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Dear Peter

Sufficient information for informed consumer decisions

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Retail Advisory Group (“RAG”) on the issues and options paper “Improving transparency of consumers’ electricity charges”.

Genesis Energy considers that consumers must have both meaningful and relevant information to make informed decisions about their electricity costs. We also agree that it is important for consumers to be able to be well-informed about how the electricity sector operates to provide them with electricity if they should wish to know that information.

However, we have three significant concerns with the problem definition and preliminary options set out in the paper. Namely:

- We consider that consumers currently have sufficient information to make decisions about their electricity supply;
- There is no evidence that consumers want additional information to be provided by retailers; and
- If consumers want additional information – then the costs of providing this information need to be balanced against the benefits.

We expand on these points below. Our answers to the questions in the paper are set out in Appendix A to this letter.

Consumers have sufficient information to make effective decisions

Genesis Energy agrees that consumers need information to make key decisions about their electricity supplier. These key decisions are: when the consumer is verifying their bill; understanding the drivers behind price changes; and making a decision on a new retailer.¹ In our view, consumers already have sufficient information to make these decisions. We have not identified any information that consumers must have, which they do not already have, to make these informed decisions.

Verifying consumer bills

Consumers have access to information that enables them to identify errors with their bill. At the most basic level this can be just the unit cost, consumption, and total cost. But other information is also useful to verifying a bill can include historical usage and daily profiles. For example, those Genesis Energy customers who have advanced meters are able to access detailed energy profile information online.

We do not understand how the component breakdown of electricity charges will assist customers in verifying their invoices. Most mass market consumers have a product that bundles all components into fixed and variable charges. The composition of energy/distribution costs is standard across the product in a given region with the only variable being the amount of electricity consumed. Whilst product pricing errors can occur – they are usually caused by consumers being on the wrong product. For the same reason, component break-down of charges will not assist consumers to reduce their bills.

Drivers for pricing change

Genesis Energy agrees that consumers do not necessarily understand the drivers that lead to pricing changes at the retail level. In our view, it is in the best interests of retailers to provide information for consumers to understand this. To this end, we provide a component break-down of prices to both our Genesis Energy and Energy Online customers. This information is provided to enable consumers to better understand the key drivers behind price changes.

Not all retailers will provide this level of information. Some may provide more. However, this information asymmetry is not, in our view, a market problem. Rather it is another competitive dynamic in the retail market. The paper

¹ The RAG also suggests that “determining what [consumers] can do to reduce their bills” is a further decision point. We consider that this decision point is related to both verifying invoices (e.g. understanding when power is used) and making decisions about a new retailer. The latter is particularly important, as switching retailers can be the easiest and quickest way for consumers to reduce their bill.

hypothesises that “some consumers want more transparency around what is driving price changes”. If correct, these consumers are free to switch to a retailer that provides the level of information that is desirable to them.

Making effective choices about retailers

In our view, the key information for consumers when making a choice about a retailer will be the price and the level of service. For many consumers, price will be the primary driver, while for others, the level or nature of service offered may be more determinative.

In terms of price, we suggest that the key information will be the fixed and variable unit tariffs. In our view, at best, a component break-down of prices will be interesting – but not decisive – for consumers. Ultimately the most important information will be the sum price. At worse, a component breakdown may confuse customers. For example, a relatively simple two part pricing plan would be split into seven elements (fixed transmission and distribution charges, fixed retail costs, variable EA levy, variable transmission and distributor charges and variable retailer costs).

It is also worth noting that, as a requisite of our user systems agreement with the Vector Network, we identify the distribution charge portion of a consumer’s bill. To our knowledge, this itemisation has not had any positive effect on retail competition or consumer retailer decisions in the Vector network.

No evidence that consumers want additional information to be provided by retailers

We are sceptical that consumers want a component break-down of charges from retailers. We are not aware of any consumers requesting this level of information from our call centres, nor does the paper present any information to support the claim itself.

We agree that there is value in answering this question. However, we are not confident that the papers approach in asking for evidence from interested parties will produce a robust answer. We suggest that the RAG should ask electricity consumers directly via an independent survey.

If consumers want more information – then costs need to be carefully balanced against benefits

Genesis Energy is not yet convinced that there is a compelling reason to mandate “improving transparency of consumers’ electricity charges”. Furthermore, we are concerned that the costs of a component break-down of

electricity charges may be significant – and will not be commensurate with any benefits.

A more cost effective way forward is likely to be providing this information via the retailers website. This could simply replicate the level of information that we already provide for pricing changes. But it will still impose additional costs on retailers, as calculating these values will have to be completed on a more frequent basis.

We consider that there is value in providing information to consumers on the drivers behind pricing change, but not to a point where it becomes so convoluted that the industry loses consumer interest. This is evidenced by the fact that we provide what we believe is relevant information already.

In our view, the benefit for the retailer is that a higher awareness of the reasons for the change may reduce the concern with the change itself. For the consumer, this information may allay concerns that they are not receiving value for money from the retailer. Finally, a more remote benefit may be a greater level of public interest in the investment and operational activities that the distributor undertakes.

If you would like to discuss any of these matters further, please contact me on 04 495 3340.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Jeremy Stevenson-Wright', is displayed within a light grey rectangular box.

Jeremy Stevenson-Wright

Regulatory Affairs Manager

Appendix A: Responses to Consultation Questions

QUESTION	COMMENT
Q1: Do you agree with the issues raised about the transparency of consumers' electricity charges?	See cover letter.
Q2: 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.	See cover letter.
Q3: Do you have any other concerns about the availability of information about consumers' electricity charges?	No.
Q4: 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>As noted in our cover letter, Genesis Energy already provides component break downs of information to our customers:</p> <ul style="list-style-type: none"> • When prices are changed Genesis Energy provides a tabulated component break down of the new charges (attached). • We itemise distribution charges for customers in the Vector network. This is a requirement of our user system agreement with Vector. It imposes a significant cost on billing processing for customers in this area (attached).
Q5: What other sources of information about consumers' electricity charges are you aware of?	No comment.

QUESTION	COMMENT
<p>Q6: 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>	<p>The electricity sector is unique in that delivery of the product depends upon a combination of competitive and monopoly service providers. Whilst competitive pressures influence generation and retail margins (and efficiency) – there is no similar pressure on distributors. Rather the Commerce Commission uses regulatory pressure to stimulate efficiency.</p> <p>These monopoly costs are managed by the retailers as part of the overall electricity charge to consumers. As with other cost inputs, how these costs are managed will vary from retailer to retailer. But the monopoly costs are a significant portion of the final electricity charge. It is important that consumers are aware of the impact that these costs have on the final energy price.</p> <p>However, as discussed below, the options for addressing this potential issue must be carefully weighed against the costs of the respective options.</p>
<p>Q7: Do you agree with the key questions to be addressed by this project? Do you consider there are any other key questions?</p>	<p>As noted in our cover letter, the best way to address these questions is to actually ask consumers what they would like.</p>

QUESTION	COMMENT
<p>Q8: 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? 	See cover letter.
Q9: From what sources can consumers already obtain some, or all, of this information?	See cover letter and answer to Question 4.
Q10: Are there any gaps between the information consumers require, and the information that is already available?	See above.
Q11: When do consumers need information about their electricity charges?	As per our cover letter, we consider that consumers must have sufficient information to make informed decisions when buying electricity.
Q12: What is (are) the most useful communication channel(s) for delivering the required information?	The information is provided by existing retailer services, competition, and marketing.
Q13: If the Authority intervenes, should the costs be socialised across all consumers or recovered only from those consumers who want this service?	<p>We do not consider that additional information is required for consumers to make informed decisions about their electricity use.</p> <p>We would be surprised if consumers would be prepared to pay for additional information that is already provided for Genesis Energy customers.</p>

QUESTION	COMMENT
Q14: How much are consumers prepared to pay for such information?	See Question 13.
Q15: Do you consider the 'do nothing' option is viable? Please provide your reasons, including the costs and benefits of this option.	<p>Yes. The paper has not presented any compelling evidence to support the problem definition.</p> <p>We suggest that the RAG and/or the Authority should engage expertise to provide some evidence as to whether consumers actually want additional break-down information. In doing this research, it will be important to note to consumers that providing this information will impose an additional cost on them.</p>
Q16: 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.	<p>We can see merit in the Authority taking a more active role in educating consumers about the electricity sector. In particular, a simple and informative explanation of the supply chain would be a useful resource for all electricity consumers. We suggest that this information should target residential consumers.</p> <p>However, we do not support a more enhanced comparison tool. Firstly, as noted above, we do not see component break-down information as being useful for customer switching. Secondly, the RAG has already addressed the question of the Authority's on-going role in price comparisons in its review of options for increasing consumers' switching.²</p>

² RAG "review of options for promoting retail competition by increasing consumers' propensity to compare and switch retailers" dated 9 April 2013

QUESTION	COMMENT
<p>Q17: Do you consider retailers should be required to provide additional pricing information? Please provide your reasons, including the costs and benefits of this option.</p> <p>If retailers are required to provide additional pricing information, should this apply to all products?</p> <p>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>We consider that Genesis Energy already provides sufficient information for consumers to make informed decisions. In particular, we already provide our customers with information on the underlying drivers for price changes.</p> <p>A further concern is the confusion that full disclosure can have on different types of product. For example, a differential network tariff is required for Genesis Energy to be able to offer an attractive multi-rate tariff. However, the networks differential tariff cannot always line-up with the periods that customers can or will respond to.</p>
<p>Q18: If retailers are required to provide additional pricing information, what form should this take?</p>	<p>If the Authority decides to require additional pricing information be provided, then we would strongly encourage them to allow this information to be provided via the retailers website.</p> <p>In our view, such an approach will:</p> <ul style="list-style-type: none"> • Minimise any confusion for customers created by a “new” line item cost. • Keep the current invoices uncluttered by unnecessary information. • Minimise the cost to retailers, and therefore customers, to provide this information. • Ensure that those customers who want to know this level of detail can access it.

QUESTION	COMMENT
Q19: Do you consider retailers should be required to provide consistent representation of prices, for example, via a template?	<p>No. Some information is and should remain compulsory (e.g. kilowatt charge, fixed and/or variable components, amount of electricity used, total cost).</p> <p>However, a template approach goes much further than this. In our view this approach will significantly reduce consumer choice. This is because it will reduce the ability for retailers to tailor how they communicate information to their customers. For example, how we provide information differs between our Genesis Energy customers and our Energy Online customers.</p> <p>We suggest that any niche new entrants are likely to take a similar approach to customising their businesses (including presentation) for their customer segments.</p>
Q20: 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.	No. See cover letter.
Q21: If so, should it be required across all products, or should consumers be able to opt in (or alternatively, opt out)?	See above.
Q22: What is your view on the option to require retailers to offer to disclose the components of electricity charges as a paid service?	See Question 14.