



February 2014

Electricity Authority
Wellington

SUBMISSION FROM ELECTRA TRUST ON RETAIL DATA PROJECT

Introduction

The Electra Trust congratulates the Electricity Authority on proposals to introduce changes to retail pricing and tariffs to allow power consumers to make informed choices.

It fits directly into the Authority's s.111 objective for the "efficient operation of the electricity industry for the long term benefit of consumers."

The processes the Authority are working through are not just about improving competitiveness in the market but should be designed to restore consumer trust in the market.

It is also about the Authority building consumer faith in the ability of the Authority itself to provide a transparent playing field for consumers against which they can make informed power usage decisions.

While this submission deals principally with the retail data paper, it is inextricably linked to the Authority's continuing discussion papers on Transparency of Billing and Distribution Pricing.

The Electra Trust notes that all these discussion paper are grouped in a tight timeframe – presumably to ensure the Electricity Authority will be in a position to make recommendations to an incoming government.

We ask the Authority to understand that this timeframe puts considerable pressure on submitters like us who do not have the sort of resources readily available to large organisation like the Electricity Authority.

Accordingly, this submission does not respond directly to all parts of the discussion paper but seeks to provide a strong flavour from outside Wellington.

Comment

The Electra Trust notes with concern that Authority discussion papers tend to look at issues from an industry perspective – and are not directly geared to the primary objective of “the long term benefits of consumers”.

The Authority says it seeks comment on its papers from all quarters, and has undertaken public surveys, but there is no targeted effort to find out what the people who pay the bills think or want.

Ironically, the Authority itself is clearly aware in 2.2.1 that “most consumers are still not motivated to spend much time investigating their energy options” but those surveys it has undertaken, and listed in 2.2.2, are principally about measuring power switching trends.

The Electra Trust’s view is that the work of the Authority (and the Commerce Commission) is so cluttered with complex detail and arcane policy descriptors that consumers have little incentive to be motivated.

How much more effective it would be if the Authority thoroughly researched why consumers are not motivated before launching into detailed discussion papers which are not geared to consumers but more to the industry.

Discussions papers are written at such a high level that it’s as if the regulator is only interested in talking to the industry rather than reaching out to engage in easily-understandable language to those who have to live with the pricing consequences.

Recommendation: A complete overhaul of how the Authority communicates with the public would be a useful start in (a) encouraging consumer engagement with the policy-makers, and (b) building credibility and trust.

In fairness progress has been made by the Authority in encouraging consumers to switch retailers for best prices with a lowering effect on power bills - but this simply proves the case that consumers are being over-charged.

The consequences of years of over-charging by the retailers are now becoming apparent with trend towards diminishing power demand as consumers actively look for, and move to, alternatives.

The Electra Trust feels that until public trust is won back for justifiable and transparent power pricing, those who are looking for alternative options will increase as the costs of those options keep on coming down.

In effect, the high-priced retail industry is slowly cutting its own throat and dragging down the rest of the industry with it.

Retail Data Review

This is a critical opportunity for the Authority.

Data access should be designed to empower consumers to (a) understand what it is they are paying for, (b) provide transparent information to guide choice, and (c) provide the basic tools to analyse the advantages/disadvantages of those choices.

To achieve this the monopoly elements must be separated from the competitive elements and new information frameworks designed which first-and-foremost are designed to satisfy the needs of consumers and exercise choice.

Unlike the electricity distributors who are forced by compliance and disclosure regulations to jump through hoops to demonstrate efficiency and cost-effectiveness, the retail industry is allowed a measure of secrecy which is at the root cause of consumer distrust.

As an example the distribution sector has tried many times to seek full disclosure of costs on consumer power bills by the three key sectors, transmission, distribution, and retail, so that consumers can judge where costs lie*, particularly when power charges go up. The retail industry has consistently refused.

(* An Electra cost breakdown of power bills in its Kapiti-Horowhenua distribution area of 1,400 square kilometres and 42,800 consumers puts Transpower at 8 percent, Electra distribution after discount at 21 percent, and the retailers at 71 percent).

Recommendation: That as a starting point for effectively meeting the Authority's objective of allowing consumers "to make informed choices", and to build trust in the industry, full disclosure of costs is required on consumer power bills.

It is a major concern to the Electra Trust that the Authority appears to have made no attempt to first find out through research what consumers actually want and may be seen to have designed the retail data review from the point of view of the industry.

There is no evidence that such research will be undertaken to guide the Authority before the results of its review are published.

The Authority has just one crack at getting this right. If it fails then the chances of using the outcomes of its three reviews to build consumer trust may be compromised.

Recommendation: That the Authority directly involve consumers in the preparation of discussion papers which affect them to ensure that those who pay the bills actually have a voice. (The Authority has done this for Transparency of Pricing and we urge similar research for the Retail Data project)

The Authority will have noted efforts by the retail industry over the last six months to publicly downplay, in magazine and news articles and in submissions to the Government, the effect of its own cost structures and pricing mechanisms on consumer pricing.

Indeed, there has been an aggressive campaign of misinformation spearheaded by Infratil which blatantly stated in its "September Update" that: "Since 1990 it is clear that the largest cost increase has been from line charges".

The reality is that lines companies* are the most efficient and cost-effective part of the electricity industry and it is time that was recognised.

(*Electra, as a typical mid-sized lines company, has increased distribution costs by only 6.6 percent over the rate of inflation over the entire last 13 years and regularly achieves one of the country's top SAIDI and SAIFI ratings)

The Authority will also have noted the recent newspaper articles (Chalkie, Tim Hunter, Brian Leyland, and the Sapere Research Group) which basically say the retail market has failed to explain or justify its pricing.

The Authority, which has all the facts, will know what is really going on.

The Electra Trust puts its faith in the Authority's independence to ensure that those parts of the electricity industry which demonstrably perform in the best interests of consumers should not be put at risk by misinformation.

Currently consumers are a captive audience in the sense that they are forced to pay what the retail market demands with few avenues for challenging current pricing practices and no recourse to appeals.

By contrast the lines distribution companies are directly accountable to their consumers and must provide full information disclosure. (Note: The cost of compliance and information disclosure by the Electra Trust to the Electricity Authority and Commerce Commission is running at an unjustifiable \$400,000-a-year).

The same level of disclosure and compliance is not required from retailers who also receive extensive tax benefits if overseas ownership is involved.

Surely transparency should apply across the board if consumer trust is to be restored in the industry.

Recommendation: That before the Authority completes its findings on the discussion papers it surveys consumer opinion on the final options it comes up with to ensure it is meeting its own objective of s.111.

Given the high level of public distrust in the retail pricing systems the Authority would be entirely justified in considering how best to protect the public interest.

The Electra Trust accepts that in the commercial world there are retail trading and competitive factors which need to be protected – but not at the direct expense of their consumers who have no means of challenging the outcomes.

Regrettably, the retail industry has reached the stage where consumers no longer believe they are getting value for money and distrust is now a serious issue with no readily-apparent mechanism for healing the breach.

Almost a decade ago the banking industry – just as commercially sensitive as the electricity industry - found itself in much the same position with consumers demanding answers on pricing and banking practices.

If banking can agree to the solution which has taken much of the heat out of consumer criticism (a Banking Ombudsman), so can the electricity industry.

Recommendation: That a Retail Regulatory Tribunal be established to provide an independent overview of retail electricity pricing and have the power to deal with inappropriate market behaviour by retailers.

This would complement the work of the existing Complaints Commissioner by building some teeth into the monitoring framework for the benefit of consumers.

One of the objectives of a Tribunal would be to clearly establish the quantum of prices on monopolies and competitive elements in a form easily understood by consumers.

Summary

There is a huge opportunity for the Electricity Authority to bring greater transparency into the electricity market and to win public support for making a real effort to meet its own primary objective for “the efficient operation of the electricity industry for the long term benefit of consumers”.

It would be a tragedy if consumers end up seeing no significant benefit for them.

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