

ETNZ submission to Electricity Authority: “Improving transparency of consumers’ electricity charges”

Overview

Energy Trusts of NZ¹ is the national organisation for 21 energy trusts, the majority of whom own shares in companies that operate electricity networks (lines businesses). Member trusts have investments of more than \$5 billion in these lines companies.

The trusts that own most of the lines industry on behalf of communities or consumers are not involved in day-to-day management. However, like any group of shareholders, have rights to appoint suitably qualified directors to the boards of the companies they own.

Consumer ownership allows local businesses, industry and individuals to have input on issues like the supply stability of the networks and the pricing mechanisms of their local lines company.

The ETNZ welcomes the opportunity to provide a submission on the EA Consultation Paper: ‘Improving transparency of consumers’ electricity charges’ dated 24 June 2014.

Follow up

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Structure of our submission

Our submission is presented in two sections:

- Key issues ETNZ views – our general comment on the wider set of national benefits associated with giving consumers better information and how we think this should be done
- Response to Electricity Authority questions - our answers to the 13 specific questions that the Electricity Authority included in its consultation paper.

¹ See ETNZ website (<http://www.etnz.org.nz/>)

Key issues – ETNZ view

As we commented to the Retail Advisory Group (RAG) when it consulted on this issue²:

ETNZ takes the benefits of increased transparency to be those coming from providing enhanced national interest via the ability of consumers to promote competition in relevant markets, in the round.

Electricity charges are a hybrid of fixed and variable cost elements for products and services supplied by generators, transmission operators, lines companies and retailers. Lines company prices and those of Transpower are regulated by the Commerce Commission while prices charged by generators and retailers are not subject to regulation.

Direct

If consumers want to understand the benefit/cost trade-off of changes to their use of energy they need to have access to sufficient information about the fixed and variable costs of the energy they consume. Similarly if consumers want to compare the price competitiveness of energy retailers they need to have access to information about the regulated and unregulated price components of the price they pay for energy.

This recognises that the benefits of consumers understanding their bills include the ability to make informed decisions, where there is a real choice. This allows them to improve their welfare by selecting among electricity retailers, based on the information they have readily to hand.

And we went on to make other points which are now briefly summarised.³

As a body representing consumer/community owned trusts ETNZ sees a wider set of national benefits associated with giving consumers better information. These come from consumers potentially using their knowledge of markets to address bigger issues – and this goes further than the capacity to change retailers. Some want to understand the cost situation; others to adjust their behaviour in response to elements of price. So consumers' access to readily useable and relevant information has both direct and wider benefits.

At least a subgroup of consumers is concerned by electricity costs. A contributor to this unease is their lack of understanding of the situation as it affects them. More detailed, and more regular, authoritative information would assist in addressing this.

In particular we see two components.

- **Consumer choice:** It is important to improve consumers' understanding of the retail portion of their power bill, as this can be changed by switching retailers. Such an action depends on meaningful data.
- **Citizen activity:** Regular meaningful information for consumers on the time-path of the contributors to their bills, allows them to understand the way the market is affecting them.

We note and welcome the Authority's attempt to grapple with the problems of carrying out a useful national cost benefit analysis. This is a demanding task.

² ETNZ has made the following recent submissions on this issue:

- Retail Advisory Group Discussion Paper – Improving Transparency of Consumers' Electricity Charges 20 August 2013
- Issues Paper – Retail Data Project – 25 February 2014.

³ The whole submission is available at ea.govt.nz/development/work-programme/retail/improving-transparency-charges/consultations/#c2080

We remain convinced that the gains from supplying better information to consumers outweigh the costs over time.

What this implies

Consumers need a readily accessible supply of relevant information to address the following problems:

- information is currently provided in a number of different forms and different places;
- consumers have different aims and preferences and thus are likely to have various uses for the information; and
- time series and causative data is not now easily or simply available.

Out of this view we see two vital needs arising for consumers:

- a breakdown of the components contributing to their total electricity bill, to allow them to isolate and establish the “variable” costs (retailing); and
- a general indication of the way various causative components are moving, to provide a simple (and regular) indication of the drivers of the overall size of the electricity bill for wider purposes including possible investments.

The Commerce Commission regulates lines company prices to ensure that they behave as if they were operating in a competitive market. Showing lines company charges as a separate component of regular electricity retailer invoices is an important mechanism for the following:

- ensuring that the result of this regulatory intervention is visible to consumers;
- informing consumers about how much of any change in lines company charges the retailer passes on to consumers;
- giving consumers a sense of the competitiveness of different retailers using the same lines company for distribution.

Overall – what to do?

This brief assessment suggests that there are potential consumer benefits, via both the needs discussed above, were retailers to provide a regular standardised suite of disaggregated information to inform their customers.

Such information would include the following information in every invoice – relating to the current charges:

- included transmission costs;
- included distribution costs;
- rents for equipment;
- included generation costs;
- included retailing costs;
- included regulatory levies.

Obviously, retailers could offer more information – including helpful comments or analysis, if they wished.

Response to Electricity Authority questions

The Electricity Authority included 13 specific questions in its consultation paper. In this section of our submission we answer these questions in the format requested by the Electricity Authority. We have grouped the questions and our answers into sections that reflect the structure of the Authority's consultation paper.

Table 1 Role of transparency

Question	ETNZ submission
Q1. Do you agree with the Authority's view of the role of transparency in promoting competition? Please explain your answer.	<p>The role of transparency in promoting competition</p> <p>Yes. We agree with the Authority's general argument that consumer access to information is pivotal to encouraging competition between suppliers that benefits consumers. However the comments made in this section of the Authority's consultation paper do not support the Authority's narrowing of the scope and timing of the supply of consumer information to disclosure of the estimated annual effects of a price change at the time the price change is made.</p> <p>Also the Authority does not take the opportunity to describe consumers' need for information on the fixed and variable cost elements of the price consumers pay for a service. This information is crucial to consumers considering the trade-offs between energy supply offers and the opportunities consumers have to modify energy demand and realise benefits from time of use (smart metering) of electricity use. (Later in the paper the Authority indirectly acknowledges these issues in its discussion of pricing for telecommunication services.)</p>

Table 2 Problem definition

Question	ETNZ submission
Q2. Do you agree with the problem definition? Please explain your answer.	<p>Comment on the Authority's definition of the problem</p> <p>We agree in part. But the problem definition is too narrow and is not supported by the argument presented by the Authority.</p> <p>The discussion on pages 6 to 18 of the consultation document does not directly support the conclusion that the problem is greater transparency around the disclosure of price changes, The paper makes observations on the:</p> <ul style="list-style-type: none"> • Authority's market research (completed by UMR) on the perceptions of a sample of electricity consumers • conflicts in the media statements released by energy retailers and lines companies • special characteristics and complexity of the purchase of electricity services • comparison of electricity service offerings to past practice in the telecommunications industry. <p>Many of these are valid but they are not sufficient to support the argument that the key trigger for consumers to review their electricity service is the occasion of a price change. We suggest consumers review the purchase of electricity due to a variety of triggers, some unrelated to electricity price changes. Therefore providing consumers with information on the fixed and variable component of lines, transmission and retailer charges on their monthly bill would provide consumers with information that is much more likely to be immediately at hand at any time they are considering switching, than the approach proposed by the Authority.</p>

Table 3 EA proposal

Question	ETNZ submission
<p>Q3 Do you agree with the Authority's proposal? Please provide reasons to support your answer.</p>	<p>Comment on the Authority's proposal</p> <p>We agree with the objective of the Authority's proposal but argue that more information needs to be disclosed to achieve the objective.</p> <p>We agree that consumers would benefit from regular and consistent advice about the make-up of their electricity service costs. However we suggest that the Authority proposal does not meet consumer needs for either frequency or detail of pricing information. As stated in our answer to question 1 above, we suggest that the information should include a decomposition of fixed and variable costs and be provided monthly to enable consumers to:</p> <ul style="list-style-type: none"> • evaluate options to switch between retailers or • accurately interpret the opportunities indicated by time of use metering to lower energy cost by changing usage patterns or • consider other measures to lower energy use. <p>We also suggest the consumer focus is on comparison of costs between suppliers not on the drivers of price changes for their current supplier.</p> <p>We also suggest that the Authority has overstated the confusion and disengagement caused by conflicting media statements. Such statements will always be partisan general comments. Confusion could be addressed were the Authority to be more active in sorting out differences and providing authoritative reference material that could be a basis for comparison with the individual consumer's statement of charges for electricity actually purchased.</p>

Table 4 EA review of other approaches

Question	ETNZ submission
<p>Q4 Do you agree with the alternative options.</p>	<p>Comment on the range of options analysed by the Authority</p> <p>We agree that the Authority has presented a representative sample of the options. However the Authority's assessment of "Option 3 – Separate Itemisation on a single bill", (which is our preferred option) understates the effectiveness of this option in delivering transparent and readily accessible information to the consumer.</p>
<p>Q5 Are there any other options the Authority should consider?</p>	<p>Can we suggest any other options?</p> <p>No.</p>

Table 5 Regulatory statement -proposal

Question	ETNZ submission
<p>Q6 Do you have any comments on the proposed Code amendment?</p>	<p>Proposed Code amendment</p> <p>We would appreciate clarification of the Authority’s expectations for the form, duration and result of the requirement for retailers and distributors to consult on media releases about tariff rate changes.</p> <p>In our view any such consultation should be directed at clarifying consumer understanding.</p>
<p>Q7 Do you have any comments on the draft template?</p>	<p>Draft consumer bill template</p> <p>As stated above we suggest that the draft templates should include information on the fixed and variable components of the electricity service costs relating to transmission, lines company and retailer.</p> <p>If the Authority is not prepared to consider a single itemised bill, we also suggest that the Authority set a minimum frequency – more than once a year - for the template letter.</p>
<p>Q8 Do you agree with the statement of the objectives of the proposal? Please explain your answer.</p>	<p>Statement of objectives in the Authority’s proposal</p> <p>We agree with aspects of the statement of objectives in the Authority’s proposal. As stated above, we agree that consumers would benefit from regular and consistent advice about the make-up of their electricity service costs. However, we suggest that the Authority’s proposal does not meet consumer needs for either frequency or detail of pricing information.</p> <p>As above we suggest that the information should include a decomposition of fixed and variable costs and be provided monthly to enable consumers to evaluate options to switch between retailers or consider other measures to alter their pattern of energy use. We also suggest the consumer focus is on comparison of costs between suppliers not on the drivers of price changes for their current supplier.</p>

Table 6 Regulatory statement –evaluation of options

Question	ETNZ submission
Q9 Do you agree with the assessment of the costs and benefits of the proposal?	<p>Assessment of the costs and benefits of the Authority’s proposal</p> <p>We do not agree with the Authority’s assessment of the costs and benefits of the proposal. In our view the Authority has not made a credible argument for a causal link between the change in advice to customers and the reduction in network investment (described in 6.3.25 to 6.3.35), which the Authority sees as the main benefit. We understand that the reduction in network investment in Victoria cited by the Authority was at least in part due to a change in the regulation of network companies under political pressure, whatever happened as a response to billing information provided to customers.</p> <p>The limited information provided means we cannot form an independent view on the cost and benefit assessment described in paragraphs 6.3.1 to 6.3.24 or 6.3.36 to 6.3.49.</p> <p>The information provided on the linkage between the change in the provision of information and likely changes in customer behaviour or transaction costs is sparse. It seems that the Authority is arguing that providing information to consumers on price changes will encourage them to engage with their supplier to secure a better service without for the most part needing to switch suppliers.</p>
Q10 Are there any other costs or benefits that should be included in the assessment?	<p>Other costs and benefits</p> <p>We cannot think of any other costs and benefits that the Authority should include in the assessment of the proposal.</p>
Q11 Do you agree with the evaluation of the alternative options? If not, why not?	<p>Assessment of the alternative options</p> <p>We do not agree with the Authority’s assessment of the alternative options. As stated above, we believe the benefits of Option3 Itemising the costs on a single bill have been understated.</p>

Table 7 Regulatory statement –assessment under section 32(1)

Question	ETNZ submission
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?	<p>Does the proposed amendment meet the section 32(1) requirements of the Act?</p> <p>We agree that in a narrow sense the proposed change meets the requirement of the Act. However we believe the Authority has discarded an option that would also meet the tests in the Act and more importantly deliver greater benefit.</p>
Q13. Do you agree with the assessment against the Code amendment principles? If not, why not?	<p>Does the proposal meet the Code amendment principles?</p> <p>No, as discussed in comments on Q9 we do not believe that the assessment of the benefit of reduced investment in the network is either credible for the New Zealand markets, or attributable to the Authority’s proposal. Without this benefit, the estimated cost of the proposal would exceed the total of the other estimated benefits. Accordingly without the benefit of reduced network investment , proposal fails the test under ‘Principle 2 – Clearly Identified Efficiency Gain or Regulatory Failure’</p>