

Retail data project: issues and next steps

Presented at Retail data project forum

27 March 2014

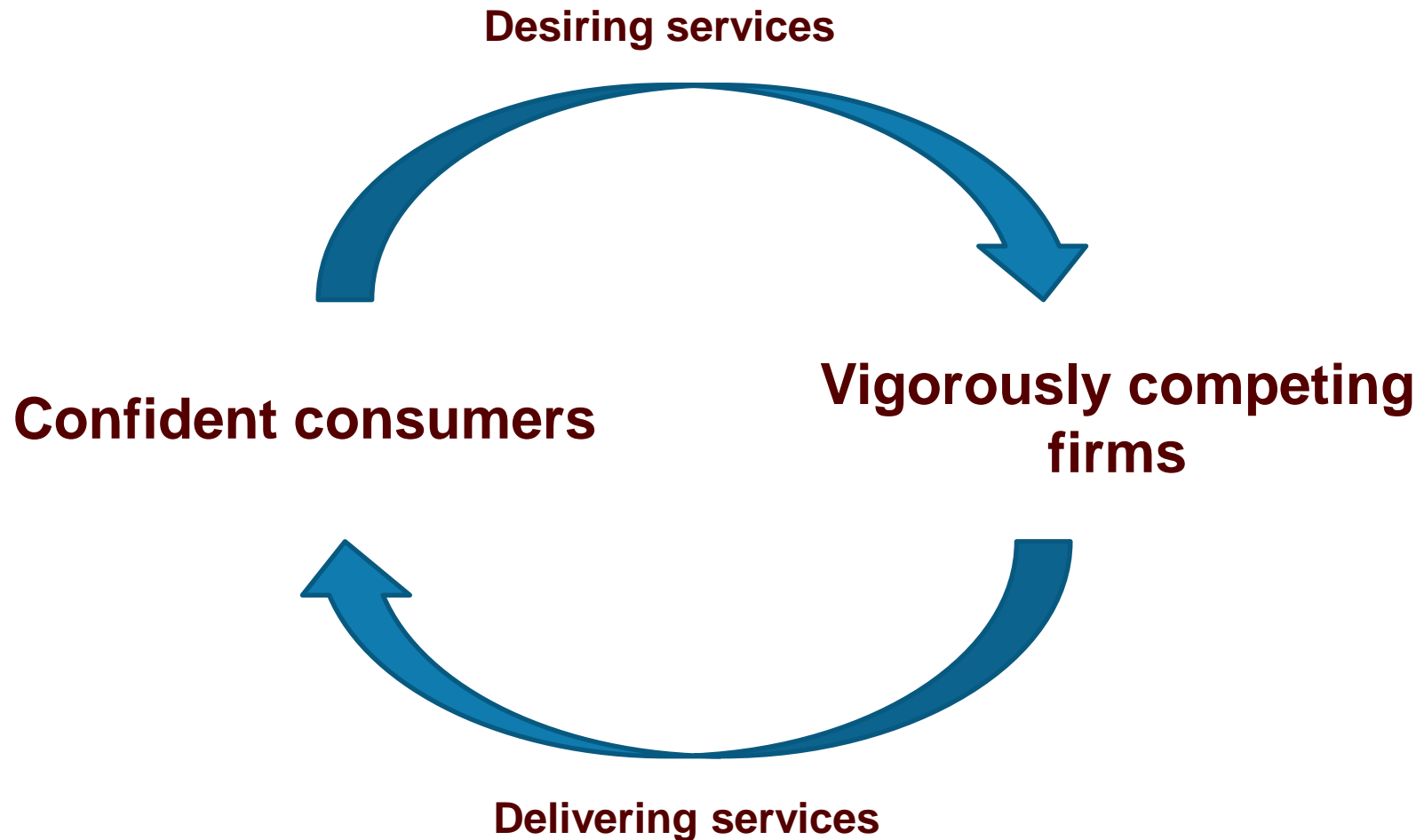
How this forum will work

- ❑ Welcome and opening remarks
- ❑ Problem definition and objectives of the project
- ❑ Presentations: MBIE, Statistics NZ and Result 9/Open data
- ❑ Next steps

What is the Retail data project?

- ❑ Engaged consumers = vigorous competition
- ❑ Better information = better decisions

The objective is to promote competition



Consumer participation is crucial to effective markets

- ❑ If consumers are not confident or participating:
 - suppliers won't vigorously compete
 - consumers won't get the benefit

- ❑ Individuals and the economy are worse off...

Three things are needed to facilitate consumer participation

- General information on the effectiveness of the retail market
- Specific information for individual consumers to make decisions
- Confident and engaged consumers efficiently interacting with suppliers

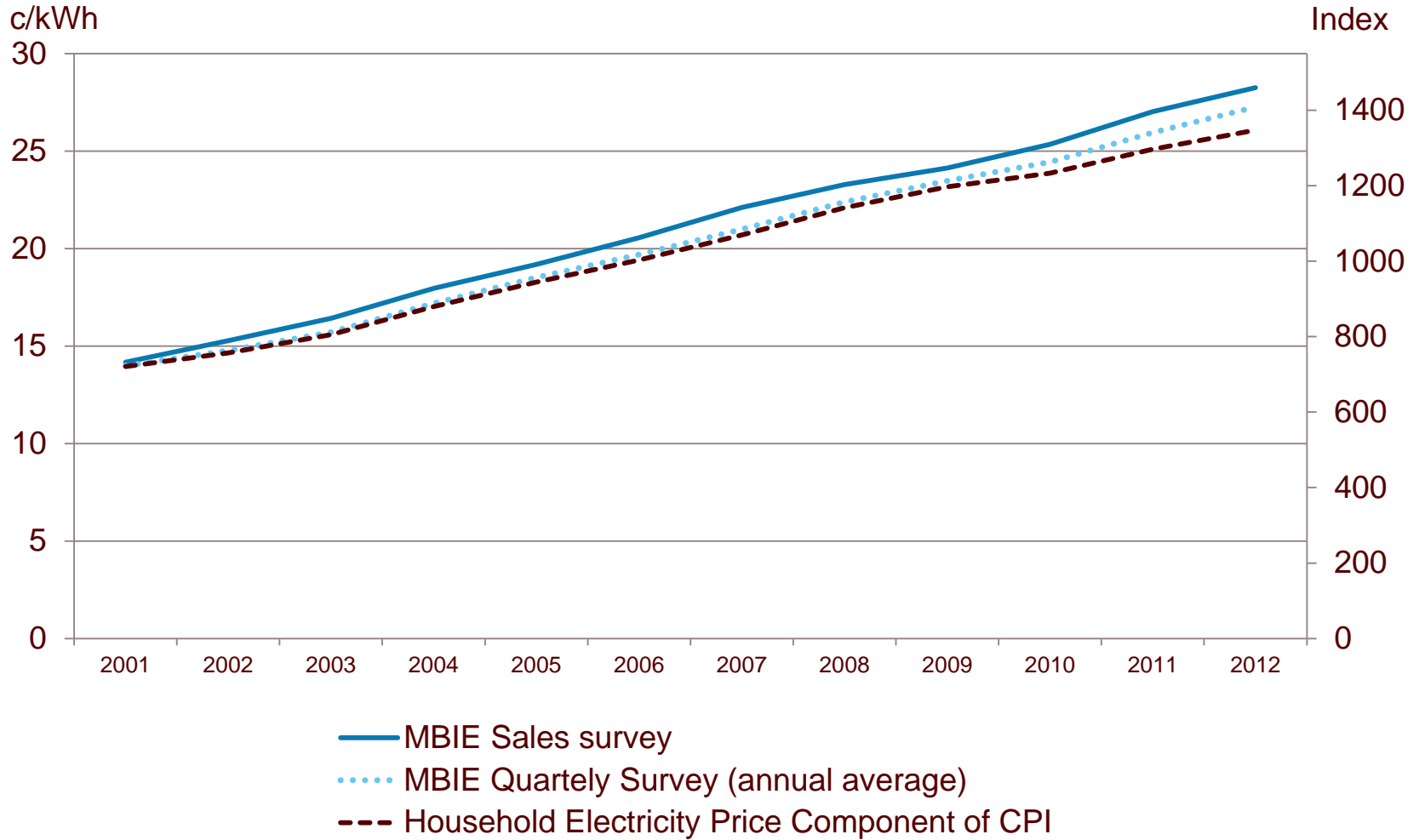
Some feedback in submissions

- ❑ EMANZ - If customers are not engaged, then competition is essentially superficial. Customers won't engage if they perceive their options to be superficial.
- ❑ CEACT - ...well informed and motivated consumers who regularly assess retailer offerings will no doubt believe the market is workably competitive; those who see current market arrangements as disadvantaging sectors of the community will believe otherwise.

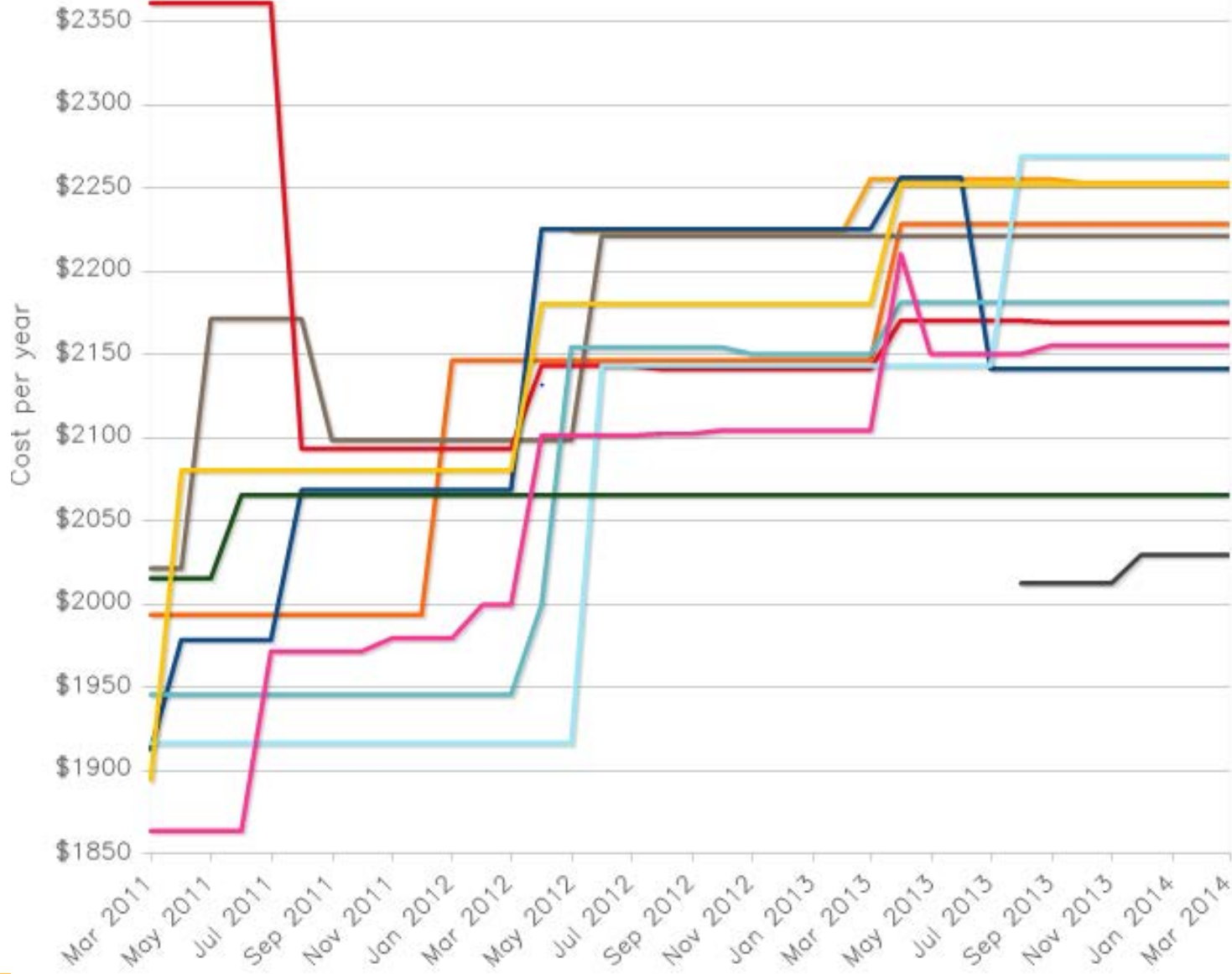
Information on the effectiveness of the retail market

- What do consumers think about?
- What are consumers being told?

Average retail prices...



Information on costs...



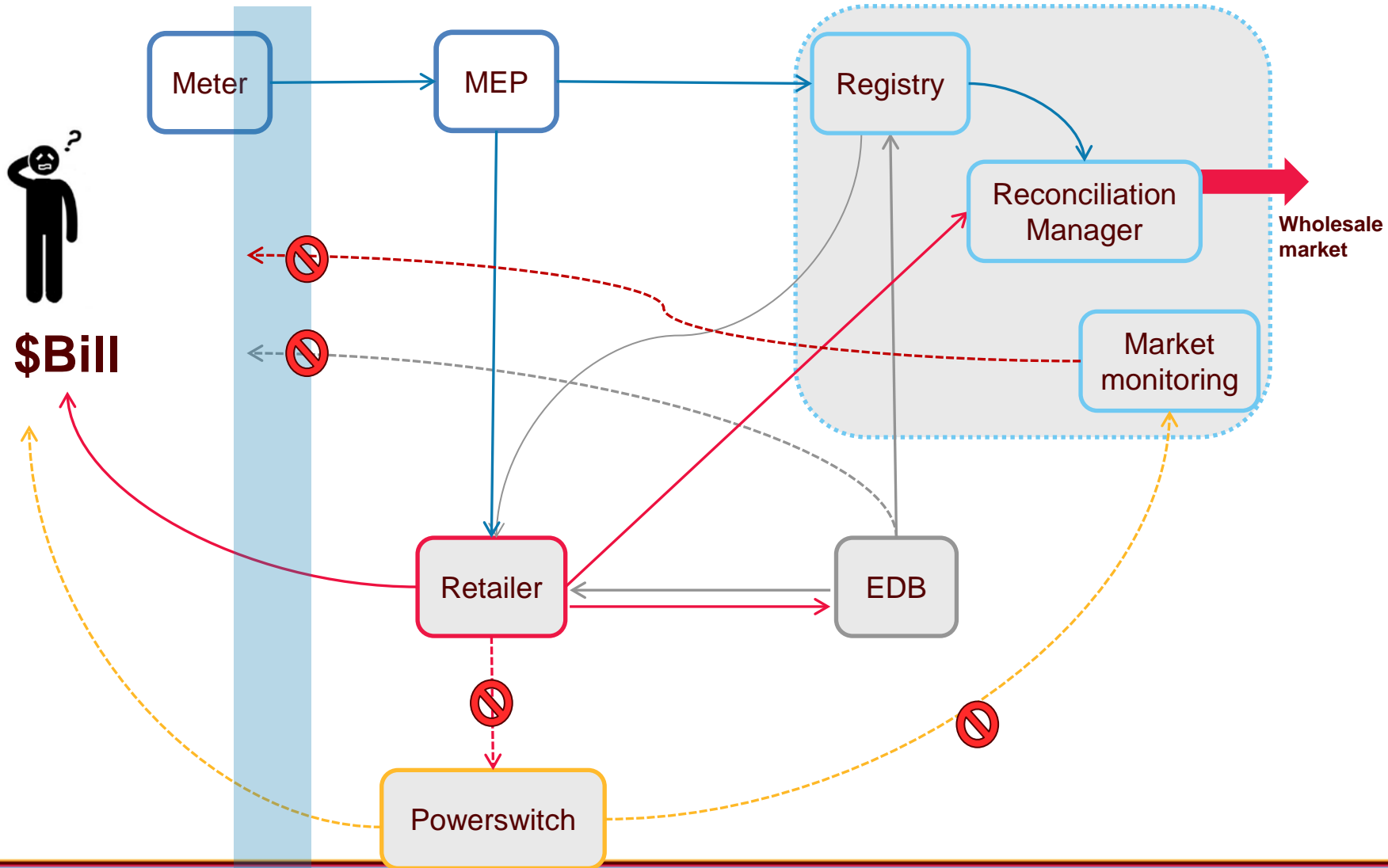
Feedback in submissions

- ❑ Major Electricity Users' Group – [the data]...either lack sufficient granularity and or are prone to substantial survey errors to undermine their usefulness by policy makers and end consumers
- ❑ Trustpower - ...the revised sales survey undertaken by MBIE should allow for accurate reporting of the average price paid for electricity across various market segments. At the very least, the Authority's problem situation should be reassessed after the first survey has been published

Information for consumers to make decisions

- ❑ Decisions about...[INSERT HERE]...require information

Information is available but...

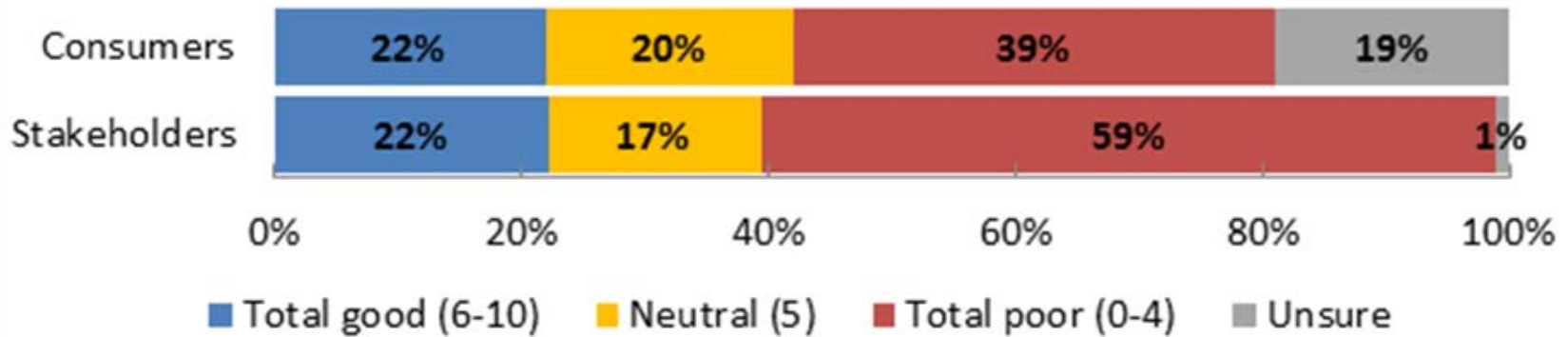


Feedback in submissions

- ❑ Meridian - It is not so much that the data is incomplete as it is not readily available to the consumer in a form that easily aids switching decision making
- ❑ Cortexo - The days of providing information for the average consumer were surpassed long ago with the need to cater for the requirements of individual unique consumers or groups of consumers

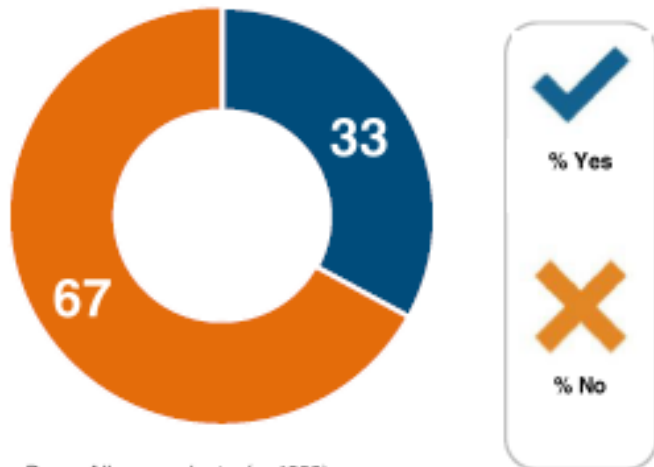
Confident and engaged?

The current level of competition between electricity retailers ensures that prices consumers pay only rise in line with costs to the electricity companies



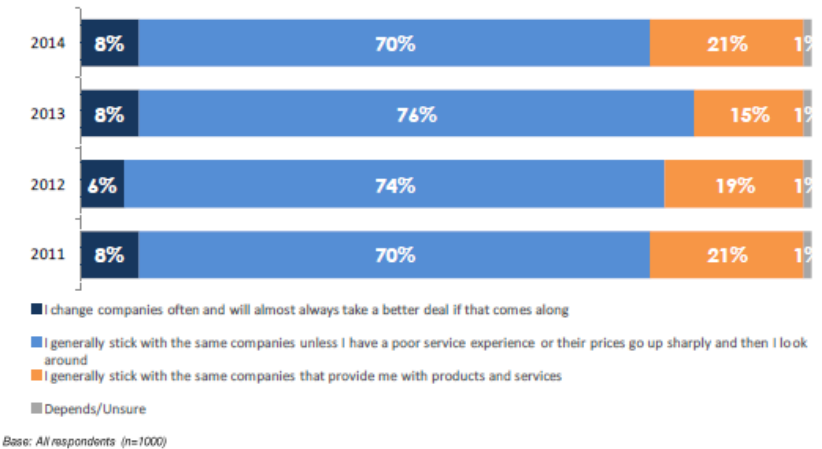
Confident and engaged?

Sought information in past year about switching

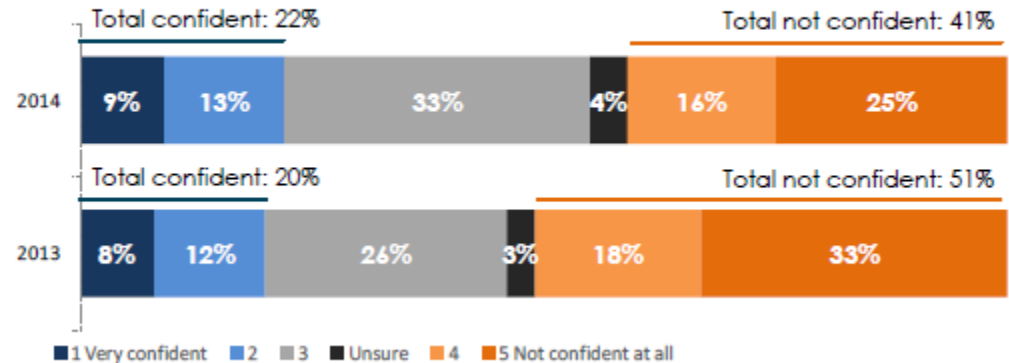


Base: All respondents (n=1000)

Consumer Behaviour



Confident still on best deal in a year



Feedback in submissions

- ❑ Meridian - ...perceived competition issues may lead to a high level of political and regulatory uncertainty which can have a chilling effect on investment

The scale of the problem

Information gaps lead to poor decisions

- ❑ This imposes extra cost on consumers
- ❑ Results in an overall cost to NZ

Examples of poor decisions and resulting costs

- ❑ Not switching - money left on the table (at \$175 per customer) is \$297M per year
- ❑ Consumption - consumers may be using more energy than they need to, or less than they should
- ❑ Investment - questionable energy investment economics

Switching supplier is easy...

just solve this equation...

- ❑ Minimise Cost (denoted C_i) from the set of i retailer offerings
- ❑ Noting that i contains approximately 200 pricing plans
- ❑ Where $C_i = (P_{vi} \times V) + (P_{fi} \times d) - (D_i) + (S_{ij})$
- ❑ And

$V = f(F, r, t, L, I)$	$dP_{vi}/dt = f(d, P_{vj}, P_{vn}, W)$
$P_{vi} = f(V, M, x)$	$dP_{fi}/dt = f(d, P_{fj}, P_{fn})$
$P_{fi} = f(V, N, M, y)$	$V \left\{ \begin{array}{l} <8000 P_{vil}, P_{fil} \\ >8000 P_{vih}, P_{fih} \end{array} \right.$
$D_i = f(d, V, P_j)$	
$S_{ij} = f(V, P_i, C)$	

Easy?

Poor decisions lead to poor perceptions

- ❑ Customers feel disempowered
- ❑ The market is not working as well as it could be
- ❑ High risks of intervention or disruption

Cost and consequences of poor perceptions

- ❑ Genuine innovation is not rewarded by consumers
- ❑ Good news stories are overlooked
- ❑ Questioning of market performance raises uncertainty for its future, this uncertainty increases risk which increases cost of borrowing
- ❑ Increased cost of capital reduces investment which reduces innovation and impairs efficiency

Poor perceptions lead to reduced consumer participation

- ❑ Only x% of consumers switch
- ❑ Only y% actively manage demand
- ❑ Only z% think about alternate energy solutions
- ❑ Market misses out on the driving force of consumer participation
- ❑ The virtuous cycle between confident consumers and vigorously competing firms is broken

How big is the problem?

- ❑ Actually, without better information, we don't know.

AND

- ❑ By measuring the problem we change its size.

BUT

- ❑ We do know that problems are big enough to attract attention and intervention.

ALSO

- ❑ Opportunities are diverse and large enough to pursue solutions even if they are expensive

Benefits of addressing the problems

- ❑ The Authority will use a robust cost-benefit analysis framework to assess benefits from any interventions
- ❑ Static/allocative efficiency- deadweight loss
- ❑ Productive efficiency – costs of extra participation are countered by reduction in costs to participate
- ❑ Dynamic efficiency
 - ❑ product innovation value equals whole area under demand curve for new product
 - ❑ consider a range of examples

Questions on the scale of the problem



**Market monitoring & market facilitation
for all electricity consumers**

Three presentations:



**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
HIKINA WHAKATUTUKI



**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
HIKINA WHAKATUTUKI

**Energy monitoring
and reporting for
New Zealand**

**Price indexes for
New Zealand
(CPI & PPI)**

Results 9

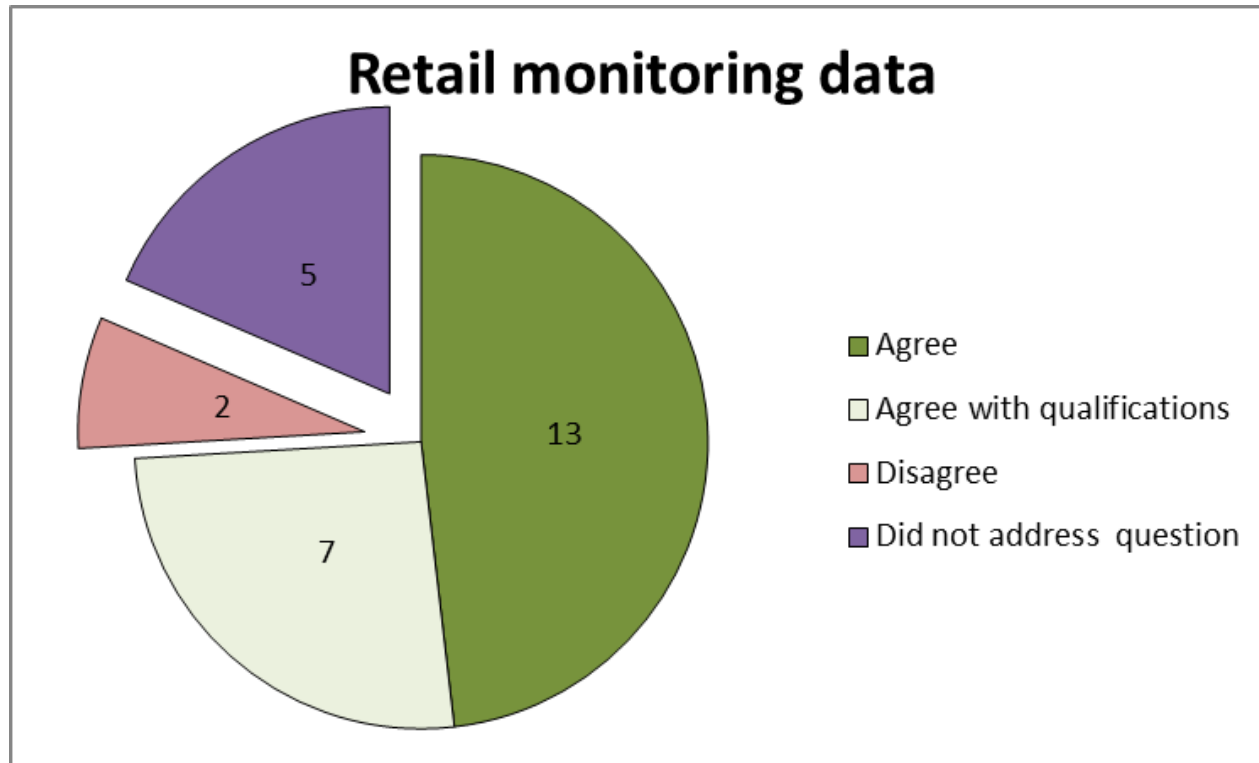
**Better public
services for
business & open
access to data**

Next steps

Next steps

- ❑ Consultation on Code amendments to collect monitoring data
- ❑ Consultation on Code amendments to give consumers access to their own consumption data
- ❑ Populate trial tariff database with data from a region and run an end-to-end proof of concept with energy services providers showing how it can be used

Feedback in submissions – issues and objectives of retail monitoring



- There was a diverse range of views on the Authority's initial approach

Feedback in submissions – monitoring data

You said...

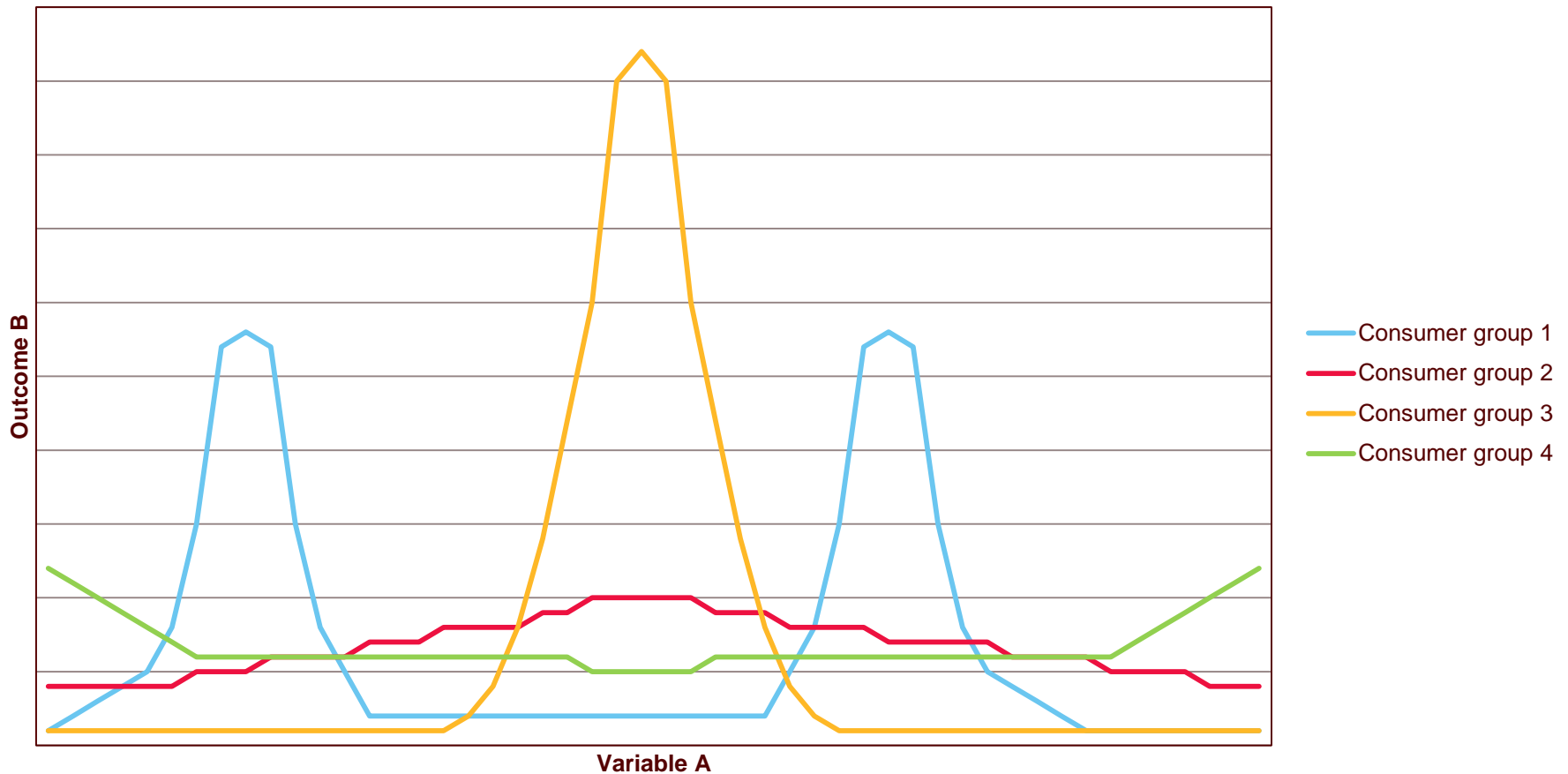
Data is incomplete both with respect to quantitative and qualitative information. This severely handicaps the ability ... to either fully assess competitive outcomes or to identify other outcomes that may require attention ... such as whether there may be cross subsidies between regions or between different types of customer

...but also

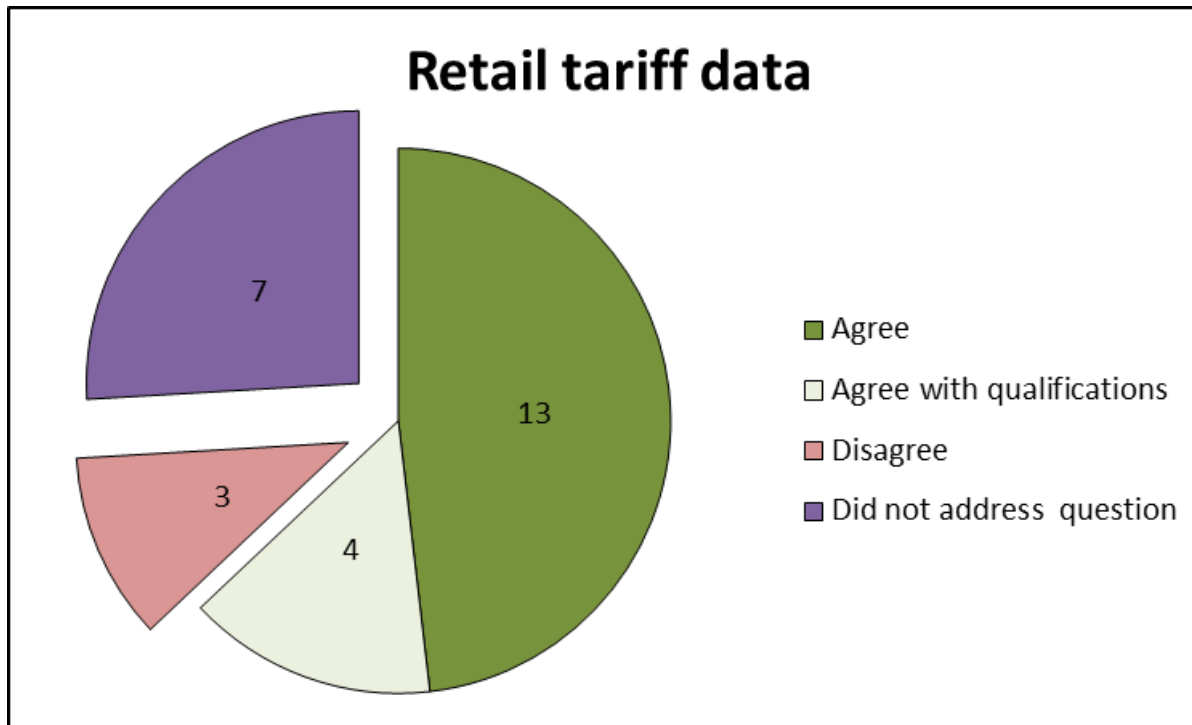
“the revised sales survey undertaken by ...(MBIE) should allow for accurate reporting of the average price paid for electricity across various market segments. ...the Authority’s problem situation should be reassessed after the first survey has been published. ...the information collected in the sales survey could be disaggregated further by region (or to the level of granularity the Authority wishes to report on, which presumably will not be at the ICP level)

Why such detailed monitoring?

These distributions all have the same average



Feedback in submissions – issues and objectives of retail tariff data



- There was a wide range of views on the Authority's initial approach

Feedback in submissions – retail tariff data

You said...

“all tariffs should have to be stated as an annual charge in dollars based on actual consumer consumption data, including GST and reported both inclusive and exclusive of all discounts.”

“a free and independent service for consumers to advise them on the best tariff available to them from all suppliers.”

...but also

“...a possible consequence, ...of standardising at any cost. ...the idea that consumers should be able to do comparison based on a single number suggests ... that perhaps all prices should be fully variabilised, and perhaps there should only be one price? ... there is a real risk that both dynamic efficiency and wider consumer choice are compromised if we dumb down pricing to make intermediaries jobs easier”

Example of a tariff database from the travel industry

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Hotel
 Flight
 Car
 Activities

Flight + Hotel

Holiday Bundles

✈️ + 🏠

Combine and Save

DISCOVER HOW >

Flight




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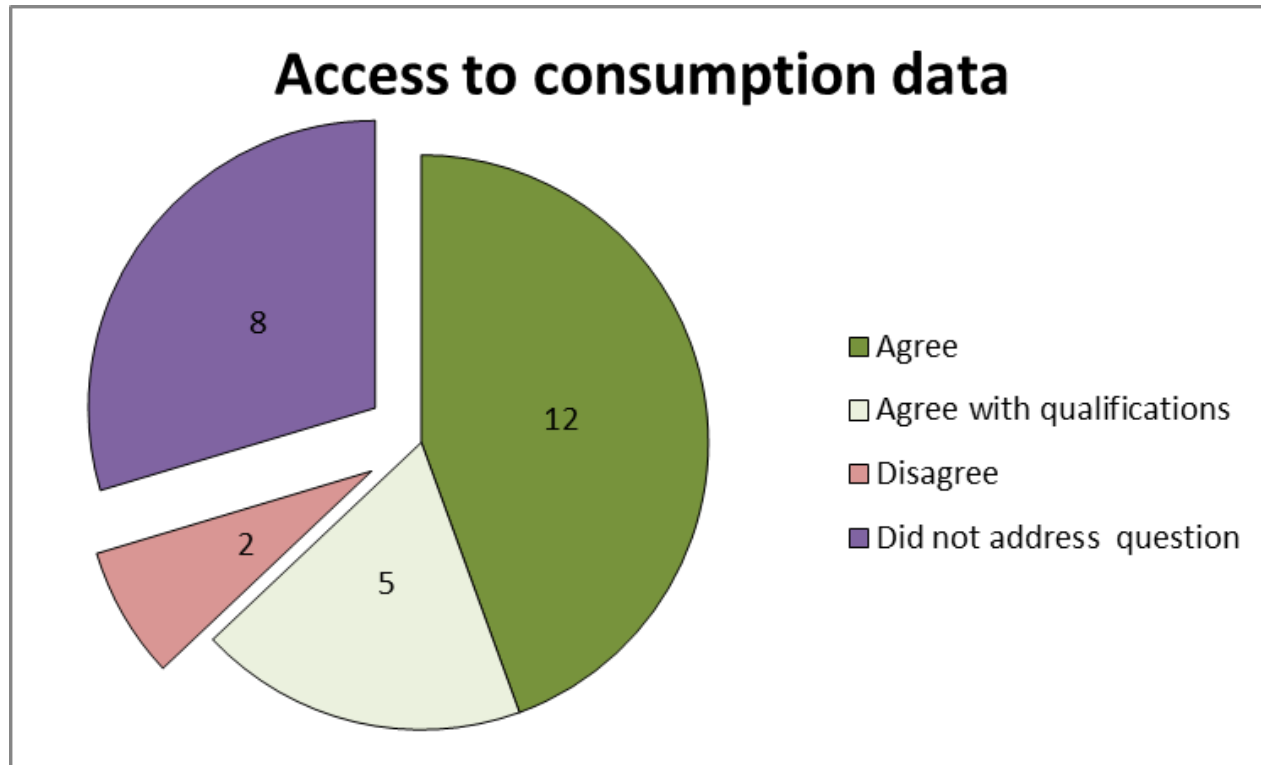
Listopedia: The Kids Museums Bucket List



LATEST TRAVEL ARTICLES

LISTOPEDIA

Feedback in submissions – issues and objectives for access to consumption data



- ❑ There was a wide diversity of views on the Authority's initial response

Feedback in submissions - access to consumption data

You said...

“Information on historic electricity and gas consumption is owned by the end consumer. Access to that information by end consumers is often difficult..”

“consumers are the owners of their own consumption data. Therefore, we agree with the Authority that standardisation of how this information can be requested (for example, by adopting a standard CSV format) would increase the ability for consumers to access this information”

...but also

“We ... intend to provide our mass-market customers with access to up to [14 months] data from our website, once back-end systems allow.”

“I would go farther and require a retailer from which a consumer switches away to erase their copy of the consumption stream. Presumably the full data set is retained by the central data administrator”

Consumption data : An Australian example

AEMC recently developed a rule called “Consumer Access to Their Energy Data”

Key elements:

- ❑ Retailers required to provide requested consumption data in a standardised, easy to understand minimum format. The Market Operator is required to publish procedures that outline the specifications for data.
- ❑ Retailers obliged to deliver data within a timeframe of a maximum of ten business days from the initial request.
- ❑ Clarification that a customer’s agent has the ability to access energy and metering data directly from the customer’s retailer. Any such access in accordance with existing security and privacy constraints.

Questions on next steps

Conclusion

- ❑ Better general information
- ❑ Better specific information
- ❑ Engaged and confident consumers
- ❑ Innovation and vigorous competition

For the long term benefit of all consumers