

5 February 2014

**Media Release
FOR IMMEDIATE RELEASE**

New evidence on retail market competition

New findings show that strong competition in the electricity market is forcing retailers to absorb cost increases rather than pass these fully on to their customers.

Electricity Authority Chair Dr Brent Layton presented the findings of new research at a stakeholder briefing this morning where he outlined major developments in the electricity sector during 2013.

The new analysis shows the costs incurred by electricity retailers over the last three years increased by 21.5% whereas prices charged to consumers over the same period went up by 12.5%.

Dr Layton says this shows competition is forcing electricity retailers to absorb some of the cost increases. "This is a very encouraging sign, and indicates the changes in the structure and rules of the electricity industry following the 2009 Ministerial Review are now having a real impact on retail market performance."

Published residential electricity prices, as measured by the Quarterly Survey of Domestic Electricity Prices (QSDEP), increased by 3.0% during 2013, but Dr Layton emphasised that this figure does not include ad-hoc discounts and special offers.

"In 2013 there were plenty of discount deals for active electricity consumers who shopped around. Residential consumers were offered between \$80 and \$300 in discounts, effectively giving price reductions ranging from 3.7% to 13.8% for an average consumer. Even though these special deals are not measured in the Consumer Price Index (CPI) published by Statistics New Zealand the electricity component of the CPI fell 0.4% in the fourth quarter of 2013. If the CPI measured

average charges paid by consumers, by capturing the effect of special deals, the fall in the electricity CPI would have been greater.”

It was also a year of records for the hedge market with trading volumes at a record high in January 2013 and the number of open contracts increasing over the year. A transmission hedge market was also successfully introduced in 2013. Dr Layton says viable hedge markets for energy and transmission are important for consumers as they give the opportunity for new retailers to enter the market without needing to build new generation. They also allow existing retailers to actively seek new customers, including customers remote from their own generation plants.

While the 2013 results indicate that stronger competition in the electricity market is bringing results, Chief Executive of the Authority, Carl Hansen, suggests there is still work to be done, particularly around further enhancing retail competition.

“Customers can get a better deal on electricity if they shop around. But, we know a lot of consumers don’t think about changing suppliers or checking out what other options are available. We need to make it a lot easier for everyone to find the best deals and understand the options available. While the electricity industry is complex, finding the best deal shouldn’t be.

“To enhance competition in the retail market, we also need to improve how the other parts of the electricity market are working. In 2014, we will be focusing on reducing barriers for new retailers to enter and expand, and reducing information barriers for group switching initiatives and for other parties that want to encourage consumers to shop around for their electricity.

For more information on the Electricity Authority’s work programme and details of the results of this analysis visit www.ea.govt.nz

— ends —

For more information:

Fleur Templeton, Communications Adviser 04 460 8844, 027 463 6260,
fleur.templeton@ea.govt.nz

Nicky Chilton, Communications Manager, 04 462 0617, 021 321 831, nicky.chilton@ea.govt.nz