

Chair's half-yearly report to the Electricity Authority Board

January to June 2014

13 August 2014

Note: This paper has been prepared for the purpose of the Retail Advisory Group. Content should not be interpreted as representing the views or policy of the Electricity Authority.

1 Introduction

1.1.1 This report outlines the activities of the Retail Advisory Group (RAG) during January 2014 to June 2014. The RAG's terms of reference require the Chair to report on its progress against its work programme every six months to the Electricity Authority (Authority).

1.2 Role of the RAG

1.2.1 The RAG was established to provide independent advice to the Authority on the development of the Electricity Industry Participation Code 2010 (Code) and market facilitation measures, focusing on the relationships between the retailer, distributor and consumer.

1.2.2 The RAG undertakes projects that are assigned by the Authority, focusing on:

- a) development of the retail electricity market, including matters relating to the retailer/consumer interface, the retailer/distributor interface and the consumer/distributor interface, the distributor/embedded generation interface and advanced metering infrastructure
- b) priorities for developing:
 - i) the Code, especially in regard to Parts 6 (Connection of distributed generation), 10 (Metering arrangements), 11 (Registry information management) and 15 (Reconciliation)
 - ii) market facilitation measures in regard to retail market services.

2 Membership of the RAG

2.1.1 The RAG can have up to nine members, including the independent Chair. Table 1 gives details of the RAG's membership and members' meeting attendance for January to June 2014.

Table 1: Retail Advisory Group membership details

Member	Affiliation	Term of appointment	Meeting attendance
Peter Allport, Chair	Independent	1 April 2013 to 31 March 2015 (second term)	4 of 4

Member	Affiliation	Term of appointment	Meeting attendance
Dene Biddlecombe	Independent	1 August 2012 to 31 July 2014 (second term)	4 of 4
Suzanne Chetwin	Chief Executive Officer, Consumer NZ	1 June 2013 to 31 May 2015 (second term)	3 of 4
Sarah Free	Domestic Energy Users Network	1 August 2012 to 31 July 2014 (second term)	4 of 4
Ewan Gebbie	Energy Management Association of New Zealand (EMANZ)	1 June 2013 to 31 May 2015	3 of 4
Alan McCauley	General Manager Retail, Meridian Energy	1 November 2013 to 31 May 2015	2 of 4
Andrew McLeod	General Manager Electricity, Powerco	1 August 2012 to 31 July 2014	3 of 4
James Munro	General Manager Retail, Mighty River Power	1 August 2012 to 31 July 2014 (second term)	4 of 4
Nathan Strong	General Manager Business Assurance, Unison Networks	1 June 2013 to 31 May 2015 (second term)	3 of 4

2.1.2 The RAG held four meetings in the period – 12 February, 12 March, 9 April and 11 June. All meetings were held in Wellington, but some members attended by teleconference.

2.1.3 The RAG had nine members for the period.

- 2.1.4 Sarah Free, Dene Biddlecombe and Andrew McLeod attended their final meeting of the RAG on 11 June 2014 before their terms expired on 31 July 2014. Their valuable contribution to the RAG work plan is appreciated.
- 2.1.5 The Authority issued a request for nominations in April 2014 for people interested in becoming members of the RAG and to fill the four vacancies resulting from the expiry of the terms of Dene Biddlecombe, Sarah Free, Andrew McLeod and James Munro on 31 July 2014.
- 2.1.6 The Authority appointed four people to the RAG in June 2014. James Munro (Mighty River Power) was reappointed for a further term and three new members were appointed: Allen Davies (GreyPower); James Tipping (TrustPower); and Nicholas Robinson (Contact Energy).

3 Activities of the Group

- 3.1.1 The RAG and the Authority agreed on the RAG's work plan for 2013-14 in October 2013, following discussions in August and September. The work plan comprised the following projects:
 - a) review of options for promoting to consumers the benefits of comparing and switching retailers – recommendations were presented to the Authority Board in March 2014
 - b) review of domestic contracting arrangements – recommendations were presented to the Authority Board in May 2014
 - c) improving transparency of consumers' electricity charges – recommendations were presented to the Authority Board in April 2014
 - d) barriers to group switching – this project was started in October 2013 and is ongoing
 - e) review of secondary networks – this project was started in April 2014 and is ongoing
 - f) research project: effects of Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 – scheduled to start in 2015.

3.2 Review of options for promoting to consumers the benefits of comparing and switching retailers

- 3.2.1 The RAG was requested to review options for promoting retail competition by increasing consumers' propensity to compare and switch retailers. The objective of this project was to consider the performance of the Authority's

What's My Number (WMN) campaign and associated initiatives and to identify what actions (if any) the Authority can take to promote to consumers the benefits of comparing and switching electricity retailers from 30 April 2014.

- 3.2.2 The RAG presented its recommendations to the Authority Board in March 2014. The RAG's key recommendation was that the Authority should continue the WMN campaign for another three years to:
- a) continue to increase consumers' awareness of the benefits of comparing and switching retailers
 - b) continue to put pressure on retailers to offer the 'best' deal to consumers.
- 3.2.3 The RAG also recommended that the WMN campaign strategy should place a greater emphasis on targeting consumer segments that are less aware or less likely to compare or switch retailers. A mass media approach will maintain general awareness, but targeted campaigns should be considered to influence behaviours of hard to reach consumer segments.
- 3.2.4 The RAG notes that the Authority has continued the WMN campaign for 2014/15.

3.3 Review of domestic contracting arrangements

- 3.3.1 The RAG was requested to review domestic contracting arrangements, including an assessment of:
- a) whether to develop minimum terms and conditions for the relationship between consumers and distributors (where the distributor has a direct relationship) and retailers (referred to as conveyance model arrangements)
 - b) whether to more closely monitor retailers' behaviours by monitoring their compliance with their domestic contracts, for example, by collecting and reporting consumer complaints data
 - c) the potential to improve the operational efficiency of the arrangements to assist medically dependent and vulnerable consumers.
- 3.3.2 The objective of this project was to examine the operational effectiveness of aspects of the domestic contracting arrangements, and to identify and recommend alternatives that promote competition in, reliable supply by,

and efficient operation of the electricity industry for the long-term benefits of consumers.

3.3.3 The RAG presented its recommendations to the Authority Board in April 2014 following a two-stage process:

- a) the RAG released an issues paper in April 2013 to seek feedback about the issues and problems with the domestic contracting arrangements.¹ Thirteen submissions were received²
- b) the RAG released an options paper in November 2013 to seek feedback on options for addressing the problems that have been identified with the operational effectiveness of the domestic contracting arrangements.³ Eleven submissions were received.

3.3.4 The RAG's key recommendations were for the Authority to:

- a) develop minimum terms and conditions for the relationship between domestic consumers and distributors (where the distributor has a direct relationship with the consumer)
- b) revise the MDC guideline to clarify aspects of the responsibilities of retailers and the responsibilities of consumers about verification that a consumer is medically dependent
- c) revise the VC guideline to clarify that decisions about remote disconnection/reconnection of a domestic consumer, including a potentially medically dependent consumer, is at the discretion of the retailer after taking adequate and appropriate precautions (such as discussing options with the consumer) to mitigate the potential harm from disconnecting that consumer. The requirements for at least one physical site visit if all other attempts to contact the consumer have failed should be retained

¹ Retail Advisory Group, Domestic Contracting Arrangements Issues Paper, available at: <http://www.ea.govt.nz/our-work/consultations/advisory-group/domestic-contracting-arrangements/>.

² Submissions and summary of submissions, RAG Domestic contracting arrangements Issues Paper, available at, <http://www.ea.govt.nz/our-work/consultations/advisory-group/domestic-contracting-arrangements/submissions/>.

³ RAG Domestic Contracting Arrangements Options Paper, available at: <http://www.ea.govt.nz/our-work/consultations/advisory-group/rag-options-paper-domestic-contracting/>.

- d) revise the MDC guideline and VC guideline to provide better guidance on expectations for communication between retailers, distributors and other parties that might seek information about medically dependent consumers and vulnerable consumers in performing their functions, for example, emergency management agencies
- e) facilitate communication between retailers and health practitioners for medically dependent consumers so they can clarify the roles and responsibilities assigned through the MDC guidelines, the definition and interpretation of “medically dependent consumer” and the circumstances under which the status of medically dependent can be removed
- f) consider how to provide distributors, retailers and emergency management agencies with access to information if appropriate about medically dependent consumers as necessary, whether by using existing market system processes (eg the electricity information exchange protocol 4 – EIEP4) or by holding this data in a central database
- g) work with the Ministry of Business, Innovation and Employment (MBIE) and retailers to identify workable approaches for addressing concerns about aspects of the MDC guidelines and VC guidelines that have fairness and equity implications for these consumers.⁴

3.3.5 The RAG considers there is no benefit in the Authority monitoring retailers’ compliance with domestic contracts by measuring complaints because issues in this area are identified through the monitoring process of the Electricity and Gas Complaints Commission (EGCC).

⁴ The Memorandum of Understanding between the Ministry of Economic Development (MED) and the Electricity Authority (Authority) states that MED (now the Ministry of Business, Innovation and Employment (MBIE) is responsible for issues of fairness and equity for electricity consumers, p. 4, available at: http://www.ea.govt.nz/search/?q=memorandum+of+understanding&s=&order=&cf=&ct=&dp=&action_search=Search With respect to the Medically Dependent Consumer guidelines and the Vulnerable Consumer guidelines, the Authority’s role is to undertake and monitor this market facilitation measure but not targeted at fairness or equity issues; inform the MED/MBIE when potential fairness/equity issues come to the Authority’s attention; enforce any regulations made. MBIE is responsible for any regulatory activity relating to fairness/equity issues, see Appendix 1.

3.3.6 The RAG notes that the Authority Board considered these recommendations in June 2014 and requested clarification of the recommendation for facilitating access to information about medically dependent consumers in emergency situations. Particularly the Authority Board requested advice about the potential liability and privacy issues that the Authority may face from housing medically dependent consumer data centrally (eg in the registry). The RAG will consider these issues at its August 2014 meeting.

3.4 Improving transparency of consumers' electricity charges

3.4.1 The RAG was requested to review whether there should be more transparency around consumers' electricity charges, and to identify and recommend alternatives that promote competition by ensuring consumers have timely access to sufficient information so they can understand their bills, see what is driving price changes and make choices about their retailer.

3.4.2 The RAG's key recommendations were for the Authority to:

- a) conduct a forum with retailers, distributors and consumer representatives to discuss how wider consumer understanding of the regulated (lines and transmission) versus competitive (energy) components of bills could be achieved by the industry under existing structures, without the additional costs or consumer irritation that may occur from actual bill separation or unbundling
- b) ensure that the scope of the retail data project includes consideration of what actionable information is, and should be, available to consumers to assist them to understand their bills, to see what is driving price changes and to make choices about their retailer
- c) consider how to promote wider consumer understanding of the regulated (lines and transmission) versus competitive (energy) components of bills and the drivers of these. Within this the Authority should consider how best to use its independent position to focus media commentary and public debate
- d) consider requiring standardised disclosure of headline price movements across all retailers and lines companies to assist in removing consumer confusion and industry contradiction. In particular, any such disclosure should make clear both the average and the range of price movements, and affected number of customers, within prescribed consumption bands.

- 3.4.3 The RAG notes that the Authority Board considered these recommendations in April 2014 and subsequently released a consultation paper in late June 2014 seeking feedback on a proposal for improving transparency for consumers about the drivers of price changes at key times, such as when prices change. As the Authority's proposal is materially different to the RAG's recommendations, the RAG will consider this proposal and any feedback it might have at its August 2014 meeting.

3.5 Barriers to group switching

- 3.5.1 The RAG was requested to review any barriers to group switching and mass-market aggregation. The purpose of the project is to examine the benefits of consumers aggregating by establishing or joining buying groups (group switching) and to investigate whether there are barriers inhibiting group switching.
- 3.5.1 The RAG discussed the project objectives and approach at its October 2013 meeting and requested a more in-depth and broader examination of the potential benefits and costs of group switching. The RAG published a discussion paper in April 2014 and received eight submissions. The RAG considered submissions and next steps at its 11 June 2014 meeting. The RAG was disappointed at the lack of response to the discussion paper from consumer representatives and parties involved in group switching activities. The RAG requested staff to contact these parties directly. The RAG will consider its next steps at its 5 August 2014 meeting. Subject to the feedback received through the further consultation, the RAG's target for making a recommendation to the Authority Board is September 2014.

3.6 Review of secondary networks

- 3.6.1 The RAG was requested to consider the competition effects of embedded and customer networks (referred to as a review of secondary networks). In particular, this project aims to address a potential problem with the ability of retailers to compete to supply consumers on embedded and customer networks. This matter potentially has wider effects on competition because there is anecdotal evidence that in some circumstances gaining a contract to supply a chain of business customers can be frustrated if one of those business customers operates in an embedded or customer network and cannot switch.
- 3.6.2 The RAG discussed the scope and approach of the project on 9 April 2014 and requested that the secretariat develop a detailed paper describing the

problem and outlining a preferred option. The RAG is scheduled to consider this paper in November 2014.



Peter Allport

Chair, Retail Advisory Group