

10 April 2018

## **Submission to the Electricity Authority on “equal access”**

The Innovation and Participation Advisory Group’s (IPAG) early engagement with stakeholders on the Equal Access project is a positive step, which provides good precedent for other Electricity Authority projects.

We would like to see the stakeholder engagement extend to each step of the review process; particularly critical stages such as development of the advisory group’s views on problem definition, and identification of potential policy options.

While the request for submissions absent a consultation paper is unusual it provides an opportunity for stakeholders to provide views about the project before the advisory group has progressed its thinking. Our submission focuses on the foundations for a successful review: project scope and management, and establishment of the problem definition.

### **What is meant by “equal access” as opposed to “open access”?**

It would be useful for IPAG to clarify what is meant by “equal access” and how this differs from “open access”.

The Electricity Authority repeatedly referred to “open or equal access” but hasn’t been clear about what distinction is intended by use of the two terms.

The term “open access” is well understood and commonly used in relation to network access regulation, but reference to “equal access” in a network access setting is somewhat idiosyncratic. “Equal access” is normally used in the context of social issues (access to education etc).

### **The scope of the Equal Access project should be clarified and tightened**

The Equal Access project appears to have, at least, two separate and unrelated strands: network access and use of third-party outsourcing by regulated suppliers.<sup>1</sup>

We would like the boundary between the default Distributor Agreement (DDA) and Equal Access projects to be clarified, given they both fit under the category of network access and would appear to substantially, or entirely, overlap.

Network access and third-party outsourcing should not be conflated.

It is unclear why the Electricity Authority’s review of what needs to be done to enable innovation and mass participation morphed into consideration of line companies’ operational decisions on third party outsourcing.

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<sup>1</sup> The Electricity Authority’s discussion of the topic also covers diverse matters such as pricing methodologies and data sharing.

## **IPAG should avoid relitigation of issues in the Commerce Commission's domain**

Entrust is concerned about the risk the project could encroach on the Commerce Commission's responsibilities with consideration of third-party outsourcing.

We previously noted "The work the Authority/new Innovation and Participation Advisory Group (IPAG) is doing on Mass Participation/third-party service provision fits firmly under the Commission's responsibility for making sure regulated suppliers have incentives to innovate and improve efficiency".<sup>2</sup> Other stakeholders have made similar comments.<sup>3</sup>

We share Vector's concern the Electricity Authority "appears to unnecessarily relitigate issues considered last year by the Commission's emerging technology work-stream".<sup>4</sup>

The potential over-reach, into the Commerce Commission's Part 4 responsibilities, is highlighted by ERANZ' submission which raised issues about potential for lines companies to "favour relating parties via cross subsidisation" etc. Most of the large retailer submissions were guilty of repeating issues they raised with the Commerce Commission in relation to the Input Methodologies review.

It is worth noting that the Commerce Commission reviewed both the cost allocation and related party transaction (RPT) rules in the recent Input Methodologies review and made substantial changes to both. The RPT provisions, for example, were completely redrafted. The new RPT rules go beyond the original rules and now involve greater disclosure including the publication of network constraint maps etc. It would make sense to wait until these changes are being applied and responded to before tackling the same issue again.

We anticipate the same issues will be revisited, again, in response to the Government's Electricity Price Review. This is evident from submissions on the terms of reference for the review.

Entrust would consider it a failure of process and co-ordination between the respective regulators if the response of some stakeholders to not getting everything they want from one regulator is to demand the same things from the other regulator. A child playing divorced parents off against each other seems like an apt analogy. If the child can't get their way with one parent they will try it on with the other.

While the Electricity Authority has acknowledged "cross-agency responsibility",<sup>5</sup> it hasn't been clear about the implications of this or the boundaries between the regulators' respective roles and responsibilities. IPAG should avoid dealing with issues the Commerce Commission is responsible for or has already addressed.

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<sup>2</sup> Entrust, Submission to the Electricity Authority on 2018/19 appropriations and work priorities, 18 December 2017.

<sup>3</sup> See, for example, the comments above from Vector.

<sup>4</sup> Vector, SUBMISSION TO ELECTRICITY AUTHORITY ON ENABLING MASS MARKET PARTICIPATION IN THE ELECTRICITY MARKET, undated, paragraphs 4 and 6.

<sup>5</sup> Letter from Carl Hansen (CEO, Electricity Authority) to Lindsay Cowley (Chair, Innovation and Participation Advisory Group), Innovation and Participation Advisory Group work plan for 2017/18 - request to undertake Equal access framework project, 6 November 2017.

## **Establishment of a problem definition is a critical early step in the review process**

The Electricity Authority has made reference to a “lack of confidence in the existing access arrangements”<sup>6</sup> but this is vague and unsubstantiated. There are no specific details why some access seekers claim to lack confidence. This detail is needed to understand whether the concerns are valid and, if so, what changes should be considered to existing arrangements.

The Electricity Authority went on to suggest this “lack of confidence ... could deter investment and participation in activities to offer services and products that provide long-term benefits to consumers” but offered no evidence investment or participation wasn’t occurring.

The Electricity Authority implicitly recognised these limitations concluding “further investigation” was warranted. An important part of IPAG’s role will be to determine if there is an actual problem and, if so, what the nature and extent of the problem is.

If there are genuine problems we would expect to see evidence come out of the current consultation. The submissions by stakeholders, predominantly ERANZ and the large electricity retailers, that have claimed there are problems, have been high on rhetoric, but low on substance.

The factual evidence presented in submissions point in the opposite direction.

ETNZ, for example, made the observation “In general networks look for the most cost-effective options where alternatives are available. A classic example has been Vector’s use of Northpower Contracting and other service providers, in place of the large in-house service facility operated by its precursors”.<sup>7</sup> The reality is third party outsourcing by lines companies is common and widespread, and different business models will suit different operators depending on their individual circumstances.

## **Challenges IPAG could face in progressing the “Equal Access” project in a timely manner**

The Market Development Advisory Group (MDAG) published proposed key milestones for its Spot Market Trading Conduct review which highlight challenges IPAG could have in conducting the Equal Access project in a timely and reasonable manner.

The key milestones for the Trading Conduct review provide for a 5-month gap between MDAG finalising its first discussion paper, the discussion paper being submitted to and reviewed by the Electricity Authority Board, and MDAG releasing the consultation paper for consultation.

This highlights that the Electricity Authority is struggling to cope with its work programme.

Entrust has expressed concern there are already too many projects in the Electricity Authority’s work programme,<sup>8</sup> and this is one of the reasons for the lack of progress on a

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<sup>6</sup> Letter from Carl Hansen (CEO, Electricity Authority) to Lindsay Cowley (Chair, Innovation and Participation Advisory Group), Innovation and Participation Advisory Group work plan for 2017/18 - request to undertake Equal access framework project, 6 November 2017.

<sup>7</sup> ETNZ, Enabling Mass Participation Issues Paper, 11 July 2017.

<sup>8</sup> Entrust, Submission to the Electricity Authority on 2018/19 appropriations and work priorities, 18 December 2017.

substantial number of the Electricity Authority's projects and priorities. Some projects have been delayed for several years e.g. TPM, DDA, and review of the electricity distribution sector. The addition of the Equal Access project exacerbates these issues.

### **Planning information that should be published to help ensure good practice project management**

Entrust reiterates comments from our 2018/19 Appropriations and Multiple Trading Relationships submissions. We would like to see better project planning and management.

It would be helpful if the Electricity Authority/IPAG provided:

- the workplan, including key milestones, consultation steps and project completion date;
- the projected budget for the project, broken down by internal and external resourcing, including consultants and legal advice;
- the budget appropriation for 2018/19; and
- periodic updates about how the project is progressing against the workplan and budget.

Absent publication of planning information there is little to show what level of priority is being given to the Equal Access project. Entrust is of the view it would be good practice for this type of information to be provided for all future projects.

### **Closing remarks and next steps**

Entrust wants to ensure electricity is supplied in an efficient and affordable way to all consumers, including the over 327,000 households and businesses in Auckland, Manukau and parts of Papakura and eastern Franklin that are beneficiaries of Entrust.

While the Electricity Authority's focus on "equal access" has been somewhat network-centric, Entrust shares Vector's view the issues that could most significantly influence mass participation include: "resistance to the provision of customer data, stalling of smart meter roll-outs, perverse outcomes in the wholesale energy market and customer disengagement".<sup>9</sup>

The fundamental question is whether there are barriers to entry or adoption of new business models. The Electricity Authority's Multiple Trading Relationships consultation highlighted that barriers can be created by existing rules.

As part of the next steps, following this consultation, we would like to see IPAG:

- determine whether the objective for the project should be "open" or "equal" access;
- manage the project in a way that avoids overlap and duplication with other workstreams, including the Commerce Commission's Input Methodologies review and other Part 4 responsibilities;

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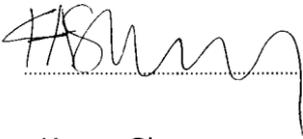
<sup>9</sup> Vector, SUBMISSION TO ELECTRICITY AUTHORITY ON ENABLING MASS MARKET PARTICIPATION IN THE ELECTRICITY MARKET, undated, paragraphs 4 and 6.

- establish firm evidence whether or not there is an actual problem and, if so, determine the nature and scale of the problem; and
- set a transparent project management plan which delivers the "Equal Access" project in a timely and reasonable manner.

**For further information, contact:**

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Kind Regards



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