

An update

# Two distribution-focused initiatives

MEUG

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# Two things today

## Default agreement for distribution services

- what we are proposing
- development of the detail

## Implications of evolving technologies for pricing of distribution services consultation paper

- first impressions from submissions

# Proposal to introduce a default agreement for distribution services

The Authority has been working to facilitate arrangements underpinning the distributor-retailer relationship (UoSA/distribution agreement) that are for the long term benefit of consumers

Objectives and outcomes:

- promote efficient operation – lowering costs of doing business for distributors and retailers
- promote competition – providing equal access and treatment and facilitating expansion of retailers into new areas

The voluntary MUoSA initiative is not achieving these outcomes:

- widespread voluntary adoption of the MUoSA has not occurred
- voluntary transparency of legacy agreements has not occurred
- weak incentives to move away from legacy agreements

# The proposal provides flexibility and choice

The proposal sits between the voluntary approach and a fully mandated distribution agreement

Distributors and retailers could adopt the published DDA or agree to negotiate an alternative agreement

- the retailer could choose the DDA or to negotiate an alternative agreement
- the distributor could choose the DDA or to negotiate an alternative agreement

## The detail

The DDA terms reflect the MUoSA provisions and improvements identified since September 2012

- core terms – standard terms which must be included in the DDA
- operational terms – drafting requirements for operational matters

There are several issues and concerns we want to understand further

- these are listed in appendix D of the consultation paper

We would consult on a final DDA template etc if we decided to proceed after considering submissions

# Good feedback on the implications of evolving technologies for pricing of distribution services

We received 53 submissions from: distributors, retailers, generators, consumers, experts, councils, industry and consumer bodies

Thanks for your contribution

- ENA and PwC
- 10 distributors
- ETNZ and 2 consumers trusts

We want to identify the next steps by mid-2016

# First impressions from submissions

1. General agreement that current distribution price structures (residential and small business) are not durable and change is needed to transition to pricing structures that better reflect services provided
2. Most would "...appreciate greater clarification of the Authority's views with respect to the degree to which demand-based and capacity-based charges may be interpreted to be variable charges under the regulations and the legal opinions which form the basis for these views"
3. Distributors "support distributor-led pricing reform"...[and]... "Do not consider further regulation of distribution pricing structures is required, or justified..."
4. However, non-distributors generally consider "...there is clear evidence that distribution companies are not incentivised in the current regulatory environment to respond to market conditions in an economically efficient manner"
5. Related to this view, there are calls for "...all distributors approaching charges in the same way and on the same basis that make the charges across different networks easily comparable"
6. Distributors are concerned that retailers repackage distribution prices...and unless retailers and distributors have aligned incentives then effective and efficient charges may not flow through to end-consumers
7. Retailers take the view that "...Consumers must have the ability to choose a pricing plan that suits them, including plans that insulate from price volatility." ... "The reason some retailers choose to pass through signals currently and some do not is due solely to the preferences of their consumers"
8. Transition will take time...
  - a) distributors that are price-regulated face unmanageable revenue risks when implementing new price structures as the current form of regulation does not take into account behavioural responses to new price signals
  - b) consumers legitimate expectations will need to be managed...