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Submissions
Electricity Authority
2 Hunter Street
Wellington
[via email]

By email: submissions@ea.govt.nz

Consultation on multiple trading relationships

Powerco welcomes the opportunity to comment on the Electricity Authority's consultation on multiple trading relationships (MTRs) issued on 28 November 2017.

Powerco supports the Electricity Networks Association (ENA) submission to the Authority. Rather than repeat the material from the ENA submission, there are several points we want to emphasise:

1. Clarity about the purpose of the consultation paper
2. Future work on multiple trading relationships should be a joint project between the "market development" and "innovation and participation" advisory groups (MDAG and IPAG).
3. Separate data access issues from market innovation issues
4. Leverage the recent AEMC work on the multiple trading relationships

Powerco supports initiatives that aim to improve the competitiveness and efficiency of the electricity market. Our primary concern is that the benefits will be small and accrue to a few, while the costs are high and incurred by many.

Purpose of the consultation paper

The purpose of the paper is to "*identify whether barriers exist that inefficiently limit a consumer's ability to consume electricity or electricity services provided by more than one party at the same time, at the same location*." The Authority then concludes that it has *"…has identified the industry systems and processes that we think may need to change to remove retailers' ability to limit consumers from establishing multiple trading relationships. These include:*

- *the registry and switching processes*
- *market operation systems and processes, such as the data system and exchange of information with the clearing manager, reconciliation manager and between industry participants would need to be amended to accommodate multiple trading relationships*
- *the process for selecting meter functionality, recording and exchanging meter data*
- *consumer-related responsibilities like the arrangements for medically dependent and vulnerable consumers."*

The Authority then says "*it's unlikely that many, if any, of these changes to industry rules and processes would be needed if we focused on removing retailers' incentives to inhibit consumers establishing multiple trading relationships*." The evidence for the "retailer incentives to impose barriers" issue circles on the time taken to ensure compliance with the Privacy Act (up to 20 business days). The inference is that if the retailers complied faster the barrier would be removed. As a thought experiment, if the response time was 15 days, or 5 days, or 1 day, would this issue be resolved?

Before proceeding further on this project, the Authority needs to put an order of magnitude on the scale of benefits directly attributable to MTRs. Part of that assessment needs to consider how current arrangements would also provide them. An example is 4.15(b) – "consumers and their agents could arrange to reduce consumption at peak times". This can occur under existing arrangements, so the estimating benefits from MTR will require careful thought. If the Authority is concerned there is a problem with the incentives around existing arrangements to deliver efficient consumption outcomes then that should be articulated before MTR or any other solution is explored further.

If MTR is pursued, we recommend that the Authority confirm if its assessment of retailer incentives is correct, whether it is the root cause of any problems, and what the potential proportionate remedies are (if any) across the market. This can happen before any costing is done, though should be driven by indicative estimates of the benefit that could be achieved. As a result, we have not carried out a detailed assessment of the potential implementation costs at this stage.

Pan-advisory group involvement in any further MTR work

Both the IPAG and MDAG should share any further work on "multiple traders" given the overlap between market design and participation. Rather than a consumer using multiple traders, a single trader could offer the service sought by a consumer by bundling suppliers. In 5.38, the Authority notes that "*…with more relationships, consumers are expected to increasingly allow more parties to control their behaviour*". This does not have to mean more traders at the ICP – it could mean an increase in off-market transactions. As a result, the trader has an alternative approach for hedging at peak or any other times. This links to the Authority's development in the hedge market, particularly around the development of "peak" products. Given this overlap, the MDAG should be involved in consideration of potential contractual solutions to the problem (for example the peak/off-peak scenarios described in 5.39(a) and 5.39(b)).

Separate data access from market development issues

The bulk of the consultation paper focusses on data access issues. The discussion on multiple trading relationships appears to be a potential symptom. We support the Authority taking a holistic approach to data, including considerations about data security and privacy.

For example, the Authority could facilitate an industry solution on a base level of cyber security requirements. This would provide clarity to new participants when developing their IT systems and controls to ensure new entrants are supporting a reliable electricity industry. A similar model for managing access to smart meter data should be explored (if that is a barrier).

We are committed to making our distribution network available as an open-access platform to which customers can connect (within safe bounds) any devices they require, or over which they can transact with others as they see fit. To manage our network and price it efficiently we need to understand consumer behaviour and preferences - including potential behaviour. Access to smart meter data underpins this need. So rather than analysing the costs of changing data systems to deliver MTR, we suggest the Authority consider some different models/configurations of data flows

between participants and analyse their costs and characteristics holistically ie privacy, competition, security, pricing, reliability. This may mean working with other Government agencies.

In our "Enabling mass participation" submission we suggested data sharing protocols and capabilities across all market participants need to evolve. The Authority's assessment of any current barriers to data provision would benefit from evidence rather than employing a presumption-based approach (eg para 48). If the Authority gets to a point of discussing solutions, it is essential the evolution of data access systems be considered rather than assuming the status quo will remain. Regulatory intervention is an option, not the option.

Leveraging the AEMC work on this topic

The AEMC and Australian industry participants have spent considerable time on considering multiple trader issues over 2014-16. While the New Zealand and Australian market arrangements are not identical, there is a lot we can take from it. We encourage the EA and advisory groups to consider the work, including the consultant reports, in detail to inform the approach in New Zealand. It would be efficient for all parties to avoid duplicating that work. Instead, we should build on it.

The bullet points below are from the AEMC's final determination[1] (headings added and acronyms changed to NZ equivalent). We have included them in our submission because they provide useful reference points to Authority's analysis and assumptions:

- **New services & new entrants**. Alternative energy business models have become far more common in recent years and are capable of delivering similar services and value to customers as those that could be provided by engaging with multiple retailers. These arrangements allow energy service providers to offer customers specific innovative services, either through partnering with a retailer, or directly to customers (page ii).
- **Benefits and alternative solutions**. Many of the energy services potentially enabled by the proposed framework could be supported through other market reforms and alternative processes. Cost reflective network pricing, contestable metering or private off market arrangements may be able to provide customers with some of the benefits that the proposed framework was intended to deliver. They may also provide some of the same efficiency benefits along the supply chain. The presence of these other reforms and processes may reduce the extent of the potential benefits associated with the proposed framework (page 13).
- **Costs**. The Commission considers that these costs associated with implementing the proposed framework are likely to outweigh any minor incremental benefits that it could provide. At least some of these implementation costs would flow through as higher prices borne by all customers, not just those customers who used the proposed framework to engage with multiple traders (page 14).
- **Consumer engagement**. Most consumer groups also considered that the proposed framework would likely only interest a small subset of advanced customers and not provide a net benefit to most small electricity users, especially low-income or vulnerable customers"(page 20).
- **Cost reflective pricing**. Pricing arrangement are expected to deliver similar value to customers without the need to engage with multiple retailers. For example, a customer

[1] https://www.aemc.gov.au/Rule-Changes/Multiple-Trading-Relationships

could utilise a time-of-use tariff to reduce the electricity costs of a specific appliance. The result of this could be similar to a customer engaging a separate retailer to supply electricity for that appliance (page ii). Many stakeholders identified that cost reflective pricing may help achieve benefits for customers that are similar to MTR. AEMO's submission noted that cost reflective network pricing reforms 'could also contribute with innovative tariff arrangements' and that 'if these opportunities are taken up it could be argued that the need for MTR to enable competition and unbundling of services may be reduced' (page 25).

- **Supply-chain value**. KPMG identified nine energy services that could theoretically be facilitated, or better enabled, if a customer was able to engage with multiple traders at a premises. All of the services identified through KPMG's analysis could be enabled through the current regulatory framework, via the establishment of a second connection point. Of the nine new energy services identified, KPMG found that most provided only limited opportunity to capture value along the supply chain. (page 27)

We recommend the Authority compare/contrast their evidence and perspective against these (and other) different dimensions of the issue outlined in the AEMC decision and associated reports by KPMG and Jacobs. For example

- The Authority's paper states "we expect that making it easier for consumers to have multiple trading relationships will increase consumer choice and ultimately promote competition and innovation" (4.4). How does this expectation align with the AEMC and consumer groups? What are the views of New Zealand consumers? How does this align with the Authority's existing views on the state of retail competition? Can this innovation occur via other means anyway? How material is it?
- The Authority states that "promoting competition through multiple trading relationships can promote significant long-term benefits to consumers" (4.6). This significant benefit has not been quantified. The Authority's view contrasts with that of the AEMC: "pricing arrangements are expected to deliver similar value to customers without the need to engage with multiple retailers". Does the Authority think pricing arrangements can deliver similar value to customers? What are the sources of that value?

We recognise that the AEMC was responding to a specific rule change proposal. However, AEMO's broad, rigorous and structured approach to this issue warrants more weight than the 9 paragraphs it received in the Authority's consultation paper.

Appendix A includes our responses to the Authority's consultation questions. If you wish to discuss our submission, please contact Andrew Kerr (andrew.kerr@powerco.co.nz).

Yours sincerely

Stuart Marshall

General Manager Commercial and Regulatory

Appendix A: Responses to consultation questions

Q1. How material are the constraints to consumers establishing multiple trading relationships at a single connection identified above?	It is not clear from the consultation paper what the balance between benefits and constraints is. For example, is it not clear if there is a constraint on a consumer making a choice to save $1 per year or $100 per year. We look forward to seeing submissions on whether a faster response to a data request would enable them to bring their service to market (3.39).
Q2. Are there other constraints that prevent multiple trading relationships from efficiently occurring? If so, please describe them.	MTR is one solution to an issue or value proposition that many solutions might be able to address. In 3.48 the Authority states "…presumably retailers face few incentives to enter in to arrangements that are likely to reduce their revenue or profits". This view does not appear to align with the Authority's initiative to develop peak products in the hedge market so that retailers can hedge against peak price and other variations. Rather than ask why arrangements have not been entered in to, it may be that alternative solutions dominate the MTR solution (3.48). In addition, data handling (monthly approach to data handling, provisions/estimations & wash-ups) may be an issue for some parties.
Q3. What do you consider to be the benefits of multiple trading relationships?	The Authority suggests there are significant long-term benefits to consumers from MTR. These have not been quantified (even on a rough order of magnitude basis). We suggest the Authority completing some form of similar exercise based on better estimates to provide some indication of the attributable and incremental benefits from MTR. For example: • The average residential consumer expenditure is around $2200 per annum[2]. If 20% of lines charges and 50% of energy and other charges has a variable component the opportunity is around $930. • If MTR can *uniquely* access 5% of this, the revenue opportunity is around $47 per annum on average in the long-run assuming prices/costs all increase at the same rate. This would need to be solely attributable to MTR and not able to be provided, ever, by any other mechanism. • If 10,000 consumers were engaged with multiple traders the total benefit pool would be $470k per annum, or around $4m in NPV terms. Service provider costs would

[2] http://www.mbie.govt.nz/info-services/sectors-industries/energy/energy-data-modelling/statistics/prices/electricity-prices

	reduce this as the multiple traders would need to make a normal return and cover associated business costs. • The AEMC's consultation paper suggested that costs of implementing MTR, as assessed by Jacobs SKM, are not insignificant: $13 million for individual retailers, $10 million for DNSPs, and $6 million for AEMO
Q4. What other services could be enabled by reducing or removing the barriers to multiple trading relationships?	
Q5. What changes, if any would be needed to the switching and disconnection/reconnection processes if a consumer were able to have multiple retailers?	We support the intent of the Authority to consider cost in Section 5. The imposition of cost on the Authority (5.6) is ultimately borne by consumers and participants. There may need to be a delineation between stopping the services to bad debt customers and hard disconnection. Switching may need to be faster as a result.
Q6. What other data exchange processes that have not been identified in this paper need to be changed to accommodate multiple trading relationships?	See question 9 – there's a balance between centralisation and disaggregation around management of billing and reconciliation data. Rather than analyse the costs of changing data systems to deliver MTR, we suggest the Authority consider some different models/configurations of data flows between participants and analyse their characteristics across multiple dimensions eg cost, privacy, pricing, competition.
Q7. How could the data exchange processes be modified to accommodate multiple trading relationships?	
Q8. What other services, if any, would have to share costs between multiple users?	An extension of the "primary trader" solution would have a consumer able to choose their trading arrangement like an "add-on". The primary trader would retain responsibility for billing and reconciliation. Adding a trader may have associated costs to the consumer, and provide an alternate "bundle" of potential electricity cost and signals. Whether the trader provides those services themselves or from a 3rd party is up to the consumer to choose (and for retailers to offer).
Q9. How could the cost of these services be shared amongst multiple users?	Our comments relate to distribution pricing. The approach would depend on the model used. For example, if a consumer's load is altered by a 3rd party who has an off-market contract with a retailer, there is no change required. Distributor pricing methodologies would need to adapt and need the data to identify and quantify the network services used by different retailers for the same consumer. The cost will be largely driven by the consumer's behaviour, meaning that the cost of their network consumed can be and

	charged in a cost-reflective manner. Reconciliation would be complex, and therefore costly. A centralised data repository with a standard cleansing/validation process might be a solution. It would enable reconciliation of the entire market data set and assist with ensuring the right parties pay the right price for the services they consumed. The need and benefit of this would need to be demonstrated.
Q10. Could consumer data be more efficiently shared with service providers that have a legitimate claim for access to their consumer's data? If so, how?	See our comments on a centralised repository model above.
Q11. How much value is there in making it easier for appropriately authorised firms to access information such as a consumer's tariff structure, the smart meter functionality that is used by the consumer's MEP, a consumer's controllable appliances?	
Q12. Are there other industry participants that may need to amend their systems to operate in an environment with multiple trading relationships?	
Q13. What are the costs of the above changes recognised in questions 10-13?	We are happy to consider specific costs for a concrete proposal (or set of). Obtaining and maintaining accurate data (eg household appliances) would be costly.
Q14. What other obligations need to change if multiple traders can serve an ICP?	We think it is a better use of industry resource if the Authority • Focus on assessing the attributable and incremental benefits from MTR. • Articulate a clear value proposition of a solution (or solutions) This exercise may involve the Authority spending money on external reports. This should only be done if the initial assessment of benefit warrants that money being spent, because that cost is passed to consumers and participants. Following the outcome of this, the Authority will be in a position
Q15. How could the obligations discussed above be amended to accommodate multiple traders at an ICP?	
Q16. What costs would be involved in amending consumer-related responsibilities to accommodate	

multiple traders at an ICP?	to discuss the merit of MTR with industry including costs. As an indication of the scale of cost, AEMC's consultation paper on MTR had cost estimates to implement and operate AEMO's high level MTR design [3] • on average, individual retailers could be expected to incur a total cost of around $13 million • DNSPs $10 million • AEMO expected to incur a total cost of around $6 million
Q17. What additional matters would need to be considered if we were to introduce multiple trading relationships? What amendments would need to be made to the Code to facilitate multiple trading relationships?	
Q18. What is the cost of the changes needed to enable multiple trading relationships?	

[3] https://www.aemc.gov.au/sites/default/files/content/18fabac3-f4c1-41ce-ae06-2febcfb0b2e9/AEMC-Consultation-Paper.pdf page 32