

DEFAULT DISTRIBUTOR AGREEMENT (DDA) PROPOSAL

Information for industry participants

THE ELECTRICITY AUTHORITY (THE AUTHORITY) IS PROPOSING TO CHANGE THE WAY CONTRACTS ARE AGREED BETWEEN DISTRIBUTORS AND RETAILERS. WE BELIEVE IMPLEMENTING THIS PROPOSAL WOULD STREAMLINE NETWORK ACCESS AND DELIVER LONG TERM BENEFITS FOR INDUSTRY AND CONSUMERS.

NEGOTIATIONS FOR NETWORK ACCESS

The Electricity Industry Participation Code 2010 (Code) requires distributors to negotiate a Use-of-System Agreement (UoSA) with each retailer trading on its network. UoSAs are bespoke agreements with little industry transparency. This approach to agreeing network access causes:

- high cost and effort for contract negotiations

- competition problems in retail markets
- barriers for innovation and emerging markets.

The Authority considers a **Default Distributor Agreement (DDA)** would address these problems. The DDA proposal aligns with our other work to enable new types of participants to use distribution networks, and for the removal of barriers inhibiting

the uptake of distributed energy resources like solar and battery storage. It would help deliver:

- more cost-efficient and easier contracting processes
- increased levels of retail market competition
- more use of innovative technologies and business models.

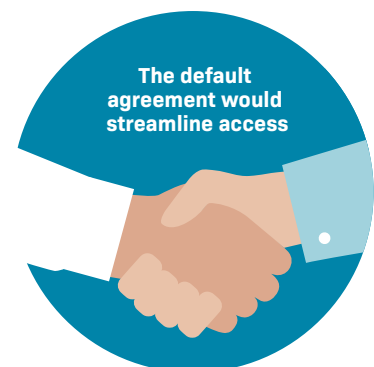
THE DDA PROPOSAL IN A NUTSHELL

The Authority proposes that all distributors be required to create a DDA – a default agreement with more standardised terms for access to their network. When negotiations take place for network access, either party could opt to use the distributor's published DDA. If negotiating an alternative agreement, the parties would have 20 business days for completion. If an agreement cannot be made in this time the DDA would apply automatically.

The Authority also proposes introducing default terms for additional services, such as data exchange and enabling payment of trust dividends.

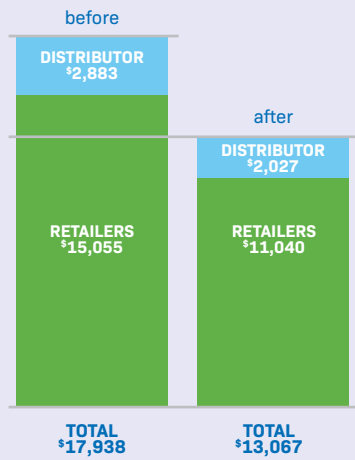
To introduce DDAs, we propose amending Part 12A of the Code which regulates UoSAs and how distributors and retailers negotiate contracts. The proposed amendment applies only to interposed contracts where a retailer contracts with a distributor on behalf

of the consumer. The Authority would provide a DDA template for distributors to use when developing their DDAs, and give more transparency of completed contracts to the industry.



BENEFITS SHOWN BY THE AUTHORITY'S COST-BENEFIT ANALYSIS

COST OF NEGOTIATING A CONTRACT



MORE EFFICIENT CONTRACT NEGOTIATIONS

Introducing the DDA proposal would reduce new contract negotiation costs across the industry by an estimated \$1.1 – \$1.3 million per annum. This results from:

- DDAs being able to be accepted with little or no costs
- fewer commercial and legal resources required for negotiations
- reduced need to negotiate bespoke agreements.

INNOVATION AND COMPETITION GROWTH

The DDA proposal would provide long-term benefits to consumers by increasing industry efficiency and competition in the retail market. Retailers would find it easier and less costly to expand across distribution networks, and existing retailers would gain confidence that their terms for network access are competitive. This would promote competition in services beyond distribution, such as load control, installing and use of batteries or electric vehicles.

HOW THE PROPOSAL WOULD CHANGE NETWORK ACCESS

EACH DISTRIBUTOR WOULD NEED TO DEVELOP AND PUBLISH A DDA

Using a DDA template provided by the Authority, each distributor would be required to develop their own DDA and make this publicly available for retailers seeking to trade on their network.

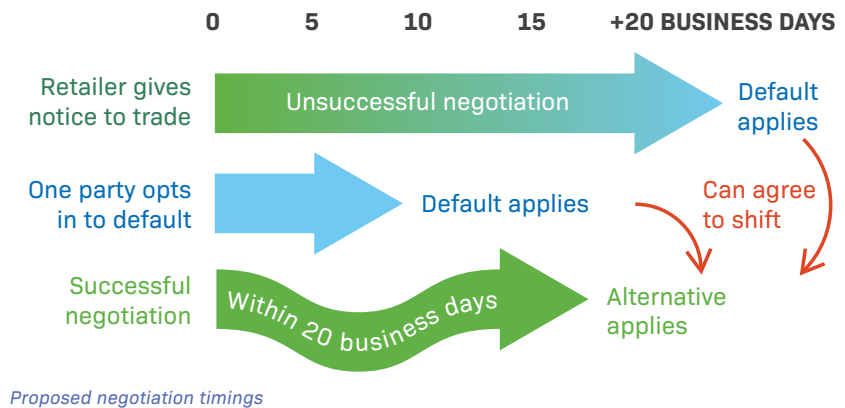
The proposed template includes five kinds of terms – some regulated by legislation, and others to be negotiated between contracting parties.

TERMS INCLUDED IN THE DDA TEMPLATE

1. Regulated **core terms** that must be included in each DDA
2. Space for **operational terms** where distributors outline protocols for operating on their network
3. Space for **recorded terms** that are required by the Commerce Act 1986
4. Requirement to identify any **collateral terms** in the DDA which are voluntarily accepted by the retailer
5. Requirement to identify any **other terms** in alternative agreements which are mutually agreed.

ANTICIPATED NEGOTIATION PROCESS

Participants would still need an agreement with the local distributor; however negotiation time limits would now apply. If the parties fail to negotiate an alternative agreement within 20 business days then the DDA would automatically apply. The DDA would also apply as a binding contract if any party opts to use it.

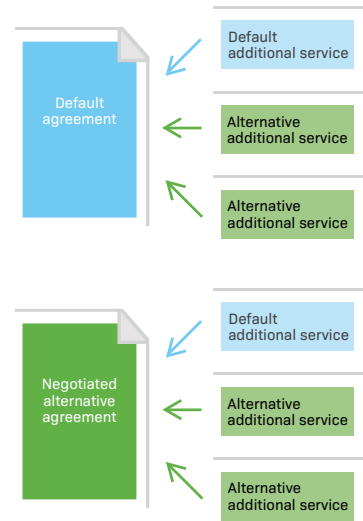
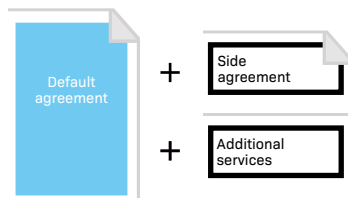


IF ADDITIONAL SERVICES OR SIDE AGREEMENTS ARE REQUIRED

The Authority proposes three initial sets of additional service terms that a party could opt to use.

PROPOSED DEFAULT ADDITIONAL SERVICES	WHO CAN OPT IN
1. Income distribution services	Distributor
2. Provision of trust and co-operative company information	Distributor
3. Provision of customer information	Distributor or trader

Provided they do not override the Code or the terms in the main distributor agreement, participants could also negotiate additional service terms and side agreements for other services such as the exchange of historical consumption data, or the payment of dividends on behalf of the distributor's parent trust.



HOW WOULD THE INDUSTRY MOVE TO A NEW DDA MODEL?

A NEUTRAL AND MODULAR APPROACH

The Authority would ensure that changes to the Code provide a neutral framework for participants – giving equal opportunity to access distribution networks and provide services. To future-proof the proposal we would take a modular approach. This would allow for new types of participants, schedules, and services to be supported by

amending the Code to include additional default agreements.

A PHASED TRANSITION

The Authority proposes a phased transition for distributors to implement DDAs.

- Group 1:** The five largest distributors by ICP count and others who wish to transition early.
- Group 2:** All remaining distributors.

PROPOSED TRANSITION TIMELINE



On publication, distributors begin the consultation process on their DDA's operational terms. On completion of this process the DDA becomes available for use.

FLEXIBILITY AFTER THE TRANSITION TO DDAS

After the transition there would be two types of agreement – default

agreements closely based on the Authority's DDA template, and bespoke alternative agreements allowing for increasing levels of customisation.

If desired, contracted parties could mutually agree to terminate their DDA contract and move to a new agreement at any time.

EXAMPLES OF POSSIBLE AGREEMENT TYPES

TEMPLATE	DEFAULT AGREEMENTS		NEGOTIATED ALTERNATIVE AGREEMENTS			
	Distributor's DDA	Distributor's DDA with collateral terms	Deleted terms	One alternative term	Many alternative terms	Default terms + other terms
DDA Template in the Code						
Default core term	Default core term	Default core term	Default core term	Default core term	Alternative core term	Default core term
Default core term	Default core term	Default core term	Default core term	Alternative core term	Alternative core term	Default core term
Recorded term	Recorded term	Recorded term	Recorded term	Recorded term	Recorded term	Recorded term
Default core term	Default core term	Default core term	Operational term	Default core term	Alternative core term	Default core term
Default core term	Default core term	Default core term	Operational term	Default core term	Alternative core term	Default core term
Operational term	Operational term	Operational term		Operational term	Operational term	Operational term
Operational term	Operational term	Operational term		Operational term	Operational term	Operational term
		Collateral term			Other terms	Other terms

EXTRA DETAILS

INFORMATION FOR RETAILERS

The DDA proposal supports equal access and competition by introducing:

- a standardised set of terms all retailers can access and use as a default agreement for network access
- a requirement for distributors to allow network access if a retailer opts to contract under the DDA
- safeguards to allow retailers to refuse collateral terms
- rights for retailers to appeal to the Rulings Panel to investigate unfair operational terms when the DDA is first published by the distributor
- a requirement for retailers to submit copies of all agreed contracts to the Authority. The Authority would monitor and may choose to publish them.

INFORMATION FOR DISTRIBUTORS

We are proposing to include default terms for two methods to identify and arrange trust dividend payments.

1. The retailer pays the dividend on behalf of the distributor's owning trust.
2. The distributor pays the dividend directly to the consumer.

SHARING DATA

The Authority is also proposing a default data template that requires retailers to provide distributors historic consumption data by ICP. To prevent misuse of the data the Code amendments would:

- ensure the data can only be used to support the distribution service
- ensure data could not be accessed or used by anyone involved in contestable services

- include the right for retailers to audit the use of data provided via the data template to a distributor.

OTHER PROPOSED CHANGES

Other proposed changes covered in detail in the consultation paper include:

- an ability to renegotiate legacy agreements
- a protocol to transition existing terms into new Code compliant agreements
- a cap on maximum liability clauses
- clarity about the requirement for distributors to pay retailers interest on additional security provided
- a requirement for distributors to be unable to refuse a retailer who has previously defaulted.

MAKE A SUBMISSION

The Authority is consulting on its DDA proposal. You can read the full consultation paper on our website – www.ea.govt.nz. This paper sets out in detail how to make a submission. We welcome all views on this topic.

To better understand the DDA proposal, participants can contact Authority project staff to seek support, clarify any outstanding concerns and get ready to prepare your submission.

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