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TRUSTPOWER SUBMISSION: RETAIL DATA PROJECT: ACCESS TO TARIFF AND CONNECTION DATA

1 Introduction

- 1.1.1 Trustpower Limited (Trustpower) welcomes the opportunity to provide a submission to the Electricity Authority (the Authority) on its *Retail data project: access to tariff and connection data* consultation paper (the Consultation Paper).
- 1.1.2 We understand that the main points put forward in the Consultation Paper are as follows:
- a) The Authority believes that the customer effort required to compare offers between electricity retailers is greater than it could or should be, leading to less customer switching, lower levels of competition and product innovation and higher prices;
 - b) The Authority considers that making retail tariff plan and installation information more freely available will allow customers to make comparisons with less effort and encourage third party participation; and
 - c) As a result the Authority is proposing two alternatives to enable the above to occur.
- 1.1.3 Our submission focuses on:
- a) The problem definition;
 - b) The proposed changes to registry access; and
 - c) The alternatives described in the Consultation Paper.
- 1.1.4 Trustpower's responses to the specific questions posed in the Consultation Paper are attached in Appendix 1.

2 Summary of submission

- 2.1.1 Trustpower believes that, in the main, those customers that wish to switch retailers in order to reduce costs have a variety of effective tools available to assess available options. Furthermore, retailers themselves are highly active in making comparative offers to customers, a point which is not contemplated in the Consultation Paper. The Authority's own research has confirmed that it is direct sales activity from retailers that is driving competition¹.
- 2.1.2 The level of switching activity in the New Zealand market is evidence of a highly competitive market with many (26) active retail brands vigorously competing. New Zealand's switching rates are world leading.
- 2.1.3 Despite vigorous competition and tools available to consumers, some market segments have, and are likely to always have, a low propensity to switch, regardless of the level of effort required.
- 2.1.4 The Authority notes in the Consultation Paper that it wishes to encourage innovation. Electricity pricing in New Zealand is complex, due in part to the complexity of distribution pricing, but also due to retailer innovation. Making comparisons between retailers effortless would require a complete "dumbing down" of tariff design, the removal of innovations like Trustpower's multi-utility bundling, and offerings such of those of Flick Energy and the prevention of future innovations such as dynamic residential pricing. Stephen Littlechild commented on the efforts of Ofgem to achieve such homogeneity in his paper "*Ofgem's Procrustean Bed*"².
- 2.1.5 Trustpower believes, for the reasons outlined above that:
- achieving a substantial reduction in customer effort in comparing retailer offerings via remote/online tools is unlikely without substantially dumbing down innovation;
 - the tools in place now (primarily powerswitch) provide the functionality contemplated in the Consultation Paper, with the exception of third-party engagement;
 - encouraging retailers to present offers will be the most effective way to maintain and increase competition;
 - the participation of third parties may be useful, but experience in other competitive markets such as Australia does not support an assertion that they will make much difference to sustainable competition. Furthermore, third parties will need to be monitored to ensure quality and integrity. It is unclear to us how the Authority will monitor these third parties appropriately; and
 - the incremental benefits through the proposed alternatives will be insignificant, and, were the cost of delivering these benefits to be substantial (such as in option 3), there would be a large net cost to consumers.
- 2.1.6 Benefits aside, moving to mandatory participation in Powerswitch seems sensible, and making registry data available is likely to increase the level of market activity. Trustpower supports these initiatives. If information is to be provided to third parties, then doing this via a single source such as Powerswitch also seems sensible.

¹ "Being approached by another company remains the main motivation for switching" – Shopping Around for Electricity Retailers: A Quantitative Study among the General Public, Electricity Authority, February 2015.

Available online at <https://www.ea.govt.nz/dmsdocument/19367>

² Available online at <http://www.eprg.group.cam.ac.uk/wp-content/uploads/2012/01/Ofgems-Procrustean-Bed-23-Jan-2012.pdf>

3 Recommendation

- 3.1.1 In summary, and subject to the comments above, Trustpower favours Alternative 1.
- 3.1.2 We note, however, that our view is based on the assumption that Powerswitch will remain in place. Trustpower has been notified that funding for Powerswitch is only available until 31 March or 30 June 2016. If Powerswitch were to be removed, Trustpower would not support Alternative 1, or the other alternatives and options noted in the Paper.
- 3.1.3 For any questions relating to the material in this submission, please contact me on 07 572 9888.

Regards,

A handwritten signature in blue ink, appearing to read "Gareth Banks".

GARETH BANKS
MANAGER COMMERCIAL ANALYSIS AND PRICING

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Appendix A: Responses to consultation questions

| Question | Response |
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| <p>1. Do you agree that the current arrangements for accessing retail tariff plan data and connection data mean that consumers face higher-than-necessary transaction costs identifying electricity-related offers available to them? Please give reasons with your answer.</p> | <p>1.1 No.</p> <p>1.2 Electricity pricing in New Zealand is complex, due in part to the complexity of distribution pricing, but also due to retailer innovation. We believe the level of effort required is commensurate with this level of complexity. Making comparisons between retailers effortless would require a complete “dumbing down” of tariff design, the removal of innovations like Trustpower’s multi-utility bundling, and offerings such of those of Flick Energy and the prevention of future innovations such as residential time of use pricing.</p> <p>1.3 Powerswitch and similar websites currently allow for customers to make comparisons amongst most retailers readily and at no cost and with little effort.</p> <p>1.4 Retailers themselves are highly active in making comparative offers to customers and assisting customers with cost comparisons (again little effort and low search costs on behalf of the customer).</p> <p>1.5 Thus Trustpower believes effort is best placed into encouraging retailers to continue to innovate and make offers to drive increased competition.</p> |
| <p>2. Do you agree that a Code amendment would lower consumers’ transaction costs more quickly than would market forces? Please give reasons with your answer.</p> | <p>2.1 Alternative 1 maintains Powerswitch, and in that sense is status quo, but the increased availability of registry data is likely to increase market activity for the benefit of consumers.</p> <p>2.2 Under Alternative 2, Trustpower believes transaction costs will increase. Instead of having one central independent organisation (Powerswitch) to go to, customers will be faced with having to source the information themselves from retailer websites, or face increased search costs as they try to choose out of a potential myriad of third parties offering comparisons of varying quality, which may all come up with different answers, increasing confusion.</p> |
| <p>3. Under Alternative 1 do you have any comments or suggestions about all retailers being required to provide retail tariff plan information to ConsumerNZ,</p> | <p>3.1 Trustpower currently provides all generally available domestic pricing to Consumer NZ, and is happy to also provide commercial pricing. Trustpower is willing to pass this on to persons who request this as well.</p> <p>3.2 Trustpower is concerned about the potential for harm to consumers from the emergence of unqualified third parties that lack the skills to make valid comparisons, or that are motivated by payments from gaining</p> |

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| <p>and having to provide the same retail tariff plan information to any person who requested it?</p> | <p>retailers.</p> <p>3.3 We request clarity from the Authority on how third party quality and compliance is anticipated to be managed, and consideration of the detrimental impacts on consumer confidence in switching if Powerswitch is removed and replaced by low quality providers.</p> |
| <p>4. Under Alternative 2 do you have any comments or suggestions about retailers being required to publish information about their generally available tariff plans on their websites?</p> | <p>4.1 As per the cost benefit analysis, this will lead to a higher cost for retailers to implement, which ultimately will be borne by consumers.</p> <p>4.2 At the same time, this will remove the ability for consumers to go to one trusted destination to get all the information, unless a third party goes to the effort to do this (and would likely end up trying to recover costs for doing so in some fashion), increasing transaction costs.</p> <p>4.3 If third parties do start taking the information and start performing calculations, Trustpower has concerns that differences and potential inaccuracies in methodology could lead to varied results for a given comparison for a customer.</p> <p>4.4 This in turn could lead to customer harm and bad news stories reducing customer engagement and propensity to switch.</p> <p>4.5 There is also potential that third parties will charge some sort of fee or commission to the customer if a customer does switch, creating a direct transaction cost to customers or indirectly by charging retailers switch commissions (which again is a cost ultimately borne by consumers).</p> |
| <p>5. Under Alternative 2 do you have any comments or suggestions about the requirement to supply retail tariff plan information using standardised file formats and structures?</p> | <p>5.1 Standard formats may be useful for simple comparisons. Complex formats may lead to a higher cost to implement, which again will ultimately be borne by customers.</p> <p>5.2 As innovation increases the complexity of offers, any standardised structure could become a constraint on innovation, or be unwieldy in attempting to allow for innovation.</p> <p>5.3 It could be more difficult for customers to actually use the information, if in a format not readily able to be processed by an average customer.</p> |
| <p>6. Under both Alternatives do you have any comments or suggestions about making publicly available the connection data</p> | <p>6.1 Trustpower believes this will contribute to market activity.</p> |

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| <p>held in the registry that is set out in appendix D?</p> | |
| <p>7. Do you agree that the objectives of the proposed Alternatives are appropriate and consistent with the Authority's statutory objective? Please give reasons if you disagree.</p> | <p>7.1 While the objectives are consistent, as noted we do not believe the outcomes will substantively achieve the objectives.</p> |
| <p>8. Do you agree that the connection data which the Authority proposes to make publicly available is not personal information?</p> | <p>8.1 Trustpower believes this to be true but has not taken any legal advice or explored any unintended consequences at this time.</p> |
| <p>9. If you disagree, please give reasons and suggest a way to address the privacy issue(s) you have identified.</p> | <p>9.1 N/A</p> |
| <p>10. Do you agree with the assessment of gross benefits, costs and net benefits? If not, please explain your reasoning.</p> | <p>10.1 No.</p> <p>10.2 Trustpower agrees that making connection information publicly available will increase market activity, but it is difficult to gauge the actual impact.</p> <p>10.3 New Zealand is already one of the most competitive markets in the world, due to the number of active retail competitors. With regard to Alternative 1:</p> <ul style="list-style-type: none"> a) We don't believe that the reduction in customer effort resulting from the proposed changes will significantly impact switching rates; b) Under Alternative 1, the addition of the seven retailers not currently participating on Powerswitch is unlikely to make a significant difference; c) Third parties utilising Powerswitch data will endeavour to make a profit from providing the service, reducing customer savings; d) Australian evidence shows that third party aggregators will choose a single (or small number of) retailer(s), and as a result many consumers will end up paying more than the best market offer; and |

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| | <p>e) Overall the net benefit is likely to be within the margin of modelling error.</p> <p>10.4 Alternative 2 has higher transaction costs and is likely to result in a net cost.</p> |
| <p>11. Do you have any comments or suggestions about whether the additional gross benefits of Alternative 2 outweigh its additional costs vis-à-vis Alternative 1? Please give reasons with your answer.</p> | <p>11.1 As noted, Trustpower does not believe that the additional gross benefits outweigh its additional costs.</p> |
| <p>12. Do you agree that both of the proposed Alternatives are preferable to other options? If not, please explain your preferred option in terms consistent with the Authority's statutory objective.</p> | <p>12.1 No.</p> <p>12.2 As outlined above, Alternative 2 will result in a net cost.</p> <p>12.3 Alternative 1, while unlikely to achieve a significant net benefit, has elements that favour enhanced competition, however.</p> <p>12.4 Trustpower agrees that Alternative 1 is preferable to Option 3 which will be hugely expensive to create and maintain, for no more benefit than Alternative 1.</p> |
| <p>13. Do you agree with the Authority's assessment that the proposed Code amendment for each of the proposed Alternatives meets the requirements of Section 32 of the Act? Please give reasons if you do not.</p> | <p>13.1 Trustpower agrees that Alternative 1 is broadly consistent with Section 32.</p> |
| <p>14. Do you agree with the Authority's assessment of the two proposed Alternative options against the Code amendment principles? Please give reasons if you do not.</p> | <p>14.1 No.</p> <p>14.2 Trustpower feels that, outside of the connection data changes, there is not a clearly identified efficiency gain.</p> <p>14.3 While a quantitative assessment has been completed, Trustpower believes the costs have been understated</p> |

and benefits overstated.

- 14.4 Trustpower feels that, outside of the connection data changes, the amendments will not lead to greater competition.
- 14.5 Trustpower does not believe there is evidence of market failure.
- 14.6 Trustpower believes that alternative 2 will reduce the flexibility for current and future innovation.