above, we think it would be useful for the Authority to provide greater context around the motivation for embedded networks, as compared to network extensions which provide consumers with a choice of retailer and which we believe are more efficient.</p> <p>If the motivation for embedded networks is arbitrage of network charges by property owners and embedded network agents, the RAG/Authority should consider whether this is in the best interests of consumers. We would argue it is not.</p> <p>Based on our experience, the major motivation for changing from a customer network to an embedded network appears to be the desire of landlords to remove themselves from the administrative cost and credit risk of tenant billing.</p> <p>Contact finds it surprising customer network owners are considered 'participants' (footnote 8). We think there are thousands of customer networks and, accordingly, it may be inappropriate to categorise the owners as 'industry participants'.</p> <p>We also disagree that metering on customer networks must be Code compliant. This is because tenant billing arrangements can be based on checked metering, floor space, or as set out in the tenancy agreements (footnote 7).</p>
Q2.	<p>Please provide any comments and views on the description of the legal framework for customer networks, embedded networks and network extensions. Please</p>	<p>We consider the legal argument used for customer networks is flawed. It is not apparent why the owner of a site with one or more occupiers subject to tenant</p>

	<p>provide evidence on your comments, where possible.</p>	<p>billing should be categorised as an industry participant. Taking this argument to a logical conclusion would require a landlord who includes the cost of electricity in a tenant’s monthly rental charges to be regarded as a participant.</p>
<p>Q3.</p>	<p>Please comment on the issues identified with customer networks, embedded networks and network extensions. Please provide evidence where possible.</p>	<p>In addition to one of our primary concerns outlined above (in relation to a lack of clear cost benefits to end consumers), we believe that there are a numerous other areas that require attention to ensure consumers and retailers are not materially disadvantaged as a result of secondary networks. As it stands currently:</p> <ul style="list-style-type: none"> <li>• there is no formal or standardised process to facilitate these network changes. This results in an inefficient implementation and multiple communications back and forward between parties.</li> <li>• unlike standard new connections which are largely process driven, there is no standardised automated process. As a result the process to establish new ICPs, obtain metering and consumer information for customer networks takes a significant amount of time for the retailer to complete and setup.</li> <li>• in some cases the physical wiring of connection points contains a significant amount of meters across multiple floors of a building for example one ICP, 40 meters across 10 floors.</li> <li>• in addition to the network type changes mentioned in the question content there are other common scenarios that create further administrative issues for example where an embedded network changes ownership.</li> </ul>

<p>Q4.</p>	<p>Please comment on the description of the problems relating to reduced competition, efficiency and reliability of supply.</p>	<p>Please refer to our comments in our covering letter, which cover competition, efficiency and the socialisation of the additional costs for consumers arising from higher cost to serve and arbitrage of network charges that appear to go directly against the Authority's objective.</p>
<p>Q5.</p>	<p>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.</p>	<p>Yes. Contact favours a default use of system agreement.</p>
<p>Q6.</p>	<p>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.</p>	<p>Yes. The same requirement should also apply to ICPs which are being decommissioned as a result of a network extension or embedded network reverting to a customer network.</p>
<p>Q7.</p>	<p>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.</p>	<p>Yes. Contact agrees with a minimum notice period of 40 business days to provide for assessment, processing of system changes, and communication of price changes to the customer.</p> <p>Where the request is from a completely new embedded network owner, it would be useful if the guidelines provided for consultation prior to the 40 business days' notice to enable a retailer time to fully assess the network requirements and engage on any issues before final notification is received.</p> <p>Contact has received many incomplete proposals that are not fit for processing. Where this is the case we believe a retailer should be allowed to withhold consent until an acceptable proposal is received.</p> <p>It is common for Contact to receive notifications from embedded network owners advising of a change where only two ICPs are affected. At this point we</p>

		<p>then have to decide whether or not it is viable to continue to trade on this new network or to advise the consumers they will need to find a new retailer, resulting in a reduction in competition.</p> <p>Although the Code sets out the process for requiring retailer acceptance (or otherwise) for new embedded networks or for ICPs reverting to customer networks there may be valid reasons to refuse a conversion. For example a consumer may want to continue their supply arrangements with their current retailer rather than have to accept tenant billing by the customer network owner.</p>
<p>Q8.</p>	<p>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.</p>	<p>Yes.</p> <p>One option would be to only allow embedded networks where a minimum number of ICPs exists. We are currently seeing organisations apply for an embedded network where there are only 11 ICPs in the entire network. In Contact's view, this would be better suited to a network extension.</p>
<p>Q9.</p>	<p>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.</p>	<p>Yes, we think the guidelines on secondary networks need to be reviewed and strengthened to bring them into line with the Authority's objectives and views around matters such as transparency and customer choice.</p> <p>While fault management gains a lot of attention in this paper, we have seen no evidence to suggest this is an issue.</p> <p>We would like to see the guidelines include a template setting out the information required in any notice of a new embedded network or change as outlined above. Attached as Appendix One is a template of the minimum information we require.</p>

Q10.	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.	<p>We have not observed any particular issues with the reliability of supply on secondary networks, although we realise that we can only observe performance of network extensions and embedded networks.</p> <p>We see reliability of supply on customer networks as a matter between the owner and its consumer tenants, with tenancy agreements covering issues such as reliability of supply (of the electrical installation).</p>
Q11.	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?	<p>If materially aligned with the model Use of System Agreement (UoSA), negotiation (submission, consideration of response, legal sign-off, execution governance process) would typically take ~2 to 3 days.</p> <p>Where there is not material alignment with the model UoSA, then around 5 to 10 days.</p>
Q12.	What estimated cost saving would your organisation receive from the use of a default embedded network UoSA?	<p>This depends on the number of new embedded network owners.</p> <p>Currently in almost all cases, it takes some time to reach agreement on the UoSA by both parties.</p>
Q13.	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?	<p>Most are using EIEP1–3 and EIEP12, as most consider embedded network owners are distributors and captured by the regulated requirements.</p> <p>Contact brought an issue with the definition of ‘distributor’ in the context of embedded network owners to the attention of the Authority some time back, but we have yet to see a response to address the issue.</p>
Q14.	What would be the cost saving to your organisation from adopting the notice period in the RAG’s preferred option?	<p>This is very difficult to answer but losses have been incurred due to inadequate notice where we have had to delay passing costs through due to inadequate</p>

		time to assess/process provide our customer with sufficient notice.
Q15.	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?	<p>Every invoice to Contact customers sets out the contact number for faults, whether it is the embedded network owner or Contact.</p> <p>The question appears to be targeting the wrong situation; the issue (if there is one and Contact does not consider there is) is more likely to be with network extensions.</p>
Q16.	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.	While in Contact's view the adoption of a default embedded network UoSA would be positive, there is no guarantee it would enhance competition as each retailer has to assess the costs and benefits of trading on embedded networks.
Q17.	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?	<p>Contact has negotiated a number of new embedded network UoSAs that are materially aligned with the model UoSA (interposed model UoSA with application of the guidelines), so it would not be a significant cost if the Authority took on board the UoSA (and changes to the model UoSA) we have already agreed.</p> <p>If, however, the Authority initiated a larger rewrite, it may involve many days of technical and legal review and submissions.</p>

## Appendix One

### New or changed network set-up information

Network manager	
Network name and/or address	
Scenario	<p>Select</p> <p><input type="checkbox"/> Change of embedded network owner</p> <p><input type="checkbox"/> Customer network to embedded network (new ICPs)</p> <p><input type="checkbox"/> Transfer of ICPs from network extension to new embedded network</p> <p><input type="checkbox"/> Transfer of ICPs from embedded network to local network</p> <p><input type="checkbox"/> Decommissioning of ICPs following change from embedded network or network extension to customer network</p> <p><input type="checkbox"/> Other (specify)</p>
Embedded network NSP & Parent NSP	<p>Embedded network NSP:</p> <p>Parent NSP:</p>
Number of ICPs	<p>NHH:</p> <p>HHR:</p>
General contact information	<p><b><u>Retailer relationship:</u></b> e.g. Operations Manager, Joe Bloggs, 04 123 4567</p> <p><b><u>Billing and reconciliation services:</u></b> e.g. Embedded Energy, Jo Bloggs, 04 123 4567 joe.bloggs@EN.co.nz</p>
Start date or date of change	
Reconciliation type	<p>Confirm which</p> <p><input type="checkbox"/> Difference</p> <p><input type="checkbox"/> Global</p>
Party providing NSP data to RM	
LE ICP(s)	
Party providing LE ICP(s) data to local network	
Common area or residual load SB ICP &	

retailer	
Use of System Agreement	
Network pricing schedule	<p>To be provided, must include (or attach via email):</p> <ul style="list-style-type: none"> <li>• Price category descriptions, fixed &amp; variable tariff codes and prices</li> <li>• Embedded network loss category codes &amp; loss factors</li> <li>• Local network LE ICP(s), loss category code &amp; loss factor</li> </ul>
NHH metering arrangements	<ul style="list-style-type: none"> <li>• Party responsible</li> <li>• Meter type installed by embedded owner (if relevant)</li> </ul>
NHH meter reading arrangements	
Network reporting required	<ul style="list-style-type: none"> <li>• NHH EIEP1 incremental normalised</li> <li>• NHH EIEP1 as billed</li> <li>• HHR EIEP3</li> <li>• Send to (specify email address if not registry hub)</li> </ul>
Faults	<p>Faults calls to be directed to</p> <ul style="list-style-type: none"> <li>• Retailer (and if so specify contact details to forward fault information)</li> <li>• Embedded network owner (specify phone contact details)</li> <li>• Other</li> </ul>
Planned outages	<p>Specify responsibility</p> <p><input type="checkbox"/> Retailer (and if so then EIEP5A to be provided by network owner)</p> <p><input type="checkbox"/> Embedded network owner</p>
NHH metering details	<p>If generic across new customer network</p> <ul style="list-style-type: none"> <li>• Meter make:</li> <li>• Meter model:</li> <li>• Register content/PoA:</li> <li>• Dials:</li> <li>• Number of registers:</li> </ul>
Additional information	