

21 August 2012

By Email

Peter Allport
Chair
Retail Advisory Group

Dear Peter

Retail Advisory Group work plan

On 1 August 2012, the Board discussed the Retail Advisory Group's (RAG) request to undertake projects in addition to the two projects offered in June 2012.

The Board noted that the RAG agreed to undertake the following two projects offered in June 2012:

1. Review of domestic contracting arrangements which includes an assessment of:
 - a) whether to develop minimum terms and conditions for the relationship between consumers and distributors (where the distributor has a direct relationship) and retailers (referred to as conveyance model arrangements);
 - b) whether to more closely monitor retailers' behaviours by monitoring their compliance with their domestic contracts, for example, by collecting and reporting consumer complaints data; and
 - c) the potential to improve the operational efficiency of the arrangements to assist medically dependent and vulnerable consumers; and
2. Review of whether there should be mandatory disclosure of the component parts of residential consumers' electricity bills.

The Board considered the RAG's capacity to take on further additional projects. It agreed to assign the following projects to the RAG, in addition to those the RAG is already progressing and the two projects already assigned above:

3. Review of options for promoting retail competition by increasing consumers' propensity to compare and switch retailers; and
4. Review of options to improve retail competition in embedded and customer networks.

The Board decided against assigning to the RAG the project to review the advanced metering infrastructure (AMI) guidelines because the Board considered the RAG would not have sufficient time to complete this project by June 2013 in addition to completing its review of retailer default arrangements and the projects referred to in (1) and (2) above.

In addition, the Board decided not to undertake preliminary analysis of the impacts of the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 (LFC Regulations) at this stage, due to other priorities and limited resources.

A brief summary of the two additional projects referred to in (3) and (4) above is set out below. Subject to the RAG accepting the two additional projects, the RAG, in conjunction with Authority secretariat staff, will need to develop a work plan that provides a detailed scope for each project, identifies when each project would start, and identifies the expected milestones and timeframes for each project.

Review of options for promoting retail competition by increasing consumers' propensity to compare and switch retailers

The objective of this project is to consider the performance of the Consumer Switching Fund (CSF) and to identify what actions the Electricity Authority can take to promote to consumers the benefits of comparing and switching retailers.

The CSF is a \$5 million a year fund for activities to promote to consumers the benefits of comparing and switching retailers and to improve the capability of the Consumer NZ Powerswitch website. The CSF is funded through a levy on retailers (separate to the levy funding the Authority's activities). Funding for the CSF programmes ends on 30 April 2014.

The Authority intends examining the performance of the What's My Number (WMN) campaign and other CSF programmes by late 2012. The information about the performance of the WMN campaign will inform the development of options for promoting to consumers the benefits of comparing and switching retailers. This is a function of the Authority under s16(1)(i) of the Electricity Industry Act 2010.

The Authority will need to consider whether to continue the WMN campaign beyond April 2014 or to proceed with alternatives. The approach, whatever it may be, would need to be included in the development of the 2013/14 work programme and as part of the 2014/15 appropriations process. The Authority may need to seek a further appropriation should it want to continue some/all of the CSF programmes or similar activities to meet the objective.

Review of options to improve retail competition in embedded and customer networks

The objective of this project is to examine the potential to improve retail competition in embedded and customer networks.

An embedded network is a small network within a distribution network. Consumers on the embedded network each have an ICP. For example, an apartment block might be established as an embedded network. There are 118 embedded networks in New Zealand with 21,278 ICPs.

A customer network is a small network within a distribution network and the consumers on the customer network do not have an ICP and are resupplied electricity. Consumers on a customer network cannot choose their retailer. There is no information on how many consumers are on customer networks.

The RAG identified a potential problem with the ability of retailers to compete to supply consumers on embedded and customer networks. This matter potentially has wider effects on competition because there is anecdotal evidence that in some circumstances gaining a contract

to supply a chain of business customers can be frustrated if one of those business customers operates in an embedded or customer network and cannot switch.

The terms of reference for the RAG state that the RAG's work plan will be agreed between the RAG and the Authority. I look forward to confirming the RAG's work plan with you soon, following the RAG's consideration of these projects and your discussions.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Carl Hansen', with a stylized, cursive script.

Carl Hansen
Chief Executive