

From the Electricity Networks Association

Submission to Electricity Authority Consultation Paper on Improving Transparency of Consumers' Electricity Charges

26 September 2014

The Electricity Networks Association makes this submission along with the explicit support of its members listed below.

Alpine Energy Ltd

Aurora Energy Ltd

Buller Electricity

Centralines Ltd

Counties Power Ltd

Delta Utility Services Ltd (manages Aurora)

Eastland Network Ltd

Electra Ltd

EA Networks Ltd

Electricity Invercargill Ltd

ElectroNet Ltd (manages Westpower)

Horizon Energy Distribution Ltd

MainPower NZ Ltd

Marlborough Lines Ltd

Nelson Electricity (Network Tasman & Marlborough Lines JV)

Network Tasman Ltd

Network Waitaki Ltd

Northpower Ltd

Orion New Zealand Ltd

OtagoNet Joint Venture Ltd

Powerco Ltd

PowerNet Ltd (manages Electricity Invercargill, The Power Co, and Otago Power)

Scanpower Ltd

The Lines Company Ltd

The Power Company Ltd

Top Energy Ltd

Unison Networks Ltd (manages Centralines)

Waipa Networks Ltd

WEL Ltd

Wellington Electricity Ltd

Westpower Ltd

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1. Introduction

1. ENA appreciates the opportunity to comment on the Electricity Authority's *Consultation Paper on Improving Transparency of Consumers' Electricity Charges*.
2. ENA has a number of concerns with the Authority's assessment of transparency of consumer electricity charges and the subsequent proposals. For the most part, ENA does not consider there is a significant problem with transparency of electricity charges, and does not support the conclusion that making the components of charges more transparent would likely lead to significant improvements in retail market competition.
3. Nevertheless, requiring retailers to provide a statement breaking down the components of bills with price change notifications would not seem to be an overly onerous requirement, and the ENA supports some form of process for retailers and distributors to communicate about price change information prior to issuing media releases and customer letters, but has not formed a uniform view about whether consultation is required or a more limited notification process. Individual ENA members address these issues in their own submissions.
4. We note also that the Authority's cost benefit analysis finds that the largest benefit from the proposal is actually from reduced distribution investment because people are more responsive to price signals. There is no evidence for this finding and ENA questions the robustness of the analysis. In general, it appears that most retailers seek to reflect the structure of tariffs available from the distributor for mass-market consumers (e.g., controlled/uncontrolled, all-inclusive plans) – making the underlying distribution charges more transparent from the retail rates is highly unlikely to improve consumer responsiveness. ENA submits that this benefit of the proposal should be excluded.
5. We provide more detailed comment on these points in the body of our submission.
6. The ENA's contact person for this submission is:

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2. Response to questions

Question No.	Question	ENAs response
Q1	Do you agree with the Authority's view of the role of transparency in promoting competition? Please explain your answer.	<p>ENA agrees that information about prices is an important feature of a competitive market. Price transparency helps consumers make useful comparisons of costs of different choices. The ability to make an informed choice based on price and related services plays a key role in the efficient allocation of goods and services.</p> <p>In the case of electricity retail prices, how regulated network costs are structured and passed through to consumers in electricity prices is a matter for the retailer. Retailers are subject to competition and are in the best position to structure prices to meet the requirements of their target consumers.</p> <p>The Authority's proposals include requiring retailers to provide information in a standard form; and requiring retailers and distributors to consult about any media releases.</p> <p>The Authority states that the primary purpose of the proposal is to promote retail competition by providing better information about the drivers of price changes claiming that better information increases consumer engagement; and promoting accountability across the supply chain by requiring better explanations of the drivers of price change and that this will increase consumer confidence and engagement in the retail market.</p> <p>ENA considers that the Authority has not provided evidence of a problem with transparency of electricity retail prices that impacts on retail competition. We discuss our views on the problem definition addressing question 2.</p> <p>ENA questions whether providing information about the drivers of price changes will make any difference to consumer choices. There is no evidence presented to suggest that it would. On the contrary, the Authority's own material contradicts this assertion.</p>

Q2	Do you agree with the problem definition? Please explain your answer.	<p>The problem that has been identified seems to related to two interpretations of transparency provided by the Authority:</p> <ul style="list-style-type: none"> • Whether consumers understood the structure of prices. • Transparency in the communication of consumer pricing information. Whether communication of consumer pricing information relating to whether the price rises were caused by retailers or distributors cost increases. (paragraphs 3.1.2 and 3.1.10). <p>In section 2.4 the Authority refers to UMR Research which appears to indicate that there is no significant problem.</p> <p><i>However, a large majority of survey respondents were satisfied that bills from their power company were easy to understand (78%) and contained all the information they needed (76%), with 48% very satisfied that their bills were easy to understand and 44% very satisfied that all the information they needed was there. Only 7% of respondents were not satisfied with their power companies on these matters.</i></p> <p>In our view, these findings appear to suggest that consumers were largely satisfied with information received from retailers. There does not appear to be any concern about the understanding about the structure of prices.</p> <p>On the issue of communication of information by retailers and distributors, the Authority refers to events in March 2014, when retail companies announced the annual increases in network charges, there was a high level of media coverage which included conflicting claims from retailers and distribution companies. (paragraph B.4.8).</p> <p>The findings from the Authority's enquiry into this matter found that communication between retailers and consumers was transparent. The information differed about sources and sizes of retail price increases, but the reasons for the differences were because different methodologies were used; and calculations made on different subsets of consumers.</p>
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Q3	Do you agree with the Authority's proposal? Please provide reasons to support your answer.	<p>On the proposal for consultation between retailers and distributors on media releases, ENA members do not have a consensus view on the merits of consultation relative to a notification requirement and that these points will be addressed in individual member submissions. Nevertheless, ENA members generally support at least a requirement for notification of media releases and price change letters prior between retailers and distributors prior to release. This would mitigate the risk of mis-understanding and disputes through media.</p> <p>Subject to cost, it would not appear to be onerous for retailers to provide standardised reporting of price change information to consumers, breaking down the source of price change.</p>
Q4	Do you agree with the alternative options?	<p>ENA considers that there is merit in the proposal for the Authority publishing an annual report on current and future price trends (option 4).</p> <p>This type of report could provide an independent and authoritative source that explains pricing trends and their drivers. In particular, the information in this report should be prepared on a consistent basis which would help the media and consumers to understand prices increases and the main drivers.</p>
Q5	Are there any other options the Authority should consider?	No comment.
Q6	Do you have any comments on the proposed Code amendment?	On the proposal for consultation between retailers and distributors on media releases, ENA members do not have a consensus view on the merits of consultation relative to a notification requirement and that these points will be addressed in individual member submissions.
Q7	Do you have any comments on the draft template?	ENA's view is that it may result in greater clarity to have some standardisation of the presentation to consumers to minimise confusion. However, the draft template erroneously attributes some costs to distributors including 'metering rate' and 'billing and admin rate'.

Q8	Do you agree with the statement of the objectives of the proposal? Please explain your answer.	<p>The ENA does not agree with the Authority that there is a material problem to be addressed in relation to the transparency of consumer charges.</p> <p>The Authority's own survey reveals a high level of understanding of electricity pricing. ENA questions the Authority's conclusion in paragraph 2.4.7 of the Consultation Paper that "the survey results contribute to evidence base about the need for greater transparency". When asked how interested they would be in particular types of information being included on their power bills consumer responses listed in paragraph 2.4.5 included "different rates offered by their retailer"; "graph showing comparison of power usage"; and "retail margin". These matters do not relate to prices as such. The Authority's proposals do not address these particular issues.</p>
Q9	Do you agree with the assessment of the costs and benefits of the proposal?	<p>No.</p> <p>The Authority's cost benefit analysis finds that the largest benefit from the proposal is actually from reduced distribution investment (\$52.65 million) because it is asserted that consumers are more responsive to price signals.</p> <p>There is no evidence for this finding and ENA submits that this source of benefit should be removed from the CBA. Making the components of prices more transparent is unlikely to change consumer behaviour. It is the strength of the overall price signal facing the consumer that makes a difference to incentives and the proposal will have no impact on total prices.</p>
Q10	Are there any other costs or benefits that should be included in the assessment?	No comment.
Q11	Do you agree with the evaluation of the alternative options? If not, why not?	No comment.

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?	ENA does not consider that the proposal would result in increased competition in the retail market, or any changes in consumer behaviour in regard to reactions to price signals.
Q13	Do you agree with the assessment against the Code amendment principles? If not, why not?	<p>ENA questions the findings of the CBA.</p> <p>Making the components of prices more transparent is highly unlikely to result in enhanced competition in the retail market. Some retailers already offer this as a service. Consumers want to know they are getting a package of services (not necessarily just lowest price) that reflects a competitive market. Transparency of underlying components making up retail prices is unlikely to foster more competition – what would help consumers is that they can have confidence to compare retailers’ service offerings and make robust switching decisions. Enhancements to web-based tools that make it easier to compare and switch would likely result in higher benefits than the transparency proposal.</p>

