

12 December 2014

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Electricity Authority
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Dear Androula

Electricity Authority 2015/16 Levy-Funded Appropriations and Work Programme

Thank you for the opportunity to provide feedback on the Authority's proposed 2015/16 Appropriations and Work Programme.

Last year, when Contact commented on the 2014/2015 Appropriations Consultation, we said it was time for the Authority to take stock, and that the work stream proposed by the Authority was ambitious and should be scaled back. Accordingly we are pleased to see the Authority note that an increased emphasis will be placed on monitoring the results of the initiatives to date. In our view, this is critical. We are also pleased to note that the Authority is working to hold its own operational costs flat over the 2015/2016 financial year.

Our specific comments on the proposed work programme can be found from page 3. We also make the following general comments.

1. Focus on the Consumer

In order for the Authority to achieve its desired goals and the best outcomes for consumers, the Authority must understand what it is that consumers need and want. In our view, this can only be achieved by the Authority talking to a wide range of consumers, engaging regularly with consumer groups, and undertaking market research of a representative sample size. From our perspective, change driven by evidence will also lead to increased support from market participants.

In our view, in order to make the best use of the 'facilitating consumer participation fund', it is fundamental for the Authority to understand who an average mass market customer is. For example, research would suggest that the average mass market consumer has

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financial literacy skills below the deemed minimum suitable for coping with the demands of everyday life and modern society¹.

Consumers have busy lives and need to think about childcare, getting the laundry done, and paying the rent/mortgage amongst other things. Accordingly, while there are a small number of consumers who want real time pricing and efficient price signals, it is dangerous to design the whole system around this sub group. There is an equally large group of consumers that would prefer to pay one set amount each pay period and not have to worry about usage. Just as broadband companies have removed peak period charges, any price signals should start with customers rather than with the network. It would be a shame, in our view, to see efficiency pursued over the best outcomes for the consumer.

Simplify the market

Contact supports making the market simpler to reduce barriers to entry.

One of the barriers to more innovative pricing for customers is network simplicity. The more complicated network pricing becomes, the harder it is for retailers to develop customer-centric products as the retailers struggle to pass through the different cost structures. It may be timely for the Authority to review whether the price signals that networks attempt to send to mass market consumers actually work.

Prevent cross subsidisation

Contact is firmly of the view that consumers without distributed generation (DG) should not end up subsidising those with DG. While it makes sense to have complexity on the generation and transmission side to ensure physical supply, and it is efficient for larger organisations to employ people with the technical expertise to manage the risk, this is not the same on the consumer side.

Give proper notice

In the event of network price changes, networks provide retailers with 60 days' notice. It would be appreciated if the Authority could provide the same amount of notice for levy rate changes. Currently we find out the levy rate two months after the date the change becomes effective.

¹ <http://www.educationcounts.govt.nz/publications/series/ALL/adult-literacy-and-numeracy-in-new-zealand-a-regional-analysis/summary>

Key projects – work programme

Strategies	Contact Energy comments
1.1 Retail data project:	Contact is supportive of the Authority's retail data project.
1.2 WMN:	Given the significant sum spent on this to date and proposed to be spent over the coming financial year, we think it would be worthwhile for the Authority to check that this programme is still resonating with consumers.
1.8 Low user fixed charge:	Contact fully supports this work stream and believes a change could have real value to consumers. Our preference would be to see this work stream accelerated with recommendations for change (if any) consulted on by the end of FY15.
2.11 Spot market review:	Contact is unclear as to what is envisaged around reviewing the spot market to identify refinements to improve spot market conditions and accordingly is unable to provide comment.
Efficient pricing	Contact Energy comments
1.1 Distribution pricing review:	<p>In Contact's view, as they stand, the distribution pricing principles are not achieving anything for retailers or consumers and a change in approach is required to drive more consistency and simplicity in network pricing structures, and transparency to the extent it is wanted by customers.</p> <p>Contact supports a review of distribution pricing being undertaken; however, it is unclear what is going to be looked at under this. Will it look at commonality in network tariffs across regions?</p> <p>Should the Authority decide to regulate transparency of charges, it also needs to regulate that network prices must be structured to support transparency by being predictable and billable without requiring repackaging.</p>
New for 2015/16: Demonstrating efficient spot price risks to consumers	If, as articulated, this is aimed at making sure the risks are clear and that large industries are able to meet obligations they enter into, then in Contact's view this seems sensible.
Other	<p>We recommend the Authority:</p> <ul style="list-style-type: none"> is clear about the problems it is trying to solve with proposed developments before it embarks on change

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	<ul style="list-style-type: none">• undertakes market research of a representative sample size to ascertain what it is consumers need and to determine whether a one-size-fits-all approach will be appropriate• remains mindful of consumers in all decisions, as ultimately they bear any additional cost.
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For any questions relating to our submission, please contact:

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