Mr. Carl Hansen
Chief Executive
Submissions
Electricity Authority
Level 7, ASB Bank Tower
2 Hunter Street
Wellington

10 July 2017

By Email

Dear Carl,

Consultation: Enabling Mass Participation In The Electricity Market

As New Zealand's newest electricity retailer Future Energy New Zealand Ltd, trading as energyclubnz, welcomes the opportunity to contribute to this critically important consultation process of the Electricity Authority and we would welcome further engagement as may be required with your officers to input further during the process.

As you will appreciate a company like ours does not have the resources to complete large template submission documents so here are the 6 key areas where we believe the Authority could act to enable and promote mass participation. In all cases the customer will be our ultimate judge - as they rely on us all to deliver a highly efficient safe service at a fair and reasonable price.

Future Energy New Zealand Ltd believes that it is in a very strong position to provide input into this process due to its extensive international and New Zealand experience in both the energy markets and other consumer categories.

What would we do tomorrow to create a more competitive and adaptable market for future technologies to flourish and benefit not only for the Country but also the consumer.

1. Future Energy estimates that NZ households could save a total of $400m per year just by incumbent retailers being forced to give 'every customer their best deal offered'. This would also level the market place in terms of competition and prevent discrimination between different customer groups in each network area:

    I. Major incumbent retailers are limiting competition to those that 'want to switch' or 'have switched' via targeting high value deals against each customer type.
    II. This is funded by the existing loyal customers who are typically on higher tariff sets in the areas that they live. The incumbent retailers have a large proportion of their base that have never switched and as a result tend to be on significantly higher pricing than those customers who have just joined them.
    III. Most new retailers - including Flick, Electric Kiwi and energyclubnz - are not demonstrating any discrimination between customers.
    IV. Future Energy believes that large incumbent retailers would 'welcome' a potential decision by the authority to ensure that their customers are on their 'best rate' offered otherwise their current behaviour could be determined to be predatory and designed to limit competition in the market place. The people of New Zealand would also welcome it!

Recommended Action:

- That any retailer over 75,000 customers is forced to bill all of their customers at their best rate to end discrimination in the market place, predatory pricing and having an 'incumbents advantage'

2. New Zealand must act quickly on its carbon emissions to protect the Country for future generations. New Zealand has been one of the World leaders in Hydro Electric and Geo Thermal generation and this needs to be replicated into future technologies. To achieve this, it should create the standards required and accelerate work for new categories to be successful. This includes:

    I. Establishing the relevant quality standards for any new technologies to be introduced. A good example of this is solar in Australia where there are 100's of different brands being shipped into the country – with a relative high level of customer failures - versus a limited number of brands being shipped into countries such as Germany due to much higher and more rigorous standards. This ensures that there is more rigour around the customer experience and the expected performance from new technologies.
    II. Create the right network environment, and regulations, for technology to add value to the customer, the network and the country.
    III. Creating platforms that allow different trading relationships to occur at a household sub generation level.
    IV. Promote an industry where significant 'Green Funds' are created that support that enables retailers to deliver carbon reduction initiatives.
    V. Ensure that sub generation at household level can be incorporated into the market.
    VI. Reduce market inefficiencies by fixing market inefficiencies that reduce carbon requirements.

Recommended Action:

- Promote cross market work to maximise the impact of carbon reducing initiatives.

3. The industry settlement systems need to be updated to promote increased levels of competition, highly efficient uses of financial funding and the fact that Smart meters are in nearly 80% of households. This is effectively a significant barrier to entry for most new retailers that will require major fundraising exercises.

    I. Retailers who do not have generation portfolio's (if any) greater than their retail load must pay a 'Prudential Guarantee' that covers the risk. New Zealand has the high Prudential requirements versus other competitive markets i.e.. Australia. For 100k customers this guarantee could be in the region of $8-10m, including an 'Exit Prudential' at 18 days.
    II. Settlement periods with the NZX at the '20th of the month after' result in up to 56 days of Prudential having to be in place with the NZX.
    III. Whereas 'Guarantees' attract high levels of interest with the networks, if they are greater than 2 weeks, the same is not the case on energy supply and so it becomes a relatively inefficient use of cash that helps to limit competition in the market.

Recommended Action:

- Industry settlement periods are reduced to 'daily' or 'weekly' and the exit period is shortened to 5-7 days for customer bases that are Smart Meter based. This allows quicker transfer of the base should an 'exit' situation become triggered.
- Introduction of interest payments, in line with the network guarantees, on any security held above 2 weeks.

4. The 'Save protection' scheme has failed to deliver on its intended purpose and has just moved 'aggressive' win-back calls from 'pre' switch to immediately 'post' switch. This scheme has not promoted competition at all and has not protected new retailers from the targeting of dominant retailers. Future Energy proposes that this scheme is withdrawn and replaced with alternative regulation.

I. From our very first switch we are seeing evidence of incumbent retailers targeting 'switchers'
II. This can be evidenced by call recording. An example of which:
    i. Offered to double a customer's discount from 10% to 20% immediately (uncontracted), saving the customer in excess of $240 per year, to offset any potential saving of switching to energyclubnz. Unless this discount is offered to every customer it is designed to limit competition in the market.
    ii. When challenged on 'why' the retailer was offering this saving only now the response was effectively we had to see what type of deal the customer had been offered first.
    iii. This demonstrates potentially predatory pricing and supports that all customers should be offered a company's best deal.
    iv. The above recording is available on request. Due to the scripted nature of the call this represents a systemic failure within the industry that can be evidenced from a large incumbent retailer.

Recommended Action:

- The 'Save protection' scheme is either:
    I. Withdrawn and new regulation is introduced. This new regulation would remove all win-back calls on any customer that is switching to a retailer that has under 75,000 retail customers, or
    II. the time period for a losing retailer to contact a customer is exended to 9 months.

5. Generation and Retail businesses should be separated to create greater market competition.

    I. A Gentailer actually benefits from periods of high market volatility and the gains are potentially significantly greater than any potential costs associated to a lack of market delivery.
    II. As the Generation businesses enter a period of 'hyper-profitability', due to increased wholesale pricing, the retail businesses just end up passing through the larger wholesale costs. This is not to the benefit of the end consumer. Due to increased wholesale prices in Australia the major incumbent retailers have recently increased their retail pricing by more than 15%+ and many incumbent retailers are going through periods of high Generation profitability. If the same is replicated in New Zealand then profitability will just end up being switched between the Generation and the Retail business of the same generation business dependent on what is the political debate is at the time.
    III. The retail only businesses will then be limited in their ability to respond and do not benefit from any of the increased wholesale costs in the market unlike the Generator. In fact, the Prudential requirements increase significantly and could put those businesses under potential financial stress.

Recommended Action:

- Split Generation and Retail businesses into separate entities and if necessary use the Crown's golden share to return the Generation assets into the ownership of the Crown.

6. The metering landscape, and regulation, needs to be accelerated into the 21st century to be able to be able to accommodate and drive new technologies including solar, batteries and voltage control. For a country that has one of the highest penetrations of Smart meters the supporting metering infrastructure is 'sub optimal' and does little to encourage consumers to use less carbon and support innovation.

    I. Between the metering companies, one metering company is unable to provide ½ hourly Smart meter data to its entire retailer base and the other has an objective of getting transferring customers data activated with a new retailer within 10 business days (which is the Code regulated maximum, and should not be used as a target). This is despite the receiving retailer only having 5 business days to challenge a closing meter read from another retailer. This industry process requires a total redesign. Despite having only Smart meters the first read that a retailer gets is a 'closing' meter read at the end of the first day of having a customer. This means an opening read must be taken off legacy systems and 'Confirmed

Switch' (CS) notices on the Registry. This does not make sense in a digital world and encourages poor retailer behaviour to slow switches.

II. Some retailers are also using archaic processes, leveraging legacy positions, to slow transfers of customers which will ultimately limit competition.

III. Data feeds that are traditional network feeds will become critical to managing a customer relationship in a distributed generation situation and should be made available as part of the base services to retailers. For example, learning from Queensland (Australia), the number of high voltage complaints has increased significantly over recent years due to the increased penetration of solar and also an under investment within the network. Given that solar invertors are designed to 'lock-out' as soon as they are outside of the regulated voltage range of the network, which means that they are no longer able to even generate for household consumption, this is a critically important data feed for a retailer to be able to handle customer contacts. There is also increasing global technology available to address this area, and provide remote management services, that will not be able to be implemented without accurate data.

Recommended Action:

- Introduce regulation on all Smart meters that ensures that a retailer, and meter services provider, has to deliver final, and daily reads, as part of a switch back to the 'effective date' of the transfer within 24 hours of a customer switch (CS) becoming effective – including the opening read.
- Ensure all fields of collected data from the Smart meters are made available to all retailers, for their own ICP's, as part of the standards to ensure that innovation can be exploited where data may already exist. This could accelerate innovation significantly.
- Regulate that a non-communicating Smart meters has to be communicating within 2-4 weeks of the last data transfer on a sustained basis, and cannot be reverted back to a Legacy meter at any point. Failure to meet this regulation would result in the asset not being a chargeable asset from the meter company.

Carl, I hope this is of use. Any questions I will be happy to answer them directly by your team.

Yours sincerely

David

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Founder

energyclubnz