

19 August 2013

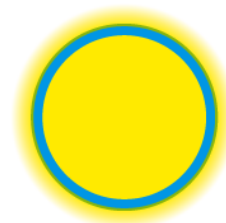
Powerco Limited

CORPORATE OFFICE

84 Lizardet Street
Private Bag 2061
New Plymouth
T 0800 769 372
F +64 6 758 6818
www.powerco.co.nz

Retail Advisory Group
Electricity Authority
Level 7, ASB Bank Tower
PO Box 10041
WELLINGTON 6143

[Sent by email to: RAG@ea.govt.nz]



Dear Peter

Powerco submission on improving transparency of consumers' electricity charges – issues and options

Introduction

1. Powerco Limited (Powerco) welcomes the opportunity to comment on the consultation paper *Improving transparency of consumers' electricity charges*, published by the Retail Advisory Group (RAG) on 9 July 2013.
2. This submission comprises:
 - general comments relevant to the paper; and
 - responses to the RAG's detailed questions (Appendix A).
3. Powerco supports the continuing work by the Authority and the RAG to promote competition in the electricity industry, as increased competition may benefit consumers by putting downward pressure on costs.

Problem definition

4. We would welcome a clearer problem definition to support this work. The reference to "some consumer groups" in section 2 of the paper is a little obscure. It would be helpful if the RAG could identify the particular consumer groups that have raised concerns and explain more clearly why it believes that regulating the provision of more detailed information could help to promote efficiency given, in particular, that it is not physically possible for consumers to be supplied by alternative distribution and transmission service providers.
5. Powerco supports the principle of increasing the transparency of consumers' electricity charges, provided the benefits to consumers can be shown to exceed the costs and there is genuine consumer demand for the additional information. However, it is essential to have a good understanding of consumers' needs and preferences, and how the market is currently responding to these, before considering possible further regulatory intervention in this area. Given the substantial pricing information that is already readily available consumers, we believe it is unlikely that the incremental benefit to consumers of mandating the inclusion of additional pricing information on customers' accounts would exceed the incremental cost.

Costs associated with providing information on bills and commercial drivers

6. The sort of information referred to in the consultation paper is already publicly available to consumers who wish to obtain it, but it is not provided on every customer's bill. Breaking out and separately printing the components of every individual consumer's charges is a complex task that would impose significant additional costs. These costs would ultimately be borne by consumers. Hence, we believe that clear evidence of how this additional information would help to promote additional competition in the retail market, beyond that already achieved by the Electricity Authority's 'What's My Number?' switching campaign and Consumer NZ's Powerswitch website, should be obtained before considering regulatory intervention.
7. The consultation paper correctly identifies the fact that the creation of mandatory requirements could undermine the competitive advantage of retailers that already unbundle their bills. Further disaggregation of charges creates additional costs, but is a selling point that some retailers use to attract customers that value this service. Independent organisations, such as Consumer NZ via its "Powerswitch" website, also already provide services and information targeted at consumers who want greater transparency of costs and the ability to make comparisons. Hence, it is not clear why the market should not simply be allowed to operate, free of further regulatory intervention in this area.
8. However, if a future review by the Authority were to reveal that the market was not, in fact, providing the sort of information that customers valued in a form they preferred at that time, we would accept that that would constitute *prima facie* evidence that some form of additional intervention may be worth considering.

Possible lower cost alternative – common template for annual price change information

9. Distributors already provide information on their pricing via their websites, which can be readily accessed by interested customers. However, it might help to make comparisons more transparent if annual price change information were required to be set out in the form of a common template.

Conclusion

10. Powerco supports the principle of providing increased information to consumers who value it, in an accessible and user-friendly manner, but is concerned that the costs of the proposed mandatory billing options could exceed the benefits to consumers. We note that the sort of information discussed in the paper is already publicly available to consumers who wish to obtain it and some retailers currently provide disaggregated charges as a selling point to attract customers that value this service. Some independent organisations also already provide information targeted at consumers that want greater cost transparency and the ability to make comparisons. Hence, as the market seems to be working satisfactorily at present, we do not see a strong need for the investigation of possible mandatory regulation of the presentation of customer accounts. If the Authority wished to improve the transparency of the website-based pricing information currently provided by distributors, requiring this to be presented in a common template form might help.
11. However, if a future review by the Authority were to reveal that the market was not, in fact, providing the sort of information that customers valued in a form they preferred at that time, we would accept that that would constitute *prima facie* evidence that some form of additional intervention may be worth considering.

12. Thank you for the opportunity to make this submission. If the Authority wishes to discuss any aspects of this submission, please contact Oli Vincent, oliver.vincent@powerco.co.nz , ph. (06) 757 3397, in the first instance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R Fletcher', with a stylized flourish at the end.

Richard Fletcher
General Manager Regulation and Government Relations

Appendix A: Responses to the consultation questions

	Question	Powerco Response
1	Do you agree with the issues raised about the transparency of consumers' electricity charges?	<p>We agree, in principle, that electricity consumers have an interest in what drives price changes and in information that could enable them to consider options that might reduce their costs. However, the reference to “some consumer groups” in section 2 is a little obscure. It would be helpful if the RAG could identify the particular consumer groups that have raised concerns and explain more clearly why it believes the provision of more detailed information would help to promote efficiency, given, in particular, that it is not physically possible for consumers to be supplied by different distribution and transmission service providers.</p> <p>The nature of the way that retailers “re-bundle” charges means that, even if charges were disaggregated, it would not necessarily be clear what was driving price changes at any particular time. Some of the concerns raised could be addressed by promoting initiatives to aid consumer understanding of the electricity industry, including the operation of the wholesale market and the regulation of the network businesses.</p> <p>Even if consumers are provided with greater information, their ability to react is limited to switching retailers, as transmission and distribution charges are regulated and bundled into retail prices. Services such as the ‘What’s My Number?’ website already assist customers to identify their lowest cost supply option.</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>As noted in response to question 1 above, the RAG could help promote greater understanding of how widespread these issues are by identifying the particular consumer groups that have raised these concerns and how representative of consumer interests they are. It would also help if the RAG were to explain more clearly why it believes the provision of more detailed information would help to promote efficiency.</p> <p>From time to time, Powerco receives queries from customers about how charges are set and how they might be reduced. We are also aware that the public has a general interest in the quantum of electricity charges and what drives changes in these charges. However, we are not aware of specific proposals by our customers to further disaggregate the information on their individual bills.</p>

Powerco submission on *Improving transparency of consumers' electricity charges – issues and options paper*

3	Do you have any other concerns about the availability of information about consumers' electricity charges?	No, detailed information about charges and how they are determined is readily available to consumers who wish to obtain it. Distribution companies provide information about their charging via their websites and the information provided to the Commerce Commission. The "What's My Number?" service enables retail customers to readily identify the lowest cost supply option available to them. Independent organisations, such as Powerswitch, also already provide information targeted at consumers who want greater transparency of costs and the ability to make comparisons. If the Authority wished to improve the transparency of the website-based pricing information currently provided by distributors, requiring this to be presented in a common template form might help.
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>Powerco operates an interposed arrangement with retailers, so does not directly bill consumers (apart from a small number of customers on non-standard agreements). Consequently, we cannot provide a representative sample of a consumer invoice, but Appendix B provides a summary of Powerco's network charges, which is published annually in the press and on our website at: http://www.powerco.co.nz/uploaded_files/Publications-and-Disclosures/New/pricing/2013-Western-Line-Pricing-2013.pdf</p> <p>We currently meet all regulatory requirements regarding publishing pricing related information and this information can be found on our website at http://www.powerco.co.nz/Publications-and-Disclosures/Pricing-Schedules/Electricity/.</p>
5	What other sources of information about consumers' electricity charges are you aware of?	The www.whatsmynumber.org.nz and www.powerswitch.org.nz websites.
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 perceived differences detailed in section 4 are broadly correct, but we do not believe they represent major differences between electricity and other goods and services. In particular, most consumers are aware that their charges are related to the amount of electricity they consume and they can obtain information about how much electricity particular appliances, etc, use if they wish to do so.</p> <p>Rather than focusing on the uniqueness of the electricity industry structure in comparison to other industries, we believe that consumers are mainly concerned about the total cost of electricity to them and the reasons for increases. Hence, it is changes to their invoices, and their ability to understand how to manage their consumption that create the desire for greater access to information.</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. At this stage we consider it more critical to identify clearly whether or not a problem exists, how material it is, and if it is material, whether regulatory intervention is required to address it or the market can be left to provide an adequate response.

8	<p>What information do consumers need to:</p> <ul style="list-style-type: none"> a. check they have been invoiced correctly? b. understand what is driving price changes? c. determine what they can do to reduce their bills? d. make effective choices about their retailer? 	<p>It is not possible to give simple answers to questions a) to d) because of the diversity of consumers' interests in their charges and the diversity of their information needs and wants. Some consumers may want a level of information that would allow them to analyse their charges by individual component, while others may only want a broad overview that would allow high level comparisons to be made.</p> <p>Our response below covers both ends of the information scale, i.e. the minimum aggregated information required to answer the four questions and the disaggregated level of information needed to allow detailed analysis of an invoice.</p> <table border="1"> <thead> <tr> <th></th><th>Aggregated information</th><th>Disaggregated information</th></tr> </thead> <tbody> <tr> <td>a. check they have been invoiced correctly?</td><td> <ul style="list-style-type: none"> meter reading check against retailer agreement check against prices published by distributors </td><td> <ul style="list-style-type: none"> breakdown of charges by component i.e. generation, transmission, distribution, metering, retailing meter reading check against prices published by distributors </td></tr> <tr> <td>b. understand what is driving price changes?</td><td> <ul style="list-style-type: none"> explanation of factors producing a change in total price. </td><td> <ul style="list-style-type: none"> breakdown of charges by component i.e. generation, transmission, distribution, metering, retailing historical time series of broken down costs explanation of factors leading to a change in each component. </td></tr> <tr> <td>c. determine what they can do to reduce their bills?</td><td> <ul style="list-style-type: none"> generic power saving advice </td><td> <ul style="list-style-type: none"> personalised information on power consumption within in their own homes </td></tr> <tr> <td>d. make effective choices about their retailer?</td><td> <ul style="list-style-type: none"> total invoice charge to allow comparison between their retailer's charges and other retailers' charges </td><td> <ul style="list-style-type: none"> total or broken down component data to allow comparison between their retailer's charges and other retailers' charges historical retailer charges </td></tr> </tbody> </table>		Aggregated information	Disaggregated information	a. check they have been invoiced correctly?	<ul style="list-style-type: none"> meter reading check against retailer agreement check against prices published by distributors 	<ul style="list-style-type: none"> breakdown of charges by component i.e. generation, transmission, distribution, metering, retailing meter reading check against prices published by distributors 	b. understand what is driving price changes?	<ul style="list-style-type: none"> explanation of factors producing a change in total price. 	<ul style="list-style-type: none"> breakdown of charges by component i.e. generation, transmission, distribution, metering, retailing historical time series of broken down costs explanation of factors leading to a change in each component. 	c. determine what they can do to reduce their bills?	<ul style="list-style-type: none"> generic power saving advice 	<ul style="list-style-type: none"> personalised information on power consumption within in their own homes 	d. make effective choices about their retailer?	<ul style="list-style-type: none"> total invoice charge to allow comparison between their retailer's charges and other retailers' charges 	<ul style="list-style-type: none"> total or broken down component data to allow comparison between their retailer's charges and other retailers' charges historical retailer charges
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9	From what sources can consumers already obtain some, or all, of this information?	<p>Aggregated information is available from:</p> <ul style="list-style-type: none"> • retailer price change notifications addressed to each consumer • retailers' websites (to various degrees) • distributors' websites • independent websites (e.g. www.whatsmynumber.org.nz and www.powerswitch.org.nz) <p>Disaggregated information available from:</p> <ul style="list-style-type: none"> • Commerce Commission electricity distribution business information disclosures • Ministry of Business Innovation and Employment website (www.mbie.govt.nz)
10	Are there any gaps between the information consumers require, and the information that is already available?	No, the information required to address all the concerns detailed in paragraph 2.1.1 is currently available to the public. The issue is how whether or not it is consolidated, communicated and presented in a format that is understood and of value to consumers.
11	When do consumers need information about their electricity charges?	In our view, consumers expect to see sufficient information on their monthly bills to enable them to confirm that their charges have been calculated correctly in accordance of their agreement with their retailer, and to enable them to make comparisons between retailers. If consumers become interested in other information that may be driving changes in retail prices, such as changes in transmission and distribution charges and movements in wholesale electricity prices, we would anticipate that they would expect to obtain this information at the time they become interested in it, which they can do via the websites maintained by distributors, Transpower, the Electricity Authority and the Ministry of Business, Innovation and Employment (MBIE).
12	What is (are) the most useful communication channel(s) for delivering the required information?	To answer this question fully would require a survey of consumers' preferences and willingness to pay for information delivered in different ways. However, we believe that the monthly account is the right place for information on consumers' individual consumption and the calculation of their charges in terms of their agreements with their retailers. The best channel for communicating information on transmission and distribution charges and wholesale electricity prices would be the internet.
13	If the Authority intervenes, should the costs be socialised across all consumers or recovered only from those consumers who want this service?	It depends on the delivery mechanism. If mass communication methods were used socialisation of costs would probably be inevitable, and the costs would then be recovered from all consumers whether or not they valued the service being provided.
14	How much are consumers prepared to pay for such information?	<p>Willingness to pay surveys would be required to answer this.</p> <p>Currently consumers already ultimately incur the costs relating to promoting competition via the 'What's my number?' campaign. Serious consideration needs to be given to the net benefit of creating additional costs that would be borne by consumers.</p>

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15	Do you consider the 'do nothing' option is viable? Please provide your reasons, including the costs and benefits of this option.	Yes, the 'do nothing' option is viable. Some retailers already provide more detailed pricing and consumption information as a point of difference to help attract customers and further information to enable the comparison of retailers' charges is available from the Electricity Authority's www.whatsmynumber.org.nz website and the Consumer NZ www.powerswitch.org.nz website. If customers wish to obtain additional information on distribution charges, transmission charges and wholesale electricity prices, this is available via the websites maintained by distributors, Transpower, the Electricity Authority and the Ministry of Business, Innovation and Employment (MBIE). More survey information on consumers' preferences and willingness to pay would be required to answer this question definitively.
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.	If it could be shown that the benefits to consumers of providing additional information about electricity charges would exceed the additional costs then the Authority might have a role in providing such information. However, our view is that the information and web-based comparison tools that are currently available are sufficient.
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)?	At present, we believe that further mandatory requirements for retailers to disclose particular pricing information are not necessary. The market appears to be operating satisfactorily in this area as demonstrated by the fact that some retailers already provide additional detailed pricing and consumption information as a point of difference to help attract customers. However, if a future review by the Authority were to reveal that the market was not, in fact, providing the sort of information that customers valued in a form they preferred at that time, we would accept that that would constitute <i>prima facie</i> evidence that some form of additional intervention may be worth considering.
18	If retailers are required to provide additional pricing information, what form should this take?	If retailers were required to provide additional information, we would suggest that a single mandatory disclosure template would aid transparency and facilitate comparison between retailers.
19	Should pricing disclosures also include recent history of prices, for example, trends over the past 12-18 months?	Including trends over the past 12-18 months would be helpful.
20	Do you consider retailers should be required to provide consistent representation of prices, for example, via a template?	We do not believe further regulatory intervention is necessary at present, but if the Authority decided that some further intervention was appropriate, requiring a standard pricing template to be used would be the simplest and lowest cost way to facilitate transparency and the comparison of prices between retailers.
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.	Breaking out and separately presenting the components of every individual consumer's charges bills is a complex task that would impose significant additional costs that would ultimately be borne by consumers. We think it unlikely that the incremental benefits to consumers would exceed the incremental costs and could not currently support the mandatory disclosure of additional information on consumers' bills unless this could be demonstrated. There is already ample charging comparison information available to those consumers who want it via the Electricity Authority's www.whatsmynumber.org.nz website and the Consumer NZ www.powerswitch.org.nz website.

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22	If so, should it be required across all products, or should consumers be able to opt in (or alternatively, opt out)?	Not applicable, as we do not support additional mandatory requirements at present.
23	What is your view on the option to require retailers to offer to disclose the components of electricity charges as a paid service?	There is no need to impose a mandatory requirement of this sort, as some retailers already offer this information as a marketing point of difference. The market should be allowed to operate to determine which customers most value this service. If, in the future, a review by the Authority were to reveal that the market was not operating satisfactorily in this area, this is an option that the Authority might consider at that time.

Appendix B – Published summary of Powerco's network charges

POWERCO ELECTRICITY INFORMATION DISCLOSURE

Powerco is required under Clause 2.4.19 of the Electricity Distribution Information Disclosure Determination 2012 to disclose the line charges that make up part of your electricity price, together with the number of consumers on each pricing option.

Powerco provides line business activities to electricity retailers and invoices them for line charges. Retailers then invoice consumers for supply of electricity inclusive of line charges. Accordingly, Powerco cannot guarantee the line charges specified herein are the line charges that retailers invoice to consumers as retailers may choose to modify charges. All charges exclude GST. Other lines and use of system charges or conditions may also apply. Please refer to the full Powerco Pricing Schedule on Powerco's website. For retail electricity prices please see your retailer.

Powerco is not required to disclose line charges if the number or estimated number of consumers by whom the line charge is to be paid is less than five.

WESTERN NETWORK

WHOLESALE CHARGES FOR LESS THAN 100 KVA CONNECTIONS

Line charges effective: 1 April 2013							Previous line charges					
GXP	GXP Grouping	Volume Charges c/kWh		Total Demand Charge* \$/kW/month	Transmission Comp. Demand Charge \$/kW/month	ICP Fixed Charge c/day	Installation Control Points (Estimate)	Volume Charges c/kWh		Total Demand Charge* \$/kW/month	Transmission Comp. Demand Charge \$/kW/month	ICP Fixed Charge c/day
		Day	Night					Day	Night			
Brunswick Wanganui Carrington New Plymouth Stratford Huirangi Bunnythorpe Linton	A	5.84	1.17	15.01	8.9359	Controlled 0.00 Un-controlled 15.00	113,810	5.5408	1.1081	14.2512	8.6552	Controlled 10.00 Un-controlled 15.00
Opunake Waverley Marton Mataroa Ohakune Masterton Greytown Mangamaire Hawera	B	7.85	1.55	18.90	10.3035	Controlled 0.00 Un-controlled 15.00	50,963	7.4480	1.4752	17.9421	9.9137	Controlled 10.00 Un-controlled 15.00

WHOLESALE CHARGES FOR >100 KVA CONNECTIONS

GXP		Line charges effective: 1 April 2013				Installation Control Points (Estimate)	Previous line charges		
		E100 Network Assets Charge \$/ICP/month	E100 Total Demand Charge* \$/kVA/month	Transmission Comp. Demand Charge \$/kVA/month	E100 Total Demand Charge* \$/kVA/month		E100 Network Assets Charge \$/ICP/month	E100 Total Demand Charge* \$/kVA/month	Transmission Comp. Demand Charge \$/kVA/month
Carrington New Plymouth Stratford Huirangi	A	266.00 applies to all GXP groups	15.18	5.7036	41	260.00 applies to all GXP groups		14.8333	5.6857
Hawera	B		27.40	7.8000	7			26.7689	7.7234
Waverley	C		24.90	6.6483	0			24.3279	6.5834
Opunake	D		24.46	10.2728	1			23.9024	10.1744
Brunswick Wanganui	E		13.83	4.2438	21			13.5091	4.2289
Marton	F		15.01	2.1480	4			14.6608	2.1264
Mataroa Ohakune	G		26.38	6.5619	3			25.7743	6.4980
Masterton Greytown	H		22.50	6.5615	25			21.9845	6.4980
Bunnythorpe Linton	I		14.38	4.4786	101			14.0497	4.4640
Mangamaire	J		17.29	8.5207	1			16.8894	8.4359

WHOLESALE CHARGES FOR >300KVA CONNECTIONS

GXP	Connection Groups	Line charges effective: 1 April 2013				Installation Control Points (Estimate)	Previous line charges		
		E300 Network Assets Charge \$/kVA Installed Capacity/month	E300 Total Demand Charge* \$/kVA/month	Transmission Comp. Demand Charge \$/kVA/month	E300 Total Demand Charge* \$/kVA/month		E300 Network Assets Charge \$/kVA Installed Capacity/month	E300 Demand Charge* \$/kVA/month	Transmission Comp. Demand Charge \$/kVA/month
Carrington New Plymouth Stratford Huirangi	A	1.61 applies to all GXP groups	10.18	5.7036	76	1.56 applies to all GXP groups		9.8538	5.6857
Hawera	B		13.66	7.8000	11			13.2217	7.7234
Waverley	C		20.67	6.6483	2			19.9972	6.5834
Opunake	D		20.27	10.2728	2			19.6155	10.1744
Brunswick Wanganui	E		7.70	4.2438	36			7.4536	4.2289
Marton	F		9.32	2.1480	12			9.0198	2.1264
Mataroa Ohakune	G		20.59	6.5619	3			19.9272	6.4980
Masterton Greytown	H		16.36	6.5615	20			15.8275	6.4980
Bunnythorpe Linton	I		11.42	4.4786	78			11.0471	4.4640
Mangamaire	J		13.19	8.5207	2			12.7655	8.4359

* The Total Demand Charge includes the transmission component. The transmission component includes recovery of Transpower's connection, interconnection and new investment charges. Transpower's loss rental rebates and Transpower's EVA rebate do not form a part of the individual line charges. These items will be paid or credited directly to retailers on a monthly basis based on the actual amount invoiced or rebated by Transpower.

Powerco is New Zealand's second largest electricity and gas distribution utility with around 420,000 consumers connected to its networks. Powerco's electricity networks are in Western Bay of Plenty, Thames, Coromandel, Eastern and Southern Waikato, Taranaki, Wanganui, Rangitikei, Manawatu and the Wairarapa. Its gas pipeline networks are in Taranaki, Hutt Valley, Porirua, Wellington, Horowhenua, Manawatu and Hawke's Bay.

To view online please go to www.powerco.co.nz

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