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Submissions

c/- Electricity Authority

PO Box 10041

Wellington 6143

by email: submissions@ea.govt.nz

SUBMISSION ON MULTIPLE TRADING RELATIONSHIPS

Introduction

- 1 Orion New Zealand Limited (**Orion**) welcomes the opportunity to comment on the “Multiple Trading Relationships” consultation paper (the **paper**) released by the Electricity Authority (Authority) in November 2017.
- 2 In summary:
 - 2.1 We consider that there are two quite different sets of ideas covered in the paper that need to be separately considered but that the paper tends to conflate:
 - 2.1.1 The ideas relating to having the consumer able to transact with multiple traders (as in reconciliation participants) at an ICP and how the Code supports - or should support - this, and
 - 2.1.2 The ideas relating to the services that third parties might supply to consumers using data from the meter, ‘behind’ the meter, or across multiple ICPs.
 - 2.2 The first set of ideas looks to imply fundamental, and potentially very costly, changes to participant and market systems and processes.
 - 2.3 The second set of ideas looks to be mainly focussed on metering data and access to that data, particularly by third-parties. As such it looks likely to involve considerably less cost than the first set of ideas.
 - 2.4 On balance we suggest an initial focus on the second set of ideas.
- 3 We expand on these points below.
- 4 The Electricity Networks Association (ENA) has also submitted on the paper. Orion endorses the ENA submission.
- 5 The remainder of this submission is structured as follows:
 - 5.1 Comments on the paper

5.2 Responses to the questions in the paper, as an appendix.

What is meant by multiple trading relationships?

- 6 To us, the concept of multiple trading relationships being used in the paper is unclear. To some extent this is reflected in the title and subtitle of the paper. “Multiple trading relationships” tends to imply a consumer interaction with multiple reconciliation participants at an ICP, while “choos[ing] multiple electricity service providers” implies interactions with a wider set of parties, and in particular parties that are not, or are not with respect to the services in question, acting as reconciliation participants.
- 7 This distinction is important, as obligations around reconciliation are central to the Code, whereas many potential services are not as bound by the Code, and some not at all. While the paper notes (on page iii) that “[w]e use an intentionally broad definition of *multiple trading relationships*” [italics in original], in our view the breadth reduces clarity.
- 8 Examples given of interactions with multiple reconciliation participants include: a potentially different participant for import and export and a potentially different participant for different times (say day and night) or components (say baseload and peak) of load. Examples of interactions with other service providers include price comparisons, home energy management systems and demand response services.
- 9 The examples are interesting in that the first group are things that could conceivably be facilitated by Code changes, while the second are things that, to some extent at least, already happen.
- 10 Regarding the first group we think the key questions are:
 - 10.1 What role can other innovations, such as intermediation, play in facilitation of multiple participation? For example peer to peer trading is already facilitated by having a single reconciliation participant at each ICP, with the various peer to peer transactions being separately processed. Another example comes from Powershop where, at least in its early days of operation it supported multiple energy brands selling to a single customer at a single ICP. What is wrong with these models?
 - 10.2 Where Code changes are the approach used, how should the cost of the necessary system and process changes be recovered? From only those that benefit from the changes, or from all consumers?
- 11 With respect to the second group, as the paper observes, the Powerswitch website was visited 520,000 times in 2016, and Powerswitch is not the only comparison site. That is a lot of relationships, if rather fleeting ones. In a similar vein third parties (Transpower, load aggregators and, less directly but much more widely, distributors) already procure demand response outside the reconciliation process under the Code, and any party can provide home energy management tools and systems.
- 12 In other words, while it is correct that the reconciliation arrangements are designed around one-to-one relationships, this does not seem to be stopping many-to-one interactions between non-reconciliation service providers and consumers. This is not really surprising, as reconciliation arrangements are not particularly relevant to the service examples: a small

amount of billing information is sufficient for most price comparisons; demand response is largely a matter between the parties that does not necessarily involve the reconciliation participant; and home energy management systems will not, generally, have reconciliation information as an input.

- 13 One area identified in the paper that does seem to be contentious at the moment is access to metering data, and in particular interval data, by third parties. We are not sure this is specifically about multiple service providers, it seems to be more that a combination of privacy concerns and concerns about what purpose the data will be put to is making retailers very cautious about providing it. Given that the Code was changed only relatively recently to facilitate access to such data by third parties it is perhaps surprising that there are still apparently concerns here. As a distributor, not a third party in this sense, access to metering data has likewise become more difficult than it used to be, and we note that ERANZ has recently published material related to how distributors may go about accessing this data, and how retailers will maintain privacy and security of data. We think it would be useful for the Authority to facilitate a discussion in this area to uncover what the issues really are and seek to address them.
- 14 There are some related matters regarding access to metering data that we believe are also worthy of further investigation:
 - 14.1 Access to data that may be available from metering equipment but that is not used for billing and reconciliation, for example higher resolution and / or more timely consumption data, last gasp data and power quality data, and
 - 14.2 Whether the contracts that retailers have with MEPs unreasonably limit access to such other data.
- 15 We note, however, that metering data that the current retailer may procure and thus have some ability to limit access to, is not designed to meet all the purposes that third-party service providers may desire. The paper notes, at para 3.37, that: “some service providers that rely on faster access than retailers are providing [and] are installing their own devices”. This is not necessarily an indication of a problem. Billing and reconciliation information, being subject to the Code, must meet certain standards. These standards, rightly in our view, tend to focus on accuracy rather than timeliness. Third party providers, where they contribute nothing to the cost of the service, cannot presume that the existing service will meet their requirements. On the other hand, being free from Code obligations, the technology that does meet their requirements may be relatively low cost.
- 16 But again the actual service needs to be considered. In terms of the examples in the paper:
 - 16.1 Price comparison would not, in our view, normally require very timely access to very recent data, particularly interval data. A recent bill, or interval data that is, say, 25 days old, would, we suggest, produce very reliable results in nearly all cases.
 - 16.2 Home energy management systems probably require data beyond the meter, for example from specific equipment and appliances in the house, rather than from the meter, and so this data will not come from the Code compliant metering in any case. Almost by definition this is real time information which we suspect, even at the aggregated ICP level, is not

available to the retailer in most cases, and even the MEP might incur material additional costs in extracting data in real time.

16.3 Demand response services will be subject to contractual arrangements between the parties, and may also require specific technology (say, an under-frequency relay). We should not be surprised if the metering arrangements between the retailer and the MEP are not always appropriate given the very different purposes for the data and systems.

17 We are unsure what the financial support services are that would be able to get much additional benefit from information beyond what is on the bill (para 3.41). More information would be useful here.

The economic framework

18 On page 20 the paper discusses an economic framework. The framework touches on the fact that commercial arrangements are possible between multiple traders that would enable multiple trading relationships at an ICP. At para 3.48 the paper notes that the Authority is “not aware” of any such arrangements, but surely the key point is that the Code does not stop them.

19 More generally though, the discussion in the paper tends to ignore the fact that retailers are likely to assess customer value according to a range of attributes, and according to the bundle of services that the customer takes from them as opposed to third parties. Even if they do not already, over time retailers may adjust their offerings to reflect this.

20 We agree, however, that what the paper describes as the “soft constraint” should be the initial focus of any further work in this area.

21 We also note that, as regards retailer ability and incentives to limit access to data, having multiple reconciliation participants at an ICP would not address this problem at all, and might even make it worse, as getting a complete data picture of an ICP would potentially involve dealing with multiple retailers.

The benefits of multiple trading relationships

22 Section 4 of the paper discusses benefits. It begins with what we consider to be very inapt analogies to telecommunications. These analogies confuse the network service with the services that are provided using the network. We believe that, while many consumers have access to multiple telecommunications networks (for example fibre broadband for the home and cellular network for mobile services) with each provided by a single network provider, these do not normally limit what content consumers can access over those networks. The examples given – Sky TV, Lightbox, Neon and Spotify – are network agnostic content providers not network providers.¹

23 A more apt analogy would be that a consumer would be able to choose between multiple petrol brands at a single pump. That we do not observe this is not, of itself, an indication of a

¹ Sky TV does also have its own delivery platform, but its content is increasingly becoming network agnostic.

problem to be solved. Consumers are already pretty much completely free to use (or produce) electricity for any purpose they wish.

- 24 The remainder of this section of the paper is very high level and non-specific, little more than the statement that “competition can be beneficial”.
- 25 As regards reliability (from para 4.10) all of the examples listed (in para 4.12) are either already in place or appear to be entirely possible within the existing framework.

The costs of multiple trading relationships

- 26 Section 5 of the paper discusses costs.
- 27 Again it is often unclear what idea of multiple trading relationships is being costed – the idea of having, or enabling via the Code, multiple reconciliation participants at an ICP, or the idea of making it easier to access certain data. We consider that these two ideas have fundamentally different cost implications.
- 28 Regarding the first, we see the costs as being very significant indeed. Para 5.6 understates the implications when it says that “some participants may need to update their system and operating practices.” We think it would be more accurate to say that ALL participants would need to do these things, and that they are profound changes rather than updates. Required changes could also extend to the actual equipment at customer’s premises.
- 29 One significant example of the potential extent of the changes is raised in para 5.25, which discusses disconnection. The paper states: “Any move to multiple suppliers needs to ensure that a loss of service from one supplier does not automatically result in the consumer facing a loss of service from the other suppliers at the ICP.” Even leaving aside the administrative implications of achieving this, the nature of most connections in New Zealand is that it would not be physically possible to comply, since there is usually only one supply fuse for each connection (or, where remote disconnection and reconnection are possible, one contactor). It could be possible, at considerable expense, to have disconnection capability that reflects the customer’s multiple trading relationships, but keeping this up to date as those relationships change strikes us as challenging and costly to consumers at best.²
- 30 On the presumption that there would be multiple reconciliation participants at an ICP, the paper discusses cost allocation and notes that this should be service-based and cost-reflective. Yet establishing the ability to do such cost allocations is itself a cost, and we think it is likely to be significant. Should this cost be recovered only from those that require the service (of being able to have multiple trading relationships), or should it be spread across all consumers?
- 31 We find the section on “exchanging consumer’s data” confusing. As the section notes, there is potentially data or information about many things: there’s data about the consumer, about the consumption at their ICP, about the ICP, about the metering at the ICP, about the pricing arrangements, including contractual arrangements, that apply, about their payment

² We note that the Code currently requires an ICP to have the attributes which would be required at a lower level were multiple (reconciliation) trading relationships to be enabled by the Code. Schedule 11.1, 3 states that “Each ICP...must be able to be electrically disconnected without electrically disconnecting another ICP”.

preferences and payment performance, about the other services they receive as part of a bundle, and no doubt many other things.

- 32 Some of this, and particularly ICP information, is effectively already ‘public’ in the sense that it is available from the Registry without the consumer’s consent or knowledge. Other information is available to various participants, while some of it is only known to the consumer. But the key concern is clearly access to historical billing data and associated interval data, and we urge the Authority to focus on this, at least at first.
- 33 Para 5.48 states that “MEPs may need to amend their systems ... to enable [multiple trading relationships]”. “Similarly, retailers and other participants may also need to amend their systems...” We believe there is no “may” about it.

The multiple ICP solution

- 34 At some points (for example para 3.18) the paper touches on the idea that multiple ICPs could be created at existing points of connection to support multiple trading (reconciliation) relationships. While this certainly has a number of negative implications, and we do not advocate it, it does have two features that make it superior to changing the fundamental structure of the industry:

34.1 Only those connections where the multiple relationships are required would be affected, and

34.2 The cost could be sheeted home to the parties that benefit from it, thus making it more likely that what amounts to a decision to effectively split existing ICPs is an efficient one.

Concluding remarks

- 35 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 please contact Bruce Rogers (Pricing Manager), DDI 03 363 9870, email bruce.rogers@oriongroup.co.nz.

Yours sincerely



Rob Jamieson
Chief Executive

Appendix: Responses to specific questions

Submitter: Orion New Zealand

| Number | Question | Response |
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| Q1. | How material are the constraints to consumers establishing multiple trading relationships at a single connection identified above? | <p>This question and the next are clearly, because of the reference to Australian regulatory activity, within the context of multiple trading relationships (MTR) being conceived as divvying up the traders’ responsibilities at an ICP, and we answer them in that context. As we note elsewhere in our submission, the paper is not always clear about what conception of multiple trading relationships it is using at various points.</p> <p>This question can be interpreted in at least two ways:</p> <ul style="list-style-type: none"> • How material are the costs to change market and participant systems to support multiple trading relationships? In this case the answer is, we suspect, very material indeed. Moreover, the costs will be socialised. • How material are the costs and other barriers to multiple traders partnering to offer solutions to consumers at a single connection? In this case we would judge the costs and barriers are both relatively low, and borne only by the parties to the arrangement. |
| Q2. | Are there other constraints that prevent multiple trading relationships from efficiently occurring? If so, please describe them. | <p>“Efficiently” is probably not the word, but the Code does not currently accommodate multiple reconciliation participants at an ICP, at least in a technical sense. On the other hand there appears to be no constraint on parties entering into commercial arrangements that effectively allow multiple parties to achieve an equivalent outcome.</p> |
| Q3. | What do you consider to be the benefits of multiple trading relationships? | <p>Where MTR is defined as being with respect to sale and purchase of energy as metered at the point of connection we see few benefits, but in any case there are no obvious barriers to intermediation.</p> <p>Where it is about consumers choosing multiple service providers <i>behind the meter</i>, we suspect competitive activity will uncover any available benefits.</p> |
| Q4. | What other services could be enabled by reducing or removing the barriers to multiple trading relationships? | <p>We cannot say what services - that we are not currently aware of - might in future be offered to customers. What we can say is that:</p> <ul style="list-style-type: none"> • to the extent it does not interfere with reconciliation relationships, there appear to be few barriers beyond the potential problems created for some |

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| | | <p>types of service by the apparent difficulty accessing some metered consumption information, and</p> <ul style="list-style-type: none"> to the extent that the service does require or imply multiple reconciliation participants, it is unclear that commercial arrangements cannot be put in place to facilitate this within the existing Code. |
| Q5. | What changes, if any would be needed to the switching and disconnection/reconnection processes if a consumer were able to have multiple retailers? | If MTR is to be actively supported and enabled by the Code for all connections (as opposed to being permitted) then we consider that the changes would be fundamental and much wider than switching and connection services. We suspect very significant system and process changes would be required for all participants and service providers. |
| Q6. | What other data exchange processes that have not been identified in this paper need to be changed to accommodate multiple trading relationships? | Data exchange is just one aspect, and perhaps a relatively unimportant one. |
| Q7. | How could the data exchange processes be modified to accommodate multiple trading relationships? | A more relevant question is: "At what cost would such processes be modified to accommodate this?" |
| Q8. | What other services, if any, would have to share costs between multiple users? | It should be noted that it is not just about cost sharing. Overall costs will increase. |
| Q9. | How could the cost of these services be shared amongst multiple users? | In any number of ways. If it is to be service-based and cost-reflective, consumers that do not want MTR should not bear any additional costs. |
| 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? | Probably, although we need to be careful about what data we are talking about. We think this question needs significant specific attention. |
| 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? | We are not sure that it is currently difficult to access this information, so presumably the value is able to be realised. |
| Q12. | Are there other industry participants that may need to amend their systems to operate in an environment with multiple trading relationships? | Other than ALL participants, no. Non-participants, such as third-party service providers, may also need to change their systems and processes. |

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| Q13. | What are the costs of the above changes recognised in questions 10-13? | <p>With respect to improved access to consumption information we are not in a place to comment.</p> <p>With respect to enabling multiple reconciliation participants at ICP, we believe the costs could be very significant.</p> |
| Q14. | What other obligations need to change if multiple traders can serve an ICP? | <p>We are not sure about obligations, but the implications of such a change would be profound. See the comment in the body of this submission about the difficulties of physical disconnection when there are multiple reconciliation participants at an ICP.</p> |
| Q15. | How could the obligations discussed above be amended to accommodate multiple traders at an ICP? | <p>These specific obligations are, in our view, only a relatively narrow subset of the problem.</p> |
| Q16. | What costs would be involved in amending consumer-related responsibilities to accommodate multiple traders at an ICP? | <p>Whatever the costs are they are likely to be relatively small compared to the costs of the wider changes necessary.</p> |
| 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? | <p>Assuming this is the “multiple reconciliation participants at an ICP” form of MTR, we consider that the required amendments to the Code and associated participant systems and processes would be considerable and profound.</p> |
| Q18. | What is the cost of the changes needed to enable multiple trading relationships? | <p>Assuming this is the “multiple reconciliation participants at an ICP” form of MTR, we consider the costs could easily run into the many tens of millions of dollars. We suspect most of these costs would be socialised in that all consumers would pay them regardless of whether they actually benefit from MTR.</p> |