

02 June 2015

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RAG – Secondary networks review

1. Vector provides the following feedback to the Retail Advisory Group (RAG) on its paper *Review of Secondary Networks – issues and options paper* (the paper), dated 21 April 2015. No part of this submission is confidential.
2. Vector's contact person for this submission is:
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3. As the RAG notes, secondary networks can include malls, apartment buildings, retirement villages and residential subdivisions. Vector has experienced steady growth of secondary networks on its network which is not surprising given the sustained momentum of "greenfield" subdivision developments in the Auckland region.
4. Secondary networks can have hundreds of ICP connections, which suggests any risk not addressed now may worsen as the number of consumers on embedded networks could potentially rise (rather than fall).
5. Therefore, Vector supports the RAG's work to explore the issues around secondary networks and its efforts to make suitable proposals. We support the proposal to clarify Electricity Industry Participation Code 2010 (Code) requirements around network conversions, and amending the Secondary Network Guidelines to clarify responsibilities for managing faults – whilst retaining flexibility.
6. However, Vector does not agree that the RAG has established a compelling case for regulatory intervention in commercial arrangements. The RAG states that retailers are discouraged from supplying consumers on embedded networks because of "high transaction costs". It thereby proposes a default use-of-systems-agreement (UoSA) for parties to "fall back" on if they fail to successfully negotiate a UoSA within 2 months.

7. The paper does not mention the existing safeguards to help facilitate a successful UoSA negotiation. That is, the Code (which requires parties to negotiate in good faith) provides for mediation if parties cannot agree on terms and conditions. We recommend the RAG investigate how often these safeguards have been invoked, and how helpful the current framework has been to resolve disagreements. Vector believes such analysis needs to be done before casting the current framework aside and proceeding further with this proposal.
8. Regulatory intervention should be applied conservatively, and only when there are clear issues or risks that *cannot* be mitigated through existing or alternative means. A high threshold should be applied before imposing intrusive prescriptive arrangements. In our view, the fact that “some retailers consider the cost of negotiating a UoSA for each embedded network owner is too high” does not present clear or compelling evidence for a regulator to intervene in commercial negotiations. Regulatory intervention should only be employed where benefits are certain, and there is real evidence that a problem exists. Further, the RAG acknowledges an ongoing up-ward trend of embedded networks – this indicates any supposed “barrier” to becoming an embedded network may be minimal. Therefore, we are not convinced regulatory intervention is justified.

Yours sincerely

For and On Behalf of Vector Limited

A handwritten signature in blue ink, appearing to read 'Richard Sharp', with a stylized flourish at the end.

Richard Sharp
Head of Regulatory