

6 June 2008

Electricity Commission
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SUBMISSION ON PROPOSED CHANGES TO INTERPOSED MODEL CONTRACTS

- 1 Orion welcomes the opportunity to submit on the *proposed changes to interposed model contracts* consultation document (the **paper**).
- 2 Our submission is in two parts:
 - 2.1 the general comments below; and
 - 2.2 our response to the specific questions raised in the paper, which we set out in the schedule to this letter.

Contract alignment

- 3 The purpose of the consultation is to update the interposed version of the model domestic contracts guidelines (**MDC guidelines**), model domestic contract (**MDC**) and the model use of system agreement (**MUoSA**) to resolve any alignment issues following the release of the transmission benchmark agreement (**TBA**).
- 4 While alignment of the above contracts may be useful, all of the above (except the MDC guidelines) are 'model' agreements, and as such any actual agreements may well vary from the models. Consequently any 'alignments' may vary in actual contracts compared to the various models.

- 5 We note for example that the Commission has recently indicated that the TBA:¹

... provides a basis for Transpower and its customers to negotiate transmission agreements for connection and use of the grid. The Commission has not tried to deal with every single issue relating to transmission services in the Benchmark Agreement. It is only intended as a starting point for negotiations. If customers want special arrangements with Transpower, those can be negotiated as part of a transmission agreement.

Ongoing development and or retention of model contracts

- 6 A further related issue is the need for ongoing development or retention of the model contracts. We note the Commission's reference to the Government Policy Statement (**GPS**) in paragraph 24 of the paper which states that:

Under paragraph 100 of the GPS:

- (a) the Commission was required to develop, in consultation with the interested parties, model use of system agreements for use by distributors; and*
- (b) if the Commission thinks it necessary and beneficial, it may also recommend regulations.*

- 7 We note that the October 2006 GPS has recently been superseded by the May 2008 version and the new version changes the emphasis of the Commission's work in relation to use of system agreements.

- 8 In particular, paragraph 113 of the May 2008 GPS now requires that:

The Commission should ensure reasonable terms and conditions for use of system agreements for use of distribution lines, and ensure that they remain up-to-date with current market issues. Terms and conditions should take into account the interests of consumers, retailers and distributors and should be consistent with:

- arrangements for connecting distributed generation to distribution networks (described later)*

¹ www.electricitycommission.govt.nz/pdfs/publications/on-the-lines/May08.pdf

- *obligations imposed on retailers as a result of arrangements relating to contracts between retailers and consumers*
- *arrangements covering distribution pricing methodologies*
- *arrangements for the use of technologies for load management (including ripple control)*
- *any other regulations promulgated under the Electricity Act 1992.*

- 9 This change removes the explicit requirement on the Commission to develop model use of system agreements.
- 10 While we do not consider that the new version of the GPS prevents the Commission from continuing to develop a model use of system agreement, we question whether this is still warranted.²

Concluding remarks

- 11 In this submission we only comment in detail on the changes proposed in the paper, however it should not be inferred that we agree with the content of the MDC or MUoSA, which we have submitted on previously.
- 12 Thank you for the opportunity to make this submission. Orion does not consider that any part of this submission is confidential. If you have any questions arising from this submission, please contact Dennis Jones (Industry Developments Manager), DDI 03 363 9526, email dennis.jones@oriongroup.co.nz.

Yours sincerely



Dennis Jones
Industry Developments Manager

² We note that paragraph 2 of the May 2008 GPS provides for the Commission to develop guidelines and model arrangements.

SCHEDULE

Responses to the Commission's questions

Question / Comments on the proposed amendments to the MDC, MDC guidelines or MUoSA regarding:	Comment
<p>Q1. Alignment of service timeframes.</p>	<p>We agree with the alignment of times for livening standard new connections.</p> <p>We do however have several concerns about the proposals regarding power quality, as follows:</p> <p>MDC clause 26.6</p> <p>This clause requires the retailer to install equipment at the customer's point of connection to measure voltage sags. We consider that this requirement should be generalised to cover the obligations relating to quality and reliability set out in clause 133 of the MDC, as not only voltage sags may be of concern. For example, surges, spikes and short term dips may also cause concern.</p> <p>We also suggest that the wording of clause 26.6 should be generalised to require the retailer to undertake to arrange to have equipment installed to analyse a voltage issue, <u>if appropriate</u>.</p> <p>We note and agree with the removal of the reference to <i>exceeding a number [xx] of voltage sags</i> from clause 26.6 and clause 133.</p> <p>MUoSA clause 2.2(g)</p> <p>We consider that clause 2.2 (g) of the proposed MUoSA needs to provide for more general analysis of a voltage concern (as above), and also provide for results of the analysis to be provided to the consumer as well. It should also align with clause 26.6 of the MDC in relation to the ability of the distributor to charge the retailer for the service.</p>

	<p>We comment also that a distributor is unlikely to agree to any limit, which is meaningful to the customer, on the annual duration of planned interruptions to a connection (MDC clause 26.9 and MUoSA Schedule 1).</p>
<p>Q2. Alignment of customer obligations regarding access.</p>	<p>We agree with the alignment.</p>
<p>Q3. Alignment of reliability of supply clauses.</p>	<p>Orion does not agree with the proposed change to clause 2.1 of the MUoSA. The proposal changes the requirement on a distributor from an obligation to “<i>endeavour in accordance with Good Industry Practice to maintain and operate its Network in a manner that conforms with relevant legislative requirements</i>” to an absolute requirement on the distributor to “<i>maintain and operate its Network in a manner that conforms with relevant legislative requirements</i>”. We consider the original wording to be more appropriate.</p> <p>We cannot guarantee continuous supply, nor can we guarantee that at all times the supply will not exceed the tolerances provided for in legislation. This is implicitly acknowledged by the Commission in its requirements in relation to consumers’ voltage concerns in clause 2.2 (g) of the MUoSA, and clause 26.6 of the MDC, which expressly acknowledges that the customer will not be charged for voltage monitoring if the voltage measure is found to be outside acceptable limits. If a distributor could maintain voltage at all times within the legislative requirements there would be no need for this provision.</p> <p>Clearly while a distributor will, within the limits of Good Industry Practice, monitor loadings on transformers and lines etc. to ensure that voltages at the consumers’ premises are within acceptable limits, this does not ensure that at all times all parts of the system will be within the legislative limits.</p> <p>To assist distributors in meeting the requirements, the legislative requirements will require modification of the TBA. We have in our submission³ on the connection code and outage protocol, which forms part of the TBA, advised that the code (table B1 Appendix B) provides for minimum and maximum voltage ranges for 33kV, 22kV and 11kV that are ±10% above</p>

³ Submission to the Electricity Commission on the proposed connection code and outage protocol dated 22 November 2007.

	<p>and below the nominal voltage.</p> <p>We noted that the proposed voltage ranges are unacceptable to us as they would result in distributors being unable to comply with regulation 53 of the Electricity Regulations 1997 which requires that voltages at a customer's point of connection be maintained within $\pm 6\%$.⁴</p> <p>We recommend that the connection code of the TBA be modified to align it with the legislative requirements that distributors are trying to maintain, and the MUoSA.</p>
<p>Q4. Alignment of the margin of variance re supply voltage and frequency clauses.</p>	<p>We agree that the old clause 133 should be removed and we recommend that the new clause 133 should be modified to reflect that it is not possible to supply at all times at excellent quality and reliability levels, as allowed for under current requirements including the Electricity Governance Regulations and Rules and technical electrical codes of practice. This clause should be aligned with the existing clause 2.1 of the MUoSA. We recommend that clause 133 should read:</p> <p><i>We will endeavour in accordance with good industry practice to supply electricity to you at quality and reliability levels in accordance with current laws including the Electricity Governance Regulations and Rules and technical electrical codes of practice.</i></p>

⁴ Regulation 53 Voltage

- 1) *The supply of electricity to electrical installations operating at a voltage of 200 volts ac or more but not exceeding 250 volts ac (calculated at the point of supply)—*
 - (a) *Must be at standard low voltage; and*
 - (b) *Except for momentary fluctuations, must be kept within 6% of that voltage*
- (2) *The supply of electricity to electrical installations operating at other than standard low voltage (calculated at the point of supply)—*
 - (a) *Must be at a voltage agreed between the electricity retailer and the customer; and*
 - (b) *Unless otherwise agreed between the electricity retailer and the customer, and except for momentary fluctuations, must be maintained within 5% of the agreed supply voltage.*

<p>Q5. Alignment of disconnection/termination clauses.</p>	<p>We agree with the proposed clauses 142.10 and 142.11 of the MDC.</p> <p>We do not agree with the proposal set out in clause 19.7 of the MUoSA. The Commission is required under paragraph 25 of the May 2008 GPS to establish arrangements to ensure an orderly transition for consumers in the event that a retail company becomes insolvent. We do not consider that the addition of clause 19.7 in the MUoSA adequately deals with the requirement that the GPS places on the Commission. The proposed clause 19.7 provides timeframes and notice periods to be met prior to disconnection of a customer following an 'event of default' or 'insolvency event' in relation to the retailer, not for a transition to another supplier. Further, the proposed clause 142.12 of the MDC would not be appropriate.</p>
<p>Q6. Alignment of good industry practice definitions.</p>	<p>We agree that the proposal provides alignment of the TBA and the MUoSA in relation to the definition of good industry practice.</p>
<p>Q7. Alignment of limitation of liability clauses.</p>	<p>We agree with the proposed changes to the clauses in the MDC and the MUoSA.</p>
<p>Q8. The addition of clauses relating to the "guideline on arrangements to assist low income and vulnerable consumers".</p>	<p>No comment.</p>
<p>Q9. Changes to the transparency of line and energy charges clauses.</p>	<p>We are pleased to see the proposed changes in relation to the transparency of line and energy charges. However, several issues in the proposal still need to be addressed. Specifically the clauses need to make explicit reference and allowance for charging on a basis other than kWh and for the fact that some distribution charges may be on an annual basis requiring the need to impute the charges on a kWh basis.</p> <p>A customer might expect to see separate charges for energy and distribution under the proposed clause 42.1 of the MDC, which we understand is no longer the intention. We suggest rewording to clarify this.</p>

<p>Q10. Format for publication of tariffs and line and energy charges on retailer websites as set out in Appendix 3.</p>	<p>As discussed in our response to question 9, not all distribution variable prices are expressed on a simple c/kWh basis, and nor should they be.</p> <p>The Commission's proposed format given in Appendix 4 is fundamentally flawed in that it is entirely too restrictive. It makes no allowance for pricing structures such as summer/winter options, or congestion pricing with peak/off-peak and shoulder periods.</p> <p>While retailers may not be offering these options to domestic customers at this stage, it is entirely possible that with the ongoing installation of advanced metering, these pricing structures will become standard.</p> <p>It is not clear from the Commission's proposal exactly what it expects in relation to distribution charges. For example, the footnotes refer to an average consumption being amended based on region, and average cost being calculated using the same proportions/formulas used for the Low Fixed Charge option. However, it is not clear if the distribution prices are expected to fall into the proposed categories of day/anytime, night or controlled and be cents/kWh based or imputed into this form. The Commission should ensure that in prescribing a format, such as that proposed in Appendix 4, it allows for all pricing structures (at least those currently in use) and be aware that not all charges are kWh based. If the Commission does require all pricing options to be displayed in this simplified form, then it should be made very clear that some prices and quantities are imputed.</p> <p>Appendix 4 uses many terms loosely and inconsistently, which is confusing. Such terms are 'tariff', 'pricing', 'cost', and 'charge'. We use a consistent terminology where a 'charge' arises from a 'chargeable <i>quantity</i>' multiplied by a 'price'. We consider 'pricing option' to be a better term than 'tariff' as it does not have the connotation of a tax. We suggest some careful consideration of terms, with the customer in mind.</p>
<p>Q11. Changes to the definitions relating to customer service lines.</p>	<p>We consider that clause 131 of the MDC is misleading. The Distributor is responsible for its network, not the retailer.</p> <p>We do not agree with the proposed amendment to clause 17.1 of the MUoSA. The Distributor has no responsibility for Customer Consumer Service Lines.</p>

<p>Q12. The addition of clauses highlighting the tax implications for distributed generation.</p>	<p>We agree with these proposed changes. Note that the drafting of clause 16 in schedule 1 in the MDC needs attention – delete “If and ”?”.</p>
<p>Q13. Removal of references to the Electricity and Gas Complaints Commission and Code of Practice.</p>	<p>We acknowledge that the Commission has recently consulted on a single consumer complaints scheme. That consultation proposed that the scheme’s code of practice would cover those aspects outlined in section 1.3 of Appendix 3 of the consultation paper. While Orion agreed in broad terms with this approach, we noted that “<i>the detail of the code of practice will be significant and will require consultation</i>”. Membership of the scheme will be compulsory and, until the detail of the scheme is developed further, it is unclear how the mandatory nature of the complaints scheme would interface with or be relevant to a model use of system agreement. We expect further consultation on this issue as the Commission develops the scheme.</p>