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## TRUSTPOWER SUBMISSION: DEFAULT AGREEMENT FOR DISTRIBUTION SERVICES

Trustpower Limited (Trustpower) welcomes the opportunity to provide a submission to the Electricity Authority (Authority) on its consultation paper on the *Default agreement for distribution services* (the Consultation Paper).

### ***Existing contracts must be allowed to remain in place***

We understand the rationale for the introduction of a Default Distribution Agreement (DDA) in order to facilitate the signing of *new* distribution agreements. However, we do not support the Authority's proposal for all *existing* agreements to be replaced with new agreements. In our view, this aspect of the proposal has the potential to introduce significant costs for all existing participants – perhaps disproportionately so for small new-entrant retailers who may have just recently incurred the expense of putting Use of System Agreements (UoSAs) in place.

In our view, this aspect of the proposal is aimed at addressing an issue that has not been proven to be having a material impact on a consumers' ability to access competitive electricity pricing. While the Authority has inferred in paragraph 2.1.5 of the Consultation Paper that existing agreements may promote an anti-competitive environment, no evidence has been produced to substantiate this inference. The level of switching in the market is consistently high, and the proliferation of new retailers entering the market is evidence that existing UoSAs are not a barrier to competition. Given the proposal for guaranteed imposition of costs on participants, for an uncertain, speculative benefit, this aspect of the proposal would not create a net positive benefit on a standalone basis – the costs would not be outweighed by benefits.

Further, in our view, mandating migration of existing bilateral contracts in the fashion proposed is not consistent with regulatory best practice. If the Authority were intent on ensuring consistency across agreements (or even that its preferred arrangements bound all parties by default) then it should seek advice from an industry working group on the best process to implement this objective.

### ***There are higher priority issues than the DDA***

In our view, there are two issues that are of far greater importance to consumers than the introduction of a DDA, as they are currently imposing significant costs on retailers' operations. While we appreciate that both are active projects on the Authority's work programme, these issues should be receiving much more attention from the Authority and industry alike:

1. Pricing structures. We are observing a number of planned and proposed changes to distributors' pricing structures. While we believe changes to tariff structures are necessary, and submitted to that effect earlier this year, in the absence of guidance from the Authority we see the potential for these changes to occur in an inefficient and ad hoc manner.
2. Secondary networks. The proliferation of secondary networks, of which there are now well over 150, increases traders' cost per customer on these networks significantly. Examples of these costs include monthly reconciliation and pricing, as well as securing agreements.

If the Authority decides to pursue the introduction of the DDA, we would suggest a more effective method of addressing the precise detailed drafting (as requested in Question 5 in the Consultation Paper), would be for a working group of experienced persons from distributors and traders to provide an agreed template for consideration in the next round of consultation.

As discussed above, we would also strongly recommend that any existing UoSA be retained unless or until either party to the agreement chooses to move to a new agreement (which may or may not be the DDA). Existing agreements already have the ability to be renegotiated if required by either party. This will also minimise the cost to existing participants and new entrants that have either recently put agreements in place, or that have older, existing agreements that both parties already deem fit for purpose.

Our responses to the questions posed in the Consultation Paper are attached in Appendix A.

For any questions relating to the material in this submission, please contact me on 07 572 9888.

Regards,



**HOWARD WOOD**  
**COMMERCIAL MANAGER WHOLESAL**

## Appendix A: Responses to consultation questions

Question	Response
<p>1. What is your view of the Authority's assessment of the arrangements that are currently in place governing the way distributors and retailers develop, negotiate, and agree UoSAs, and of the issues that the Authority has identified? Please provide your reasons.</p>	<p>1.1 The Authority has inferred that existing agreements may provide an anti-competitive environment. No evidence has been produced by the Authority to substantiate this inference.</p> <p>1.2 The level of switching remains high and the proliferation of new retailers entering the market is evidence that existing UoSAs are not a barrier to competition.</p>
<p>2. What feedback do you have on the information in section 3, which describes the Authority's proposed new Part 12A of the Code, which includes a DDA template, requirements to develop a DDA, and provisions that provide that each distributor's DDA is a tailored benchmark agreement?</p>	<p>2.1 The time frame the Authority has proposed for presenting and consulting on 27 DDAs to 25 traders is unrealistic. This process alone would take at least a year, not the six months as proposed by the Authority.</p> <p>2.2 If the Authority is determined to introduce a DDA then it should require each distributor to provide the Authority with its proposed distributor agreement and have it approved as complying with the new proposed Part 12 requirements, before it is presented to traders.</p> <p>2.3 As discussed in our cover letter, no existing agreement should be required to be replaced by a new agreement unless (and until) either party so chooses.</p> <p>2.4 This combined process would remove any requirement for the rulings panel or any industry group to act as referees, in what is a commercial contract between two companies.</p>
<p>3. What are your views of the Authority's assessment of the likely levels of demand for new and replacement UoSAs in coming years? Please support your response to this question with reasons and your alternative quantified assessment, if any.</p>	<p>3.1 In our view, the number of agreements is totally irrelevant to the efficient running of a trading enterprise.</p> <p>3.2 A professional organisation wanting to sell electricity across all distribution networks will have a number of complex contracts that it will be required to have negotiated and implemented. An agreement to trade on a particular network is just one of these contracts.</p>
<p>4. What are your views on the regulatory statement</p>	<p>4.1 The statement that the Authority wishes to improve efficiency by reducing</p>

<p>set out in section 4?</p>	<p>transaction costs, reduce costs of doing business, in paragraphs 4.3.1 (a) and (b) are technically correct, but the single largest cost to any trader is the cost of having to interact on a daily and monthly basis with potentially 150 plus networks within New Zealand.</p> <p>4.2 Putting in place an initial agreement with a distributor is an insignificant cost when compared to these real costs and pain points of the electricity industry.</p>
<p>5. What are your views on the detailed drafting of the Code amendment provided in Appendix B and Appendix C?</p>	<p>5.1 We support the detailed views on the proposed Code amendment that have been submitted by the Electricity Retailers' Association of New Zealand.</p> <p>5.2 In particular, we strongly propose that the requirement for all existing agreements to be replaced with new agreements should be removed from the proposal. This aspect of the overall proposal is not justifiable on the grounds of a cost-benefit analysis. Removing this aspect will increase the overall net benefit of the proposal.</p>