28 March 2024

Electricity Authority
By email to: taskforce@ea.govt.nz

Tēnā koutou,

1. Thank you for the opportunity to submit our views on the Electricity Authority's (EA) consultation paper *'Improving price plan options for consumers: Time-varying retail pricing for electricity for consumption and supply'* released on 12 February 2025.

2. Contact Energy (Contact) supports the outcomes the EA aims to achieve. We consider it is important that price signals and incentivise electricity to be consumed in a way that reduces pressure on the electricity system during peak hours and benefits consumers in the long term. Contact already offers, and will continue to pursue and develop, products for its customers that achieve this objective.

3. However, Contact's experience shows that regulatory intervention is not necessary to achieve these objectives. Contact now has almost a third of its electricity customers on a range of innovative time of use plans, and this continues to grow. We are concerned that the measures the Taskforce has proposed may add compliance costs to rolling out time-varying price plans and undermine further growth.

Contact is an innovator in time-varying pricing plans

4. Contact agrees with the EA that incentivising electricity use during off-peak hours can help reduce electricity and network costs. That is why we provide our customers with three plans where prices are lower, or free of charge, during off-peak hours.

5. "Good Nights" provides free electricity for three hours between 9 pm-12 am from Monday to Friday. During weekends our residential customers can receive free electricity between 9am to 5pm on the "Good Weekends" plan. The "Good Charge" Plan provides customers half price power every single night between 9pm-7am.

6. Across the board over 130,000 New Zealand households are on one of our time-varying price plans. We have delivered these plans without regulatory intervention.

7. Even though our results to date show strong uptake of time-varying plans, we intend to expand these further. However, we are concerned the proposed regulations would impose unnecessary costs and limit our ability to innovate and roll out time-varying price plans for the benefit of consumers.

The proposed annual notices are an unnecessary compliance burden

8. The level of information that it is proposed retailers provide to consumers about time-varying price plans would incur substantial costs and time on retailers. While we are comfortable publishing the details of time varying price plans, we submit the annual consumer notices will undermine the objective to increase the availability and uptake of these plans. The proposed requirements will make it harder to design and scale time varying price plans that maximise benefits for a range of customers.

9. Our key concerns are:

   a. The notices are likely to be misleading:

      i. Pricing is dynamic, which means plans are always changing in practice. This is especially true for time varying plans which are newer to the market and retailers are still learning about how consumers react to different pricing structures. That means recommendations we give customers based on current pricing may not be an accurate reflection of future costs.

      ii. The specifications focus heavily on information about the consumer's past usage. However, to be successful time varying plans should incentivise consumers to change their consumption patterns, making prior usage a poor indicator of potential savings.

   b. The notices would be a barrier to innovation.

      i. The complexity involved incentivises plans being designed to be easily measured to make the notices lower cost to implement, instead of designing plans that maximise benefits for a range of customers. Rather than encouraging the development of a greater range of time-varying plans to suit and adapt to customers' circumstances, the proposal forces retailers to prioritise designing plans so that it is easy to demonstrate compliance with the regulation.

      ii. For example, providers who decide to go above and beyond the proposed Code requirement and offer multiple time-varying plans will need to provide substantially more complex notices to consumers, perform more calculations and face higher compliance costs. This perversely penalises retailers offering their customers multiple time-varying price plans. These notices may also not be well suited to certain types of innovative plans, which may for example, require knowledge of consumer appliances.

   c. The notices would impose significant costs with unclear benefits

      i. Such notices have been extremely costly to implement in other jurisdictions. For example, in Australia Seed Advisory found that implementing similar notices would cost about A$1m per retailer [1] This is because any notices that we provide regarding pricing require a high level of accuracy to meet retailers Fair Trading Act obligations. There are significant complexities to calculate and predict exactitudes for customers already on time of use plans let alone for consumers who may move onto a plan.

ii. We are not aware of any evaluations from other jurisdictions that have assessed whether this substantial cost as resulted in better outcomes for customers

10. Ultimately Contact has shown it is possible to move a substantial portion of a retail book onto time-varying plans without onerous notices sent to consumers. These notices would distract from further market innovation because they impose costs on offering further time of use plans and come with substantial risk.

Time of use buy back rates:

11. Contact recognises the value in incentivising consumers to increase domestic energy storage to help alleviate pressures on the electricity system during times of peak demand.

12. It is not feasible to have time-varying buy-back plans in place by April 2026, for two reasons:

    a. The pricing of these plans will respond to wholesale cost trends, as well as the rebates provided by distributors to signal network need. Therefore, to design these plans, the distribution rebates need to be in place. Given the distribution rebates are due in April 2026, we advise a minimum of six months is provided to enable plans to be developed in line with their intended purpose. Therefore, we recommend an implementation date of October 2026 at the earliest.

    b. Significant effort will be required in the pricing system to provide time of use buy back rates. There is already substantial existing regulatory compliance utilising the resource that would implement these plans, including the Consumer Care Obligations, the new Retail Market Monitoring requirements, changes to the EIEP4a system, and more.

13. Therefore, we recommend an implementation date of October 2026 at the earliest.

14. We expect that these plans will meet the expectation that distribution rebates are passed through to consumers. Striking the balance between responding to distributor signals and offering a stable, simple plan consumers will sign onto is challenging. Retailers should be given flexibility to develop these plans, rather than relying on a one to one pass-through of distributor price signals, if the plans are to

[1] https://www.aer.gov.au/system/files/2.%20AEC_Suitable%20for%20publication.pdf, p9.

be attractive for consumers. Retailers are best positioned to understand what their customers will respond to.

15. In the long term, more granular distributor price signals will incentivise retailers to pursue the development of innovative technologies and business models such as virtual power plants (VPPs). However, bespoke rebates covering a small number of customers cannot viably be passed through in a retail plan on a national scale as they lack the clear signal needed to drive consumer response

16. Please contact me at [redacted] if you wish to discuss further.

Nga Mihi,

Brett Woods
Head of Regulatory and Government Relations
Contact Energy

Questions:

1. Do you agree the issues identified by the Authority are worthy of attention?

Contact has developed and rolled out time-varying price plans in recent years without regulatory intervention.

2. Which option do you consider best addresses the issues and promotes the Authority's main objective? Are there other options we have not considered?

Our experience of having already delivered several time-varying price plans to our customers shows this has occurred without regulatory intervention.

The proposed requirements for the annual notices will impose significant time and costs, diverting focus to plans which are easier to show comply with the regulation, rather than plans (including offering greater of range of plans) that benefit consumers.

4. Do you have any feedback on the design requirements?

It is important retailers have the flexibility to design packages themselves as they know what drives customer uptake. We appreciate that this was recognised in the proposed design, and important it is retained in the final design.

5. Is there a risk that injection rebates will not be passed through to the consumers targeted? If so, how could we safeguard against that risk?

Retailers are best positioned to design simple and attractive offers to consumers for injection based on price signals from the wholesale market and distributors.

We expect that retailers will likely pass the distribution rebate on to consumers via attractive national-scale plans. More bespoke signals may also support innovations, such as VPPs.

6. Which retailors should be captured by the proposal and why?

All retailers should be captured, not just those above the proposed 5% market share threshold. The current threshold would exclude nearly one in six households based solely on their retailer, which undermines the goal of making time-varying plans widely available to New Zealanders.

The Authority prefers the 5% threshold partly because some smaller retailers already offer time-varying plans and capturing them would increase their compliance burden. This equally applies to Contact, which already provides time-varying price plans at scale. Rather than excluding some consumers, we encourage the EA to reduce the overall compliance burden- especially for those already supporting the policy's intent.

15. Do you agree the proposed amendment is preferable to other options? If you disagree, please explain your preferred option in terms consistent with the Authority's statutory objectives in section 15 of the Electricity Act 2010?

We consider that the market is already delivering on time-varying plans. If the EA is concerned that some retailers are too slow to react it may be better to focus intervention on those retailers rather than blanket requirements across the market.

16. Do you agree the benefits of the proposed amendments outweigh its costs?

No. We consider that the costs of the proposed consumer notices materially outweigh the benefit. As covered above the costs include: the potential to be misleading to consumers, the disincentive to innovate and the direct financial implementation costs