

Submission on the Retail Data Project

Prepared by Energy Link

for

The Electricity Authority



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1 Introduction

This paper is submitted in response to the Authority's Consultation paper *Retail data project, Issues Paper*, 28 January 2014.

We welcome the opportunity to make this submission and to contribute to the debate over retail data. Questions on this submission can be directed to Greg Sise, Managing Director, Energy Link Ltd, at 03 477 3572 or greg.sise@energylink.co.nz.

2 Summary

The Authority believes there is incomplete data available to consumers in respect of their consumption data, and their pricing plan alternatives, that this prevents them from making informed choices, and helps to create negative perceptions about the level of competition in the electricity market.

The Authority proposes that building large, complex databases containing all pricing plans from all retailers for all consumers would solve these problems by allowing approved agents to access these databases and assist consumers to choose between retailers and pricing plans.

While aspects of the proposals make sense to us, we believe that a pricing plan database fails to address the key issue, which is the excessive complexity in pricing plans. In a competitive market, retailers have incentives to offer simple pricing plans which allow mass market residential and SME consumers to make choices without recourse to complex analytical tools or complex databases. Or, to put it another way, overly complex pricing plans act as barriers to switching. Distributors have their own good reasons for constructing tariff structures that reflect the cost of providing line services in their respective network areas but in doing so, they add complexity to retail pricing plans, the indirect costs of which exceed any benefits in providing pricing signals to consumers. This is an issue that has plagued retailers, consumers, their consultants and agents alike for years, and it is long past time it was addressed.

Ideally, for mass market consumers, distributors would choose between a small set of simple, standardised tariff structures in which they would be free to set their own prices according to their own costs of providing line services. Thus the tariff structures would be common across the country, even though prices would vary from one region to the next.

If this cannot be achieved, then the next best alternative is to require all retailers to transparently separate line charges from energy charges on all invoices.

We support providing approved agents with access to the Registry as this already contains information that assists in identifying ICPs and some of their attributes relevant to pricing decisions.

We agree that it is important for the independent regulator, government, industry and interested parties to have good information about pricing. However, we also believe the current set of pricing indices published by MBIE could be extended to be more than adequate for this purpose, as opposed to collecting consumption data on a large centralised database.

We also find that retailers are increasingly willing to provide a small set of data about ICPs on request, subject to proving authority by the client, so it would be a simple matter for the Authority to build this requirement into the Code. We believe this would be a better solution than the Authority's proposal as it would be cheaper to implement; it would build on the consumer-retailer relationship; and it would not introduce additional transaction costs that would arise if the Authority were effectively a third party to switching transactions.

The perceptions of the retail electricity market are not as good as they could be, but no amount of retailer switching is going to change those perceptions as long as mass market retail prices (especially residential) keep climbing faster than the rate of inflation. In our opinion, consumers would be better served if the Authority focused on reducing barriers to entry of new pure retailers into the market: due to high risks, limited contracting options, and slim margins, electricity retailing is still not a particularly attractive business proposition. But it is new retailers that have the strongest incentives to find innovative ways of reducing the non-energy costs of retailing and delivering lower prices. Simplifying and standardising line tariffs, as recommended above, would also help new retailers by lowering the cost of entry.

For the work that we undertake as a company, ensuring access to consumption data and reducing the complexity of pricing plans would reduce costs. But we would be concerned if the Authority became the third party provider of consumption and pricing plan data as this would have the potential to:

- blur the lines of responsibility for provision of data;
- create liabilities for the Authority in providing pricing plan information;
- create latency and currency issues in a pricing plan database as prices can change daily;
- fall short of being able to identify all pricing plans applicable to any particular ICP (due to the large, and possibly expanding, number of ICP attributes required to establish eligibility);
- fail to handle more complex pricing plans such as those which exclude local losses, include spot pricing, or require the advanced features of AMI;
- create privacy issues and increase the risk of breaches of privacy.

We would be concerned that the database could slow down retailers' responses to pricing requests if every response to every request has to involve an update to the Authority's pricing plan database. It could also reduce choice because retailers might feel they cannot offer one-off or "exclusive" pricing as it would have to appear on the Authority's pricing plan database. As a non-commercial participant in the retail market, the Authority has no financial incentives to be efficient or to respond to the market, so the requirement to populate databases could act as a drag on retail sector and add transaction costs. We would prefer the Authority to allow the existing players to implement solutions more or less within their existing processes and systems.

3 Responses to Questions

Q1. Do you agree that there is incomplete data about retail costs and prices?

Yes, we agree.

In a market as large and diverse as electricity there will never be up-to-date and complete information available to all parties at all times.

Q2. Do you agree that the consequences of incomplete data include inefficient decisions and reduced confidence in retail competition?

No, we do not agree.

The question that should be considered, we believe, is whether the information is reasonably sufficient to support a workably competitive retail market. Providing complete data may come at a high cost due to the quantity of data and its complexity, which could outweigh the benefits of the additional information.

Q3. Do you agree that there is incomplete information about retail tariffs?

No, we do not agree.

The Authority may be confusing a lack of complete information with a lack of motivation to shop around. Without for one second downplaying the need to ensure that electricity is delivered at a fair price, we're sure that many consumers have higher priorities than saving the last \$100 on their electricity bill. We can also think of a dozen different areas of their spending where they may not shop around exhaustively to save the last few dollars.

Consumers are also concerned about the costs and risks of switching retailer: will the new retailer provide service at the same level as their current retailer? And if they switch, how long will the benefit last? In a few months will another retailer have a better offer?

In addition, pricing plan information may only become available when a consumer requests it – we see this all the time. Large businesses, including those with many small sites, often go to market for pricing and we know from our experience that in many cases the pricing proposals vary constantly depending on many factors, some of which are known only to retailers, e.g. their hedging position and internal costs. Prices can vary daily in some cases.

Q4. Do you agree that there is incomplete information about consumption data?

No, we do not agree.

Consumption and cost data arrive on every invoice, just as they do for a range of other products. Although errors on invoices do occur, in principle there is complete data available to consumers.

The issue for most consumers is that they do not systematically collect and store this information in a form that is readily accessible, should they wish to make use of it for the purposes of comparing offers from other retailers¹. Furthermore, they may lack the knowledge or skills to make the comparison if the pricing plans available to them are overly complex. There are many ways around this that don't require building a large database of ICP consumption, for example the approach used by Powerswitch which allows the consumer to enter their consumption for a period much shorter than one year, e.g. from the last invoice received, or makes an estimate of consumption based on the consumer's lifestyle.

Retailers, of course, already hold this information and we find them increasingly willing to supply data on request.

Q5. Do you agree that these issues inhibit effective decision-making by consumers?

No, we do not agree.

If there is a problem, then it is not with the information that is available, but with the complexity of the information and the motivation to make use of it. In a competitive mass market², suppliers generally try to make their pricing simple to understand, so as to reduce barriers to switching from the incumbent retailer. Put simply, if an offer for a product is overly complex then this may deter consumers from accepting it due to uncertainties in any comparative analysis they undertake. Or the consumer may simply choose not to attempt the analysis due to the perceived cost (in time, for example). Unfortunately in electricity, pricing plans are made more complex than necessary because they encompass significant components from non-competitive sectors, by which we mean line charges covering transmission and distribution.

Q6. Do you agree that the perception of the electricity retail market as competitive is important for the efficient operation of the electricity industry?

Yes, we agree.

Q7. Do you consider that the various survey findings on perception of competitiveness in the retail energy market align with reality? Please describe your understanding of current perceptions of retail competition.

Yes, we agree.

¹ In many cases historical consumption data can be downloaded from their retailers' web site.

² As opposed to a market consisting of highly sophisticated and well-resourced consumers such as large SMEs and large business.

Our perception is that while prices were rising inexorably, it was hard for consumers to have anything but negative perceptions of competition. After all, wasn't competition supposed to deliver lower prices? The fact that prices did fall initially through to 2000, and that there are many reasons why underlying costs of supply have increased since then, is irrelevant to most people while their electricity spend continues to rise.

Ultimately, consumers won't believe there is real competition until they see that prices can go down as well as up, even if only in real terms. We acknowledge that electricity is not like many other products, ICT for example; constant, dramatic improvements in technology are not driving deflation³, so the unique set of characteristics of electricity⁴ need to be kept in mind when analysing price movements. However, even during a general upward trend in prices, it would be reasonable to expect that there would be periods when prices would actually go down in nominal or real terms, for example when a widening gap between supply and demand has driven wholesale prices down, as has happened since the GFC.

Many larger SMEs and larger businesses have seen prices fall in nominal terms in the last two or three years. Unfortunately for residential consumers, who tend to be relatively low volume at low voltage, the per-unit proportion of non-energy costs in the total delivered energy prices is greater than for larger consumers, and these costs have risen faster than the rate of inflation in the last decade. Due to the high degree of risk inherent in being a pure retailer, this sector has not seen the same rate of new entry as in generation, so there is not the same level of competitive tension and innovation in the retail sector that would help to drive retailers' non-energy costs down. As a result, residential consumers have not seen the same benefits from competition and lower wholesale prices, as have larger consumers.

Q8. Do you agree with the objectives of part 1?

Yes, we agree.

Q9. What comments do you have on the Authority's preliminary thinking on how to achieve the objectives of part 1?

We believe the Authority is proposing to collect more data than is really necessary, and that a better approach would be to extend the set of data collected by MBIE.

Q10. Are there alternative approaches that you would like the Authority to consider in part 1?

In principle, the annual sales survey provides an aggregate annual figure for the average price in each sector, to a high level of granularity. Currently we are awaiting the data

³ Relative to a given performance benchmark.

⁴ These include lack of economic storage options (instantaneous supply and delivery), reliance on large and expensive engineering works and assets, the high level of qualifications and skills required of personnel in the sector.

for the March 2012 year which is delayed, we understand, due to the discovery of problems in the data that was previously collected.

The QSDEP is certainly useful, but as we saw recently⁵ it needs to be done in a way that ensures that new developments are captured. The annual residential and small business electricity survey already provides data for three sizes each of domestic and small commercial consumer.

It would be desirable for MBIE to make some improvements to the pricing data they already prepare to ensure it is accurate and timely, and that it covers a wider range of consumers than it does now.

In respect of the performance of the retail market, it is desirable to compare the all-up annual cost for a consumer on a particular pricing plan against the underlying costs, which includes wholesale energy cost, line charges, GST and the retailer's non-energy costs⁶: this allows the retailer's margin to be calculated. In our experience, the most difficult task is estimating the retailer's non-energy costs per customer as these vary with internal factors and with scale. Trustpower now discloses the average cost to serve in its annual reports, and it can be calculated relatively easily from Contact Energy's annual disclosures, but these are exceptions and for the most part the cost-to-serve area remains somewhat opaque. We suggest the Authority considers how cost-to-serve data could be disclosed in a more systematic and consistent manner, at least for the major retailers, as we believe having better data in this area would be a major step forward.

Q11. Do you agree with the objectives of part 2?

Yes, we agree.

Q12. What comments do you have on the Authority's preliminary thinking on how to achieve the objectives of part 2?

Providing access to data in the Registry is something that we have wanted for years, as it holds essential data for each ICP and it is stored in a consistent format. Such access would allow approved agents to quickly ascertain the key characteristics of a particular ICP (such as network location, capacity, metering channels and network tariffs) and help to determine the range of price plans for which the ICP has eligibility.

However, building a database of every pricing plan available to every ICP would be an enormously complex and expensive undertaking which would ultimately fail to address the more fundamental issue of overly complex pricing plans.

We would also be concerned if the Authority became the third party provider of consumption and pricing plan data, as this would increase the complexity and risk of the interactions required in managing an energy portfolio; for example, what if there is a problem in one of the Authority's databases?

⁵ Plan changes by Contact Energy in 2011 were not factored into the QSDEP until late last year.

⁶ Also known as 'cost to serve'.

It would also turn a three-party interaction (in our case) into a four-party interaction involving client, retailer, agent and the Authority. Many other issues also spring to mind, including:

- the liability of the Authority in providing pricing plan information;
- how the database would be kept current, as retailers' pricing can sometimes change on a daily basis;
- how the Authority would ensure that any approved agent would have access to all of the pricing plans available to any particular consumer, given the potentially large number of attributes that can be required to qualify a consumer for a particular pricing plan;
- how the database would handle pricing plans which exclude local losses;
- how the database would cope with pricing plans linked to spot prices for consumers with AMI;
- how privacy would be protected.

We would also be concerned that the database could slow down retailers' responses to pricing requests if every response to every request potentially has to involve an update to the Authority's pricing plan database. It could also reduce choice because retailers might feel they cannot offer one-off pricing as it would have to appear on the Authority's pricing plan database.

As a non-commercial participant in the retail market, the Authority would have no financial incentive to be efficient or to respond to the market, so the requirement to populate databases could act as a drag on the retail switching and simply add transaction costs.

The Authority also proposes to include dual fuel pricing plans, which only adds to our alarm over the potential costs and risks of such an undertaking.

In our view, the Authority should allow the existing players to implement solutions more or less within their existing processes and systems, rather than add another party to each switching transaction.

Q13. Are there alternative approaches that you would like the Authority to consider in part 2?

Even if a consumer is motivated to switch, complex pricing plans can make this difficult, and much (if not most) of the complexity is added by line charges⁷. Distributors are motivated to provide pricing plans which they believe reflect the costs of providing line services in a pure economic sense. However, in our view, this conflicts with the need to keep pricing plans simple so that consumers can readily take advantage of the choices offered by a competitive market.

⁷ To the consumer this complexity may not be immediately obvious. For example, two ICPs supplied by the same retailer in the same area may be charged on a simple tariff structure of one fixed and one variable rate, yet the rates for the ICPs may differ because of the line charges bundled with the retailer's charges.

Ideally, distributors would provide retailers with simple pricing plans in one of a handful of prescribed pricing structures for all consumers up to a certain size. For example, for residential consumers and the majority of SMEs, pricing plans need only have a fixed and variable component⁸. This would make retail pricing so much simpler than it is now, and facilitate comparison of pricing plans more than any other measure could hope to, at lower cost.

By way of example of the unnecessary complexity of line charges, we received just last week a letter from Meridian Energy (our current retailer) in regard to the pricing plan covering the Energy Link offices. The letter advises that we now have three fixed line charges and no variable line charges, whereas previously we had two fixed line charges and two variable line charges. The new charges are expressed in c/kW/day, c/kVA/day c/day, respectively. Do we care that we have this level of detail and differentiation in our pricing plan? Will these pricing signals modify our consumption behaviour? No, and we suspect this would be the case for the majority of SME consumers like us. What concerns us is the total cost for the year, and whether changing retailer would provide a significant reduction in cost: that would be so much easier to determine if retailers could always offer simple pricing plans, e.g. with one fixed charge in c/day and one fixed charge in c/kWh, both including the corresponding line charge components.

Mass market consumers would benefit more from having simpler pricing plans, and the best way to achieve this is to ensure that distributors provide retailers with simple, standardised tariffs, along with clear and simple rules for determining which line charge any particular ICP is eligible for. Building a database of every electricity pricing plan would be the wrong solution to the problem of managing complexity in pricing plans: the better solution is to do away with the complexity.

History suggests there would be resistance from distributors to any move to mandate pricing structures, despite the obvious benefits. If this cannot be achieved, then the next-best alternative would be to require retailers to transparently separate line charges from energy pricing on all invoices.

Q14. Do you agree with the objectives of part 3?

Yes, we agree with qualifications.

Q15. What comments do you have on the Authority's preliminary thinking on how to achieve the objectives of part 3?

Retailers should provide consumers with this information upon request and are increasingly willing to do so. We do not see the need for the Authority to intervene in the relationship between supplier, customer and their agents, as long as the supplier knows they must provide a certain minimum level of information to their customers when requested (even if it is already on the customer's invoices).

⁸ The price in each component would be set by each distributor in line with their actual costs.

Q16. Are there alternative approaches that you would like the Authority to consider in part 3?

Retailers should be required to provide consumers with historical annual consumption and cost data (but no more than the last 12 months). In our experience, the following data (along with Registry data⁹) is sufficient to allow competing retailers to fully price their competing offers.

This data could be disclosed on request, or simply updated on every invoice:

- monthly consumption by register¹⁰ for the previous 12 months;
- monthly retailer cost for the previous 12 months;
- monthly network cost for the previous 12 months.

If line charges were simplified and standardised then the list of data above could shrink further for mass market consumers.

Q17. Do you have any comments on the approach to the project presented here?

We believe the Authority needs to take a step back and reconsider the nature of the problems to be solved. Ultimately, building complex and expensive databases of consumption and pricing plans does not solve the underlying issues of excessive complexity or consumers' access to data.

We doubt that a pricing plan database would be able to be kept up to date without stifling innovation and responsiveness to customer requests for pricing, for a number of reasons, but two in particular:

- pricing is changing all the time, some pricing is done on request, and this is only going to get more common on the assumption that more new retailers emerge; and
- some pricing plans are based on spot prices which are not known in advance.

We are also concerned that these proposals could lead to regulatory creep, which could add unnecessary cost to the retail sector and further stifle innovation.

Q18. Do you have any suggestions for topics or particular questions you would like addressed at industry workshops regarding this project?

No.

⁹ Essential Registry data for an ICP includes: street address, GXP/NSP, distributor, current retailer, rated capacity, meter channels and network tariff types.

¹⁰ AMI potentially introduces additional complexity here. By register we mean chargeable time zone, as opposed to a physical register. For example, a consumer may be on a smart meter pricing plan which has a time zone for summer peaks, so the aggregate consumption during the summer peak time zone would be treated as a register.

Q19. Would you be interested in providing sample data to the Authority to assist us with developing detailed options?

No.