



MAJOR ELECTRICITY USERS' GROUP

20 August 2013

Mr Peter Allport
Chair
Retail Advisory Group

By email to rag@ea.govt.nz
c/- Electricity Authority

Dear Mr Allport

Discussion Paper – Improving transparency of consumers' electricity charges

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Retail Advisory Group (RAG) Issues and Options paper¹ "Improving transparency of consumers' electricity charges" dated 19th July 2013. Members of MEUG have been consulted in the preparation of this submission. This submission is not confidential.
2. Responses to questions in the consultation paper follow:

Question	MEUG response
1. Do you agree with the issues raised about the transparency of consumers' electricity charges?	<p>MEUG agrees competition could be improved by² "ensuring consumers have timely access to sufficient information to make informed choices about their electricity supply".</p> <p>There are many possibilities to improve quality and timeliness of information. Greater transparency on invoices is an option to consider.</p> <p>The issues in paragraph 2.1.1 a) go wider than the focus set by the Authority Board set out in paragraph 1.1.2 on improving competition and increased customer choice³. MEUG believes those issues are valid and need investigation, ie</p>

¹ <http://www.ea.govt.nz/dmsdocument/15267> found at <http://www.ea.govt.nz/our-work/consultations/advisory-group/rag-transparency-consumer-charges/>

² RAG paper, paragraph 1.1.2

³ The issue in paragraph 2.1.1 d), "some consumers want to be able to more easily compare retailers" aligns with the Authority Board focus on competition and customer choice. However it's difficult to see how having more disaggregated

Question	MEUG response
	<ul style="list-style-type: none"> • The ability of consumers to validate invoices⁴; and • Better information on drivers of prices to allow in some case customers to seek better terms⁵. <p>Non-household time-of-use customers have both been affected by the above two issues.</p> <p>The latter issue is a common problem for non-household consumers seeking market equivalent prices for be-spoke assets and services from line monopolies.</p> <p>For example MEUG is aware of non-household consumers that have required new customer specific line assets to be built by the local line monopoly and give scant information to justify the proposed tariff for that asset. When information is given, the key assumptions to be used by the monopoly such as cost of capital are often substantially above the cost of capital calculated by the Commerce Commission. When pressed for further information the monopolies simply refuse resulting in a take it or leave decision for customers.</p>
<p>2. If so, how widespread are these issues, and what is their effect? Please provide any evidence you may have to support your view on the size and nature of these problems.</p>	<p>See response to Q1.</p> <p>Lack of choice⁶, opaque invoices that cannot be independently validated and lack of ex ante justification for prices for be-spoke line services corrodes non-household customer confidence in the electricity market as a whole.</p>
<p>3. Do you have any other concerns about the availability of information about consumers' electricity charges?</p>	<p>No.</p>
<p>4. If you are a retailer or distributor, please provide a representative sample of your consumer invoices (where applicable) and a link to any consumer pricing information on your website. Please also provide a description and/or examples of any other relevant information that you make available to consumers.</p>	<p>Not applicable.</p>

information on competing retailers invoices would change the decision criteria of a customer to choose the retailer with the overall lowest total delivered price.

⁴ Paragraph 2.1.1 b)

⁵ Paragraphs 2.1.1 a) and 2.1.1 c)

⁶ This has over time become less of a problem. For non-household consumers the introduction of a "My Business" web page on the <http://www.whatsmynumber.org.nz/> web site has been useful.

Question	MEUG response
5. What other sources of information about consumers' electricity charges are you aware of?	None known.
6. What are the perceived or actual differences of the electricity industry that may warrant consideration of making more transparent pricing information available to consumers?	<p>The three factors cited in the paper⁷ of:</p> <ul style="list-style-type: none"> • Relative immaturity of electricity as a commodity compared to other markets, • Perception or reality that electricity is essential and • The price is not known until after consumption <p>Are all relevant to understanding why electricity is or is perceived to be different from other services and hence may warrant targeted intervention for more transparent pricing information.</p> <p>There is a fourth relevant factor and that is a material fraction of final prices are monopoly charges and the regulatory regime governing disclosure of and guidelines for setting monopoly charges can also be described as immature and likely to evolve to better meet the needs of customers .</p>
7. Do you agree with the key questions to be addressed by this project? Do you consider there are any other key questions?	No further key questions.
<p>8. What information do consumers need to:</p> <p>a. Check they have been invoiced correctly?</p> <p>b. Understand what is driving price changes?</p> <p>c. Determine what they can do to reduce their bills?</p>	<p>Sufficient data on invoices or easily available on a web site to validate invoiced values against the tariff structure of that particular retailer.</p> <p>More important to know this before choosing a retailer or entering an agreement with a distributor for a customer specific asset.</p> <p>This is an issue related to the structure of tariffs in the first place rather than lack of transparency.</p> <p>Some customers will not want to consider active demand response and therefore may elect retailers with relative simple tariff structures. Other customers might wish to respond to very fine price signals and want complex tariffs. Making choice of retailer based on knowledge of the tariff structure ahead of making that choice is important.</p>

⁷ Paragraphs 4.1.4 to 4.1.6

Question	MEUG response
d. Make effective choices about their retailer?	See response to Q8 c. above.
9. From what sources can consumers already obtain some, or all, of this information?	As well as invoices themselves, the sources as listed in sections 3.3 to 3.5 and 3.7 are relevant.
10. Are there any gaps between the information consumers require, and the information that is already available?	The information gaps give rise to the two additional issues mentioned in the paper and discussed in response to Q1 of inability of consumers to validate invoices and lack of specificity in tariffs for customers to understand price drivers and seek more reasonable terms.
11. When do consumers need information about their electricity charges?	<p>First, before they choose a retailer or agree a customer specific asset to be charged by the local monopoly. This is crucial to improve competition and choice and ensure total delivered charges are reasonable.</p> <p>Second, after being contracted with a retailer (or a line monopoly for a specific service) and taking supply, customers can use information to validate charges using that retailer's tariff structure (or the monopoly's new investment contract).</p>
12. What is (are) the most useful communication channel(s) for delivering the required information?	The appropriate channels will be retailer or line monopoly specific depending on tariff complexity.
13. If the Authority intervenes, should the costs be socialised across all consumers or recovered only from those consumers who want this service?	A beneficiary's pay approach should be used.
14. How much are consumers prepared to pay for such information?	To the point that the incremental benefits they receive are less than the incremental costs of being provided such information. This will differ from customer to customer.
15. Do you consider the 'do nothing' option is viable? Please provide your reasons, including the costs and benefits of this option.	Probably not. If the costs of mitigating problems with validating invoices and lack of specificity on price drivers is modest then they should be implemented.
16. Do you consider the Authority should take a more active role in educating consumers and/or providing enhanced comparison tools? Please provide your reasons including the costs and benefits of this option.	Finer detail on the Powerswitch website and tools tailored to specific consumer groups should be considered using a voluntary participation basis by retailers as at present.

Question	MEUG response
<p>17. Do you consider retailers should be required to provide additional pricing information? Please provide your reasons, including the costs and benefits of this option. If retailers are required to provide additional pricing information, should this apply to all products? Or should a retailer and consumer be able to agree to a pricing arrangement that is not subject to mandatory disclosure (such as a fixed-term contract whereby the retailer absorbs any increases in network charges for a number of years)?</p>	<p>The only new mandatory requirement MEUG suggests is needed is a requirement for all retailers to post publicly all existing tariff offers so that customers can compare for themselves offers for their specific circumstances rather than rely on the generic customer segments used by Powerswitch.</p> <p>It may also be useful to mandate prior offers, say over the last 12 months, should also be publicly available.</p>
<p>18. If retailers are required to provide additional pricing information, what form should this take?</p>	<p>See response to Q17.</p>
<p>19. Should pricing disclosures also include recent history of prices, for example, trends over the past 12-18 months?</p>	<p>An archive of prior tariff offers might be best kept by and published by the Electricity Authority because we expect the Authority will wish to have that information just in case it is needed for future investigations.</p>
<p>20. Do you consider retailers should be required to provide consistent representation of prices, for example, via a template?</p>	<p>No, not for retailers.</p> <p>Probably yes for line charges. MEUG is still considering this and will form a view once the Authority publishes the analysis of the current distribution pricing alignment review that commenced in April 2013⁸.</p> <p>MEUG is also considering the effectiveness of the Information Disclosure regime⁹ for non-standard tariff customers.</p>

⁸ Refer <http://www.ea.govt.nz/our-work/programmes/transmission-work/principles-or-model-approaches-to-distribution-pricing/>. At the end of that web page the Authority states:

"The Authority has appointed Castalia to assist with a review of distributors' pricing methodologies. The review will provide information about:

- (a) the information that is disclosed by each distributor about its pricing methodology
- (b) the extent to which each distributor's methodology aligns with the principles
- (c) whether a distributor's pricing approaches and methods are efficient or inefficient, given a particular set of network circumstances.

The Authority will use the review outcomes to assess whether the voluntary pricing principles are resulting in distributors using efficient and pro-competitive pricing structures or whether alternative arrangements are needed to achieve efficient pricing methodologies. The Authority's decisions about distribution pricing and the principles and guidelines will be informed by the statutory objective and the economic framework.

The Authority intends to publish the findings of the review for each distributor, most likely in late-2013."

⁹ WAG paper, paragraph 3.3.1

Question	MEUG response
<p>21. Do you consider retailers should be required to disclose the component parts of electricity charges on consumers' bills? Please provide your reasons, including the costs and benefits of this option.</p>	<p>Based on the evidence to date MEUG's current view is that it is not obvious disaggregation on invoices need be mandatory provided retailers are required to post publicly (eg on their web sites) all current tariff offers they have and recent prior offers (say last 12 months). This preliminary view of MEUG is subject to viewing the responses of other parties to this consultation and further analysis that RAG intend to make.</p> <p>Of more immediate concern to MEUG is that regulated monopoly charges cannot always be validated by an individual customer by reference to posted charges disclosed by the monopoly. This may be a problem with either or both:</p> <ul style="list-style-type: none"> • The Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 administered by the Commerce Commission; and or • Compliance with or possibly not fit for purpose status of the "Distribution Pricing Principles and Information Disclosure Guidelines"¹⁰ dated February 2010 administered by the Electricity Authority. <p>MEUG is also not satisfied that grid exit pricing (GXP) has been sufficiently investigated to understand if the benefits to the monopolies that use GXP pricing are shared with customers and those shared benefits outweigh the dampening effect GXP pricing has on competition.</p>
<p>22. If so, should it be required across all products, or should consumers be able to opt in (or alternatively, opt out)?</p>	<p>Not relevant because in response to Q21 we have not presumed mandatory disaggregation of all components of a retailers invoice is needed.</p>
<p>23. What is your view on the option to require retailers to offer to disclose the components of electricity charges as a paid service?</p>	<p>See responses to Q13, Q14, Q21 and Q22.</p>

Yours sincerely



Ralph Matthes
Executive Director

¹⁰ <http://www.ea.govt.nz/dmsdocument/1944>