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Submissions
Electricity Authority
Wellington
mdag@ea.govt.nz

Dear Sir

Re: Consultation Paper-MDAG issues paper: Saves and win-backs

The Tauranga electricity has unique circumstances that are reducing competition, the consequence being high electricity prices and erosion of a valuable community asset.

History

In 1993 as part of the restructuring of the electricity industry the Tauranga Electric Power Board was restructured to become Trustpower. In recognition of the community ownership of the Board, shares were issued to local residents and a trust (Tauranga Energy Consumer Trust aka TECT) was established to hold a significant parcel of shares for the ongoing benefit of local consumers.

A feature of the structure of TECT was the requirement to only distribute benefits to Trustpower customers. Where similar arrangements were made elsewhere the lines companies were involved and benefits could be distributed to all electricity consumers in the local region.

Initially all Tauranga customers would have become Trustpower customers and received benefits from TECT distributions. As new providers have entered the Tauranga marketplace they have found that customers have become aware of the TECT distributions that are only payable to Trustpower consumers.

Current Situation in Tauranga

Advertising

Trustpower have for many years made a feature of being a local company and each year around the cut off date for joining Trustpower for a customer to be included as a TECT beneficiary, there was an advertising campaign mounted.

HHI

Trustpower has a market share of 68%. Tauranga has the most concentrated electricity marketplace in NZ with HHI currently 4822 (EMI EA HHI report). The Tauranga HHI is reducing at a slower rate than other regions and in 2012 became the region with the highest HHI, a situation that continues today.

Switching Traders

The EMI Switching League Table Report shows the rate of switching providers in NZ is between 3.2% and 13%. Tauranga is currently at 3.4% which puts it at position 38 of 39. Tauranga customers are among the most reluctant to switch providers.

Potential Savings

The EMI Residential Savings report for 2017 the report suggests that of all NZ network regions the Tauranga consumers have the highest potential savings if they switched electricity provider or to put it another way, they remain the least likely in NZ to change providers and are potentially overpaying the most because of this.

North Island average potential savings per customer	: \$195.57
South Island average potential savings per customer	: \$242.18
Tauranga potential savings per customer	:\$444.43
Tauranga total potential savings	:\$32,640,880

Pricing Data

It remains a confusing and difficult task to compare electricity tariffs around NZ. I am with Trustpower and my current plan is not shown on my invoice and plans are not on the Trustpower website, it is suggested I give them a call. The Consumer Powerswitch website has a section 'Trends and Stats' where it is possible to see in graphic form the electricity pricing data for a typical household for the main centres. It is clear to see that Trustpower is offers competitive prices in all the main North Island centres BUT not in Tauranga. There is also an indication that some of the other main providers may be increasing their prices a little in Tauranga also, Genesis in particular seems to be approaching the Tauranga prices.

source Consumer Powerswitch Trends and Stats graphs

consumer powerswitch 25Jun2018	Auckland	Auck Nth West	Hamilton	Tauranga	Wellington
kWh/year	7576	7576	7972	7576	7972
Trustpower kwh	\$ 2,126	\$ 2,072	\$ 2,226	\$ 2,579	\$ 2,167
Meridian	\$ 2,222	\$ 2,220	\$ 2,284	\$ 2,472	\$ 2,281
Genesis	\$ 2,360	\$ 2,360	\$ 2,507	\$ 2,556	\$ 2,329
Contact	\$ 2,029	\$ 2,051	\$ 2,323	\$ 2,363	\$ 2,119
Mercury	\$ 2,264	\$ 2,290	\$ 2,426	\$ 2,235	\$ 2,286

Cost per kWh calculated from above table

cost per kWhr as at June2018	Auckland	Auck Nth West	Hamilton	Tauranga	Wellington
Trustpower	\$0.2806	\$0.2735	\$0.2792	\$0.3404	\$0.2718
Meridian	\$0.2933	\$0.2930	\$0.2865	\$0.3263	\$0.2861
Genesis	\$0.3115	\$0.3115	\$0.3145	\$0.3374	\$0.2921
Contact	\$0.2678	\$0.2707	\$0.2914	\$0.3119	\$0.2658
Mercury	\$0.2988	\$0.3023	\$0.3043	\$0.2950	\$0.2868

Tauranga figures for 2015

cost per kWhr	Tauranga
Trustpower	\$0.3314
Meridian	\$0.3178
Genesis	\$0.2986
Contact	\$0.3029
Mercury	\$0.2917

Conclusions

1) I believe that Trustpower is charging Tauranga customers a premium as they know all TECT consumers (Tauranga Trustpower customers) will receive a cheque from TECT for around \$500 per year

2) TECT is an independent entity with assets held in trust for the community. Trustpower seem to be using the TECT cheque as a factor in setting higher prices for Tauranga customers, they mention the TECT cheque all the time.

3) The TECT cheque is a barrier to entry for other electricity providers. It is common knowledge that Trustpower overcharges but customers know they will get the money back in the form of the TECT cheque

If the customers uses more electricity then the value of the TECT cheque diminishes with high use families unable to remain with Trustpower. Trustpower confirm this as they claim their customers use much less electricity than the figures used to compare providers.

4) Trustees of TECT have recently attempted to change the structure of TECT, this would have done away with the TECT cheque and the consequent loss of advantage for Trustpower but a huge gain for the community. Trustpower launched an expensive and aggressive campaign to maintain the status quo and TECT withdrew their proposal. FNZC (Sharebrokers and Investment managers) analysis in January 2018 suggested that the true benefit of the TECT cheque was only around \$50-\$100 because of the high tariffs that Infratil controlled Trustpower is able to charge because of the TECT arrangement. TECT will shortly be paying out \$28 million in TECT cheques but the FNZC analysis suggests that the true benefit to customers will be \$3-\$6 million (58,000 customers receiving \$50-\$100 each) with Trustpower/Infratil clawing back the remaining \$22-\$25 million

Patrick Smellie Business Journalist said about Trustpower pricing and the TECT consumers;

"It seems they are happy even though they are effectively being bribed with their own money"

Andrew Harvey-Green of Forsyth Barr estimated that if the current monopoly given to Trustpower by the TECT arrangements was removed

"it could cost Trustpower \$15-\$23m in earnings because the TECT cheques gave it a significant advantage in retaining customers in the area, allowing it to charge higher prices"

5) Trustpower is heavily promoting bundling of internet and gas and electricity services. This is also a powerful way of holding customers and I would love to see the electricity section ring fenced to exclude bundling other services.

6) Saves and Win backs may be important but the Tauranga Trustpower TECT arrangements are a known problem costing my community a lot. Trustpower is in effect controlling who can benefit from TECT and how much they can benefit. The

Tauranga marketplace with dominant provider Trustpower and apparent barrier to entry with the TECT cheque is showing many of the features of a monopoly while the rest of the country is enjoying more competition. We need help please.

David Riley