

Retail price check

Market Performance Enquiry Market performance enquiry

24 June 2014



Version control

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Investigation stages

An in-depth investigation will typically be the final step of a sequence of escalating investigation stages. The investigations are targeted at gathering sufficient information to decide whether a Code amendment or market facilitation measure should be considered.

Market Performance Enquiry (Stage I): At the first stage, routine monitoring results in the identification of circumstances that require follow-up. This stage may entail the design of low-cost ad hoc analysis, using existing data and resources, to better characterise and understand what has been observed. The Authority would not usually announce it is carrying out this work.

This stage may result in no further action being taken if the enquiry is unlikely to have any implications for the competitive, reliable and efficient operation of the electricity industry. In this case, the Authority publishes its enquiry only if the matter is likely to be of interest to industry participants.

Market Performance Review (Stage II): A second stage of investigation occurs if there is insufficient information available to understand the issue and it could be significant for the competitive, reliable or efficient operation of the electricity industry. Relatively informal requests for information are made to relevant service providers and industry participants. There is typically a period of iterative information-gathering and analysis. The Authority would usually publish the results of these reviews but would not announce it is undertaking this work unless a high level of stakeholder or media interest was evident.

Market Performance Formal Investigation (Stage III): The Authority may exercise statutory information-gathering powers under section 46 of the Act to acquire the information it needs to fully investigate an issue. The Authority would generally announce early in the process that it is undertaking the investigation and indicate when it expects to complete the work. Draft reports will go to the Board of the Authority for publication approval.

The outcome of any of the three stages of investigation can be either a recommendation for a Code amendment, provision of information to a Code amendment process already underway, a brief report provided to industry as a market facilitation measure, or no further action.

From the point of view of participants, repeated information requests are generally concerned with Stage II; trying to understand the issue to such an extent that a decision can be made about materiality.

Executive summary

- 1.1 In March 2014, electricity retailers and distributors announced price rises that coincided with the annual increase in regulated transmission and distribution charges. The associated media releases by these parties presented differing estimates of price increases, which in some cases led to confusion. The Authority announced an enquiry into these conflicting claims.
- 1.2 Accurate information is a precondition for an efficient and competitive market. In this instance, consumers need to understand the source and size of price increases to make informed decisions about their electricity supplier, what fuel source to use for their energy needs (for example, whether to install gas or electric water heating, a log burner or other form of heating, or photovoltaic panels to augment or replace their network connection), and whether to make associated investments such as insulation.
- 1.3 Therefore, the focus of this enquiry is the information that consumers received directly through communications with their retailer and through the media. The scope of the first phase of the enquiry and the subject of this document are the four largest retailers and the three largest distribution company areas: Meridian Energy, Contact Energy, Genesis Energy and Mighty River Power / Mercury Energy; Vector, Wellington Electricity and Orion.
- 1.4 In all cases, communication between retailers and consumers was transparent. Three out of four retailers presented retail price changes in tables showing the current and new prices. The fourth retailer, Mercury Energy, presented the new prices. All retailers sent letters to their consumers that made the source of the price increases clear. There were no instances of false claims about the source of the price increases. In particular, there were no cases where the retailer claimed that the sole source of price increases was transmission and distribution charges, and increased prices by more than the amount necessary to cover these increases.
- 1.5 For consumers who want clarification about the source of price rises, these letters are the most reliable source of information. The letters show that three of the four retailers that are part of this first stage of the enquiry raised prices only by the amount of the increase in transmission and distribution charges. The exception was Genesis, which increased its prices by more than the increase in transmission and distribution charges saying the additional increases reflected changes in other operational costs for the company. In all cases the retailers were transparent about the reasons for price increases.
- 1.6 The media statements by the retailers and distribution companies contained conflicting information about the sources and sizes of retail price increases. There were two causes of this:
 - (a) different methodologies used to make calculations
 - (b) different subsets of consumers used for calculations
- 1.7 An example occurred in Wellington, where retailers and the local distribution company (Wellington Electricity) released average price increases to the media that were calculated differently. Wellington Electricity calculated an

average retail price increase for its area, which included commercial and industrial customers. The media compared this figure with retail companies' calculations of the average price increases for their *residential* consumers. To make the calculation, retailers used actual data on the proportion of their consumers' charges that were transmission and distribution related, whereas Wellington Electricity used an average, then rounded the result.

- 1.8 The Authority's transparency project aims to improve the transparency of information that consumers receive about their electricity charges. The results from this enquiry into retailer communications with consumers have formed part of the problem definition for this project.
- 1.9 The transparency project's consultation paper is being released at the same time as this paper. The Authority is seeking feedback on a proposal to require retailers to inform consumers of changes to transmission and distribution pricing using a prescribed form. Retailers must make transmission and distribution price change statements that are consistent with the Commerce Commission's information disclosure requirements.

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Market Performance Enquiry (Stage I)

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Market Performance Formal Investigation (Stage III)

The Authority may exercise statutory information-gathering powers under section 46 of the Electricity Industry Act 2010 to acquire the information it needs to fully investigate an issue. The Authority will generally announce early in the process that it is undertaking the investigation and will indicate when it expects to complete the work. Draft reports will go to the Board of the Authority for publication approval.

The outcome of any of the three stages of investigation can be either a recommendation for a Code amendment, provision of information to a Code amendment process already underway, a brief report provided to industry as a market facilitation measure, or no further action.

From the point of view of participants, repeated information requests are generally concerned with Stage II; trying to understand the issue to such an extent that a decision can be made about materiality.

2 Introduction

- 2.1 In March 2014, electricity retailers and distributors announced price rises that coincided with the annual increase in regulated transmission and distribution charges. The associated media releases by these parties presented differing estimates of price increases, which in some cases led to confusion.
- 2.2 The Electricity Authority's (the Authority) concern in this matter is to ensure consumers have accurate information to make decisions. Accurate information is a precondition for an efficient and competitive market because it enables consumers to choose the best retailer and to understand when it is economic to substitute alternative fuels, such as gas or wood.
- 2.3 Consequently, the Authority's approach was to look at the two main communication channels through which consumers receive information: letters from their retailers and the media. The Authority assessed both channels for accuracy of the causes and size of retail price increases.
- 2.4 Because of the volume of information involved, the Authority is conducting its enquiry in two phases. The first phase involved the four largest retailers and the three largest (by population) distribution regions—this first phase is the subject of this paper. The second phase will be a review of all remaining retailers and regions.
- 2.5 The Authority asked retailers for information regarding their communications with consumers, including any press statements they released regarding the March 2014 retail price increases. The Authority also requested a breakdown of how prices had changed for each retail plan in each of the three distribution areas. TrustPower submitted that it was not a large retailer in the distribution company areas being considered. After further consideration, the Authority decided to exclude TrustPower from the first phase of the enquiry. The first phase consists of the retailers Contact Energy, Genesis Energy, Meridian Energy, and Mercury Energy. The distribution regions are Vector in Auckland, Wellington Electricity, and Orion in Canterbury.

3 All retailers accurately reflected their price changes in their communications with consumers

- 3.1 The Authority obtained examples of letters sent by retailers to consumers about the price rises. Retailers also supplied the Authority with spreadsheets detailing the calculations of price increases made for each plan. The Authority then compared statements and price change information in the letters, and the data and calculations in the spreadsheets to ensure the letters accurately reflected the changes that were being made.
- 3.2 The Authority was particularly interested in how the price increases were described to consumers—for example, when price increases were attributed to transmission and distribution charges in communications with consumers, the Authority checked that the size of the price increase matched the size of the increase in transmission and distribution charges. The Authority was

interested in this case because the media coverage included conflicting information about the size of transmission and distribution charge increases compared with the retail rate increases.

- 3.3 The Authority found no instances of retailers misleading consumers, and in all cases the letters were transparent about the price changes that were being made. The approach of each retailer is outlined below. The Wellington Electricity and Vector areas are dealt with separately from the Orion area because Orion uses a different method of charging retailers for transmission and distribution services.

Price changes in the Wellington Electricity and Vector areas

- 3.4 Wellington Electricity and Vector use ICP based pricing. This means they have tariff codes that retailers associate directly with retail plans. These tariff codes set daily and per kWh transmission and distribution charges that retailers need to pay. Retailers base retail plans on tariff codes.
- 3.5 Retailers supplied the Authority with the prices they charge to consumers that are aligned with the tariff codes so the Authority could see the changes in transmission and distribution charges and the consequent changes in retail prices. This enabled the Authority to understand how changes in transmission and distribution charges were passed on to consumers.

Meridian Energy

- 3.6 Meridian Energy outlined the reasons for all price changes in their letters to consumers and included a table, formatted like the one below, to show the detail of the price movements for the consumer.
- 3.7 In all cases where Meridian Energy stated that the price increases were solely due to transmission and distribution charges, Meridian's own charges remained the same. The only instances where the energy price changed were to ensure compliance with the low user tariff rules regarding domestic users. These rules require that consumers pay less on these tariffs if they consume less than 8000 kWh per year (9000 kWh in the lower South Island).
- 3.8 Table 1 shows the format of the table Meridian Energy used to communicate its price changes to consumers. The table was included in each letter and made the changes transparent for consumers.
- 3.9 Meridian Energy also included an estimate of how much each consumer's total bill would increase based on expected electricity usage.

Table 1

Rate description	Current rates (incl GST)			New Rates (incl GST)			Unit of measure
	Transmission and distribution charge	Meridian Energy charge	Total charge	Transmission and distribution charge	Meridian Energy charge	Total charge	
Rate 1							c/kWh

Rate 2	c/kWh
Rate 3	c/day

Genesis Energy

- 3.10 Genesis Energy was transparent in their letters to consumers that its prices were increasing for a variety of reasons, including transmission and distribution charges. The letters stated that costs included “generation and transmission costs, metering charges and our own business costs”. The letters also indicated prices were increasing.
- 3.11 Genesis Energy included a table in its letters which made the price changes transparent. Table 2 shows the format of the table.

Table 2

Plan name	Current prices excluding GST and before prompt payment discount	New prices excluding GST and before prompt payment discount
Daily fixed charge cents/day		
Anytime rate cents/kWh		
Etc		
Etc		

- 3.12 Genesis’ approach of outlining all costs included in retail prices, means that the letters and charges are transparent.

Contact

- 3.13 Contact Energy’s price changes were limited to changes due to increased transmission and distribution charges, and the consequent changes necessary to ensure compliance of low user plans. This was based on the difference in charges between the two disclosure years, and assumed that the customer paid on time and received a prompt payment discount in both years.
- 3.14 Other changes that Contact Energy made were due to special offers ending. Residential consumers in this situation were put on standard plans, made aware of the prompt payment discount, and were invited to call Contact Energy regarding further specials and other discounts. Contact Energy included a table similar to the Genesis Energy table to make price changes transparent.

Mercury Energy

- 3.15 The only changes Mercury Energy made were to pass on transmission and distribution charges and metering costs, the latter attributable to changes to Part 10 of the Code. As with Contact, this was based on the differences in charges between the two disclosure years assuming that the customer pays on time and receives a prompt payment discount. In letters to consumers, Mercury Energy explicitly stated it was not increasing energy charges until at

least April 2015. Mercury Energy included a table in its letters outlining the new charges.

Price changes in the Orion area

- 3.16 The link between transmission and distribution charges and retail plans does not exist in the same way in Orion's area because of how Orion sets its charges. However, the Authority calculated the total increase in Orion's charges and compared this with the increases the retailers made and what was stated in the letters to consumers. This enabled the Authority to determine that retailers were transparent about their price changes at an aggregate level.

Explanation of Orion's charging

- 3.17 Orion uses a different method for pricing that is not directly associated with retail plans. Orion uses a method called GXP pricing. For a general connection in the Orion area (99% of all connections), there is a three part tariff, as set out below.

Charge type	2013/14 prices	2014/15 prices	Units
Peak charge	47.59	52.71	¢/kW/day
Volume charge			
Working weekdays (7am–9pm)	7.536	8.426	¢/kWh
Nights, weekends and holidays	0.969	1.081	¢/kWh

- 3.18 These charges include transmission and distribution, are all volume or peak based and there is no daily charge. The peak charge is based on retailer demand when total demand is highest for approximately 150 hours in the winter. Charges are levied at the GXP based on the reconciliation process. Therefore, the retailer needs to account for losses, theft and error between the GXP and the customer. Charges are levied at the GXP based on the reconciled quantities.
- 3.19 Retailers typically translate these charges into daily and variable prices for their consumers and take the risk that this translation covers their transmission and distribution costs. This translation will take account of the retailer's load profile to ensure that they recover the peak charge. The translation means that the transmission and distribution components of retail prices are not directly comparable with Orion's disclosed charges. So, it is impossible to verify—to the extent that we can in other areas—a retailer claim that it is only raising prices by the increase in transmission and distribution charges.
- 3.20 Given this, the Authority calculated the average increase in transmission and distribution charges for each retailer and compared it with Orion's average increase. All four retailers increased their transmission and distribution charges by near 11%, consistent with Orion's increase in overall revenue of 11.3%. This suggests that the retailers are accurately reflecting Orion's transmission and distribution charges in their retail rates.

Letters to consumers in the Orion area

- 3.21 Based on this analysis, the Authority concluded that retailers' letters to consumers in the Orion area accurately reflected the price changes and the sources of the price changes.

4 Communications in the media were inconsistent

- 4.1 The media coverage of price increases in March 2014 was confusing and contained conflicting estimates for price increases, most notably in the Wellington region.
- 4.2 There are two reasons for this:
- (a) different methods were used for calculations
 - (b) calculations using different subsets of consumers.
- 4.3 The most common cause of different estimates of price increases was distribution companies calculating average increase for all consumers due to increases in transmission and distribution charges, and retailers stating increases for their own set of *residential* consumers. This is important because increases to transmission and distribution charges are not distributed evenly between consumer types—some consumer types face a proportionately larger increase than others.
- 4.4 Some of the calculations are outlined below. It is important to note that when distribution companies and retailers communicated with the media, there were cases of approximations, rounding and errors.

Media statements about price changes in the Wellington Electricity area

- 4.5 Wellington Electricity stated that transmission and distribution charges for 2014/15 were expected to result in an increase in the average consumer's electricity bill of around 4%. Wellington Electricity changed its price structure in 2014, introducing separate standard and low-user charges for the first time. It increased its fixed daily charge from 15 cents per day to 90 cents per day for standard users, and offset this by decreases in the variable charge. The price rise also includes a 'catch up' for revenue foregone in 2013 that the Commerce Commission allowed. This is because charging methodologies were finalised partway through 2013—this is about half the total increase in the 2014/15 disclosure year. Therefore, some costs incurred within the 2013/14 disclosure year are being recovered in the 2014/15 disclosure year.
- 4.6 Wellington Electricity calculated the 4% increase by taking its overall increase in revenue of 10% allowed by the Commerce Commission, and multiplying it by 34%, which is the average component of consumer bills due to transmission and distribution charges. This gives a 3.4% rise which is rounded up to 4%, the figure quoted in the media.

Retailer statements about Wellington price increases

- 4.7 Statements by retailers used numbers that differed from the 4% increase released by Wellington Electricity. Contact Energy stated it was 7%, Meridian Energy stated it was 5.85% and Genesis Energy stated it was 5.8%.

- 4.8 The reason for the differences was due to Wellington Electricity and retailers using different methods to calculate price changes. Wellington Electricity's calculation was based on all consumers (i.e. industrial, commercial and residential consumers) in the region and used an average transmission and distribution charge as a proportion of the total bill. Retailers' calculations were based on residential consumers only and used the actual proportion of consumer charges attributable to transmission and distribution.

Contact Energy

- 4.9 Contact Energy's 7% increase is calculated by taking the customer weighted average of individual residential plan increases, where individual plan increases are calculated based on average consumption.
- 4.10 Contact's calculation differs from Wellington Electricity's because Wellington Electricity's calculation is for all consumers in the region, and is based on average usage and the average transmission and distribution charge as a proportion of the total bill. In contrast, Contact's calculation is for its specific set of *residential* retail consumers in the Wellington region using its forecast usage. This yields a transmission and distribution charge as the proportion of a total charge which is specific to Contact.

Meridian

- 4.11 Meridian Energy released a table showing increases in the Wellington region of 5.85% for residential consumers.
- 4.12 The increase is calculated by estimating the overall change in customers' total electricity costs due to changes in transmission and distribution charges for the year. This is effectively a consumption weighted average for Meridian Energy consumers. This differs from the Wellington Electricity number because Meridian Energy used its specific subset of residential consumers and their forecast usage.

Genesis Energy

- 4.13 Genesis Energy stated in the media that the increase for Wellington was 5.8%.

Mercury Energy

- 4.14 Mercury Energy did not say anything specific about price increases in the media except to state it was not increasing energy prices until at least April 2015.

Retailer statements about Vector price increases

- 4.15 The *distribution* component of Vector's network charges decreased by a weighted average of 2.4% from 1 April 2014. In relation to Vector's two areas, retailers released figures that were measures of changes to the final residential retail bill, due to changes in total transmission *and* distribution charges—including increases in transmission charges.
- 4.16 It is important to note that in the Auckland region of the Vector network, total residential transmission and distribution charges increased. In Vector's Northern region, 44% of residential consumers faced an increase to their

transmission and distribution charges and the remaining 56% faced an increase in daily charge and a decrease in per kWh charge, the net effect of which will differ between consumers.

- 4.17 There was much less comment in the media about retail price increases in Vector's areas.

Contact

- 4.18 Contact Energy released a table to media showing that increases in Auckland Central were 1.6% and increases in the North Shore were 0.6%. These figures are ICP weighted average increases of individual residential plan increases. Individual plan increases are based on average usage.

Meridian

- 4.19 Meridian Energy released a table showing residential increases over the entire Vector region of 1.01%, this figure being effectively a consumption weighted average. This is calculated for residential consumers for the whole Auckland region.

Genesis Energy

- 4.20 Genesis Energy stated in the media that the increase for Auckland Central was 2.9% and for the North Shore was 0.6%.

Mercury Energy

- 4.21 Mercury Energy made no statements to the media about Vector area prices.

Retailer statements about Orion price increases

- 4.22 Orion's general connection delivery price increased by 11.3%. While this number is not in the media, Orion has stated it has used it in all communications and on its website. This is a revenue increase for general connections. Similar to Auckland, there was little comment in the media about retail price changes in Orion's area. Orion also stated that the average household electricity bill will increase by around 4% in Orion's network area.

Contact and Meridian

- 4.23 Contact Energy stated that the increase in Orion's area would be 4.1%. This is an ICP weighted average increase of individual residential plan increases. Individual plan increases are based on average usage.
- 4.24 Meridian Energy released a table showing increases in the Orion region of 4.36%. As above, this is a consumption weighted average.
- 4.25 Both Contact Energy and Meridian Energy averages measure the effect of increased transmission and distribution charges on final retail bills for residential consumers. In contrast, Orion's number is the increase in its charges. Using an approximation of 40%¹ for the proportion of the final

¹ Orion used approximately 40% in its media statement. The exact number is 38% which is Orion's delivery portion of the customer's bill weighted according to 2013 MED survey.

residential bill that is due to transmission and distribution charges, and Orion's 11.3% increase in its charges yields 4.52%. This result indicates that the numbers in the media are roughly consistent and the variation is likely due to the specific set of consumers that each retailer has and the way that retailers translate the Orion charges into retail rates.

Genesis Energy and Mercury Energy

- 4.26 Genesis Energy and Mercury Energy said nothing specific in the media about Orion area prices.

Retailer statements about national average increases

- 4.27 Retailers released numbers for New Zealand as a whole that were in some cases broken down by individual region, and in other cases presented as national averages. As there is no corresponding figure for national transmission and distribution charges, the inconsistency evident at regional level was absent. The differences between retailers were due to different consumers and different methodologies.
- 4.28 Genesis Energy stated through the media that the average increase would be 3.6% across New Zealand, calculated as a simple average of the 15 largest distribution regions where Genesis Energy retails. Genesis Energy also stated in the media that (transmission and) distribution charges were to increase by up to 14% in some areas. This proved to be conservative. Data supplied to the Authority by Genesis Energy shows that, for some plans offered in the three regions examined, transmission and distribution charges increased by 17.99%, based on average usage.
- 4.29 Contact Energy and Meridian Energy released tables that set out the increases in each of the regions where they operate, but did not release a national average. Mercury Energy did not make any statement about increases at the national level.

5 Recommendations

- 5.1 The Authority has commenced a project to improve the transparency of information that consumers receive about their electricity charges—the transparency project.
- 5.2 The transparency project's consultation paper is being released at the same time as this paper. The Authority is seeking feedback on a proposal to require retailers to inform consumers of changes to transmission and distribution pricing using a prescribed form. Retailers must make transmission and distribution price change statements that are consistent with the Commerce Commission's information disclosure requirements.

Glossary of abbreviations and terms

Act	Electricity Industry Act 2010
Authority	Electricity Authority
Code	Electricity Industry Participation Code 2010
Contact	Contact Energy Limited
Genesis	Genesis Energy Limited
GWh	Gigawatt hour
GXP	Grid exit point
ICP	Installation control point: the point where a customer connects to the network
IMM	Industry and Market Monitoring
Meridian	Meridian Energy Limited
MEUG	Major Electricity Users' Group
MRP	Mighty River Power Limited
MW	Megawatt
MWh	Megawatt hour
SCADA	Supervisory Control and Data Acquisition
SO	System Operator
SPD	Scheduling, Pricing and Dispatch
TP	Trading period
TrustPower	TrustPower Limited
vSPD	Vectorised Scheduling, Pricing and Dispatch