



ENERGY TRUSTS OF NEW ZEALAND INC.

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25 February 2014

Retail Advisory Group
Electricity Authority
Wellington

Re : Issues Paper – Retail Data Project

Please see attached ETNZ submission on the above paper.

Yours faithfully

A handwritten signature in black ink, appearing to read 'K Sherry', is written over a horizontal dotted line.

Karen Sherry
Chair



ENERGY TRUSTS OF NEW ZEALAND INC.

Introduction – where are we coming from?

The Energy Trusts of New Zealand Inc, (ETNZ) is the national organisation for 22 energy trusts, the majority of whom own shares in companies that operate electricity networks (lines businesses).

Consumer ownership allows local businesses, industry and individuals to have input via the ETNZ on broad electricity industry issues, like the best way for the Electricity Authority (EA) to provide a transparent pricing information for consumers, which they can use to make informed power supply and usage decisions and compare the offerings of power suppliers.

While this submission deals principally with the retail data paper¹, in our view, because of the way retail data affects consumers and their decisions, this issue is inextricably linked to the EA's work programme on Transparency of Billing² and Distribution Pricing³ and the ongoing work on transmission pricing⁴.

This ETNZ submission focuses on parts of the retail data discussion paper it sees as important from the consumer viewpoint.

Basics – what is the concern?

The EA is charged with “promoting competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.”⁵

As trusts representing consumers we can provide appropriate comment on EA's issue paper. This will assist the Authority to understand what information the people who pay the bills think or want alongside other sources such as public surveys. Of course, the EA is already aware (at 2.2.1) that “most consumers are still not motivated to spend much time investigating their energy options.”

We strongly endorse this view. Busy people cannot waste time with ponderous and complicated searches to ferret out, and compare detailed pricing information as it would apply to their individual circumstances. The required material needs to be readily to hand and easily understood.

Moreover, we suggest consumers are not interested in switching for its own sake; they are trying to get the best deal they can, without making a meal out of it.

So the EA surveys (listed at 2.2.2) which are principally about measuring power supplier switching trends, do not assist in understanding fundamental consumer wants, nor in getting to grips with the realities of their perception of the situation. Better, more authoritative and more easily accessed information about pricing and its drivers would assist.

¹ EA (2014) *Retail data project: Issues paper*. 27 January 2014.

² EA RAG (2013) *Improving transparency of consumers' electricity charges: issues and options paper*.

³ Castalia Strategic Advisors, (2013) *Review of Electricity Distribution Businesses' 2013 Pricing Methodologies*

⁴ EA (2014) *TPM: Beneficiaries pay working paper*.

⁵ EA website

Pricing and Competition

Progress has been made by the Authority in encouraging consumers to switch retailers for best prices. The result has been a lowering effect on power bills⁶ - but the continual need to have to interfere in the market to make it workable, shows that consumers feel over-charged. Consumers, therefore, actively look for, and move to, alternatives. These include options outside the conventional, such as consumer-owned solar.

Public trust and a working effective market depend on justifiable and transparent retail power pricing.

Retail Data Review

This (combined with the Transparency of Pricing Review) is a critical opportunity for the EA to improve the market's workings. Recent research from the Sapere Research Group⁷ highlighted the need for clearer data on electricity pricing.

Their work shows there is a lack of understanding around the relationship between wholesale prices, retail charges and other costs as well as a lack of transparency around the retail margins of vertically integrated generator-retailers.

To achieve transparency and clarity for consumers, the monopoly elements of the bill must be separated from the competitive elements, and new information frameworks designed which first-and-foremost are designed to satisfy the needs of consumers to have sufficient information to make valid comparisons of supplier offerings.

Unlike the electricity distributors who are tightly regulated with requirements about data disclosure, the generation/retail industry is allowed to present, or withhold information in forms it picks and chooses.

As an example the electricity distribution sector has sought 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. Except in a few instances, for example the 2012 "Break our Bill Campaign" by Top Energy Consumer Trust, the retail industry has consistently refused to assist.

In that campaign, which was a success with respect to Meridian's accounts, the Trust wrote an open letter to the CEO of the Electricity Authority, Carl Hansen, asking the EA to look at making it compulsory for electricity retailers to break down the cost structure of charges in bills in a way that was easily understood by electricity bill payers. In particular, it said, lines or network charges should be separated from the cost of generation and the retailers' own operating costs and profit margins.

⁶ See the review: *What's my number: a changing landscape for NZ electricity consumers*, EA.

⁷ Sapere Research Group (2014) *Achieving policy goals for the electricity industry*

At that time Top Energy Consumer Trust said “We want consumers to be able to identify what the drivers of price increases are, and where these increases are coming from.”

Consumer trust

The ETNZ wants to assist the EA in its difficult task of improving the working of the industry and the electricity market for consumers. The Authority will have noted recent media attention which basically says the retail market has failed to explain or justify its pricing. Recent research by the EA has usefully given a background to the evolution of costs and prices over a longer time period.

ETNZ believes transparency of information availability should apply across the board, including to the generators and the retailers if consumer trust is to be restored in the industry.

Recommendations:

- 1. That to contribute to the EA’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 as well as within any data portals.**
- 2. That the EA should ensure that data access by consumers is simple and designed to empower consumers to:**
 - (a) understand what it is they are paying for,**
 - (b) provide transparent information to allow valid comparison of supplier offerings, and**
 - (c) provide the basic tools to analyse the advantages/disadvantages of their available choices.**

Karen Sherry
Chairperson
ETNZ
25 February 2014