

26 September 2014

Submissions
Electricity Authority
PO Box 10041
WELLINGTON 6143

By email: submissions@ea.govt.nz

**SUBMISSION on
Improving transparency of consumers' electricity charges**

1. Introduction

Thank you for the opportunity to make a submission on this paper. This submission is from Consumer NZ, New Zealand's leading consumer organisation. It has an acknowledged and respected reputation for independence and fairness as a provider of impartial and comprehensive consumer information and advice.

Contact: Sue Chetwin
Consumer NZ
Private Bag 6996
Wellington 6141
Phone: 04 384 7963

2. Responses to specific questions

Question No.	Question	Submitter's response
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Q1	<p>Do you agree with the Authority's view of the role of transparency in promoting competition? Please explain your answer.</p>	<p>We agree that price transparency is a necessary precondition for informed consumer choice. However, there are factors that constrain the ability of consumers to respond to price changes in the electricity market. Electricity is not directly substitutable: consumers cannot easily switch to alternative energy sources or reduce use when prices rise without affecting standards of living.</p> <p>We would also argue that transparency is not the only factor driving consumer engagement in the electricity market. Consumer trust in the institutions and regulations tasked with protecting consumer interests is an important factor.</p> <p>There is a wealth of international literature about what drives consumer trust in the energy sector.ⁱ This literature suggests the factors that drive consumer trust extend beyond billing transparency. These factors include (but are not confined to):</p> <p>i) whether or not consumers believe the interests of the energy companies are aligned with theirs.ⁱⁱ They may see the companies as opponents with harmful motives. This perception is less likely when energy companies are publicly or collectively owned by consumers.</p> <p>ii) whether or not consumers trust the institutions or regulations put in place to protect their interests. Where they perceive those institutions or regulations to be weak or ineffective, they will become disengaged.ⁱⁱⁱ</p>
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Q2	Do you agree with the problem definition? Please explain your answer.	<p>We agree the lack of transparency at “moments of truth” (i.e., when prices rise) needs to be addressed. However, we do not believe the problem is simply the communication of price changes. For consumers, the more substantive issue is whether the continued price increases are justified.</p> <p>In our view, the failure of regulation to provide reliable information to assess whether tariff increases are justified has contributed to consumers’ lack of confidence. The perception and the reality is that prices continue to rise. Robust evidence to show these rises are justified has been absent.</p> <p>The information disclosed by companies about their underlying costs is not easily accessible to consumers. For example, regulations relating to lines companies’ pricing require the disclosure of accounting-based information which is technical in nature. The weighted cost of capital applied to capital costs (calculated as per the regulations) plays a central role in lines charges but neither concept is well-understood by the public.</p> <p>Requirements aimed at increasing price transparency will only be effective at increasing consumer engagement if they are supported by measures that give consumers confidence that the regulation of the sector is sufficient to protect their interests.</p> <p>In regard to the authority’s comparison of electricity supply with the telecommunications market, we believe the comparison has limitations. There are features of electricity supply which make it distinct from telecommunications. These include the issues briefly outlined in question 1.</p>
Q3	Do you agree with the Authority’s proposal? Please provide reasons to support your answer.	<p>We consider the proposal is a necessary but not sufficient response to existing problems. We agree the proposal will improve price transparency <i>to the extent</i> that consumers will be able to see the proportion of a price increase attributable to the retailer and the proportion attributable to the distributor. However, the issue of whether price increases are justified remains.</p> <p>The requirement to “consult” does not necessarily imply consensus will develop. Conflicting information may still be supplied to the public.</p>

Q4	Do you agree with the alternative options?	<p>We support combining the proposed standard disclosure with Option 4, namely an independent agency releasing an annual report documenting and explaining electricity price trends. However, we do not support limiting the information in such a report to that which is publicly released by the companies.</p> <p>We disagree that the purpose of the report should only be to inform the media and commentators. The authority's role is to protect consumers; communicating effectively with the public should be the minimum the authority requires of any reports it commissions.</p>
Q5	Are there any other options the Authority should consider?	As stated above, we think the authority has taken too narrow a view of the problem and should be considering options to improve price transparency generally, not just at "moments of truth".
Q6	Do you have any comments on the proposed Code amendment?	In addition to requiring retailers to provide information to individual consumers, we believe the Code should require retailers to publish details of price changes on their websites. This would provide an opportunity for independent scrutiny of the information.
Q7	Do you have any comments on the draft template?	We suggest the template should also include details of price changes that have occurred over the preceding three to five year period. The inclusion of this information would help consumers compare price trends between retailers offering similar plans.
Q8	Do you agree with the statement of the objectives of the proposal? Please explain your answer.	<p>The proposal will improve the information available regarding the proportion of a price increase attributable to the retailer versus the distributor. However, for the reasons stated above, the extent to which it will improve consumer confidence and engagement in the market is open to debate.</p> <p>In the absence of other reforms, the benefits of the proposal are limited (see responses to question 1 and 2 above).</p>
Q9	Do you agree with the assessment of the costs and benefits of the proposal?	We believe the benefits are over-estimated for this proposal for the reasons given above.
Q10	Are there any other costs or benefits that should be included in the assessment?	

Q11	Do you agree with the evaluation of the alternative options? If not, why not?	We think the potential benefits from Option 4 are under-estimated (see response to question 4).
Q12	Do you agree with the assessment of the proposed amendment against the requirements of section 32(1) of the Act? If not, why not?	See response to question 8.
Q13	Do you agree with the assessment against the Code amendment principles? If not, why not?	See response to question 8.

Thank you for the opportunity to make a submission on this paper. If you require any further information, please do not hesitate to contact me.

Yours sincerely

Sue Chetwin
Chief Executive

ⁱ See for example Mumford, John and Gray, David. (2010). "Consumer engagement in alternative energy – Can the regulators and suppliers be trusted?". *Energy Policy* 38, pp2664-2671.

ⁱⁱ Ibid.

ⁱⁱⁱ Ibid.