

Transparency of charge components

Summary of Submissions and Responses

Prepared by Electricity Commission

21 April 2010

Executive summary

Background

- 1.1.1 The Transparency of charge components project was undertaken to address concerns raised by participants that the requirements of paragraph 39 of the Government Policy Statement on Electricity Governance (GPS) had not been met. This paragraph states that the Electricity Commission (Commission) should ensure transparency of charge components is addressed in contracts between domestic consumers and electricity retailers, and, where applicable, contracts between domestic consumers and electricity distributors.

November 2009 consultation paper

- 1.1.2 A consultation paper was issued in November 2009 titled *Transparency of charge components*. The consultation paper stated that paragraph 39 of the GPS does not require unbundling of line charges on customer invoices, but could be interpreted to mean that:
- (a) consumers can clearly see how their energy rate is broken down into its components (fixed, variable, time of use etc); or
 - (b) a breakdown of the consumer's bill into line and generation/retail components is available to the consumer but does not have to be specifically disclosed on the invoice.
- 1.1.3 Retailers are already complying with the first interpretation of the GPS requirement (paragraph 1.1.2(a)), so the focus of the consultation paper was on the second interpretation (paragraph 1.1.2(b)). The consultation paper considered and assessed five options for addressing the GPS requirement, and proposed Option 3 and Option 4 as preferred options for consultation. The full set of options considered were:
- (a) *Option 1*: full unbundling (tariff and total dollar amount) of line charges on consumer invoices. This option was not supported as retailers had indicated they would not voluntarily comply with full unbundling on invoices and it did not meet the cost/benefit test required for regulation (regulatory compliance costs did not exceed benefits).
- Costs associated with this option included (i) costs to change retailer billing systems; (ii) potential negative impacts on retailers' and distributors' ability to develop innovative pricing options without resulting in overly complex rates; and (iii) potential negative impacts on consumers' ability to compare competing offers when making switching decisions.

- (b) *Option 2*: average dollar amount attributable to line charges for each tariff (based on average residential consumption) would be disclosed on the retailer's website or could be obtained by calling the retailer directly. A line/energy split would be provided by the retailer at the time of each tariff or rate change (at least annually), and all tariffs published by the retailer would include a breakdown showing line and energy charges as distinct components.

This option was not supported as retailers had indicated they would not voluntarily comply with this option, and it did not meet the cost/benefit test for regulation (regulatory compliance costs did not exceed benefits).

- (c) *Option 3*: the Commission would publish on its website user friendly information on the breakdown between line and energy charges for the most common tariff in each distributor area (based on MED data), and provide trend information over time. Retailers would be encouraged to advertise the existence of this information on invoices, and provide this information in hard copy to consumers who request it but who do not have internet access. This option was shortlisted as a preferred option.
- (d) *Option 4*: the Commission provides the same information as for Option 3, but with no encouragement for retailers to advertise the existence of this information on invoices. However, retailers would be encouraged to provide this information to consumers on request. This option was shortlisted as a preferred option.
- (e) *Option 5*: no disclosure. This option was not supported in the consultation paper as, although unbundled bill information was published by MED, it was not provided in a user friendly format (for example, information is not presented using pie charts or bar graphs) and the cost to create a user friendly interface was small.

Submissions

- 1.1.4 The transparency of line charges consultation paper resulted in 23 submissions being received (primarily from retailers, distributors, and trusts owning distributors).
- 1.1.5 Although all submitters commented on the options proposed, a general message emerged that the real problem which should be addressed is how to meet consumer information needs, rather than the narrower issue of ensuring transparency of charge components is addressed in contracts. Several submitters raised a concern that the Commission had not surveyed consumers to determine what their information needs are, and how best those needs could be met.

1.1.6 Results of the submissions were:

- (a) *Option 1*: trusts and trust-owned distributors were almost unanimous in support for Option 1 as the best way of addressing a broader objective of meeting consumer information needs around how the industry works and why prices are still going up.

Retailers' submissions were unanimous in their opinion that this information would be of little use to consumers, and several expressed concern that a requirement to unbundle invoices could stifle innovation and obscure the total price (ie make it harder to compare offers);
- (b) *Option 2*: this option was supported by only one submitter (Smart Power);
- (c) *Option 3*: Option 3 (or a variant thereon) was supported by five submitters (four distributors and Transpower), but all retailers and almost all trusts and trust-owned distributors rejected this option. The main reason provided was that hosting information on the Commission's website (with the existence of this information advertised on invoices) was not expected to be particularly helpful in meeting customer information needs.
- (d) *Option 4*: this option (or a variant where no obligations were placed on retailers) had the support of six retailers, one of whom noted that distributors or trusts could take responsibility for providing this information directly to consumers where they determine there is a net benefit. Five distributors supported Option 4 if retailers were encouraged to publicise this information in their marketing material to consumers; and
- (e) *Option 5*: this option was supported by three retailers but was not supported by distributors or trusts.

Retail and Consumer Advisory Group (RCAG) Input

- 1.1.7 RCAG retailer, distributor, and consumer representatives were unanimous in considering that the real issue uncovered during the consultation relates to unmet consumer information needs around how the industry works and why prices are still going up, rather than the narrower issue of whether line charges should be unbundled on invoices. All parties agreed that meeting these broader information needs was the goal, regardless of who provided that information.
- 1.1.8 There was strong encouragement from RCAG for the Commission/Electricity Authority to engage directly with consumers to better define their information needs and determine the most effective ways of addressing them.

Response to submissions

- 1.1.9 The Commission agrees with suggestions that consumers should be surveyed to better understand their information needs. However, if this survey is limited to disclosure of line charges it could lead to a biased result. Lack of a general understanding by consumers on key aspects of the electricity market could create a bias towards provision of any kind of information, even where it does not specifically address their underlying concerns or is not the most cost effective way to do so.
- 1.1.10 The Commission therefore considers the scope of the project should be broadened to identify and address unmet consumer information needs. This could include consulting with consumers to better understand:
- (a) how consumers obtain information about the electricity industry (media, invoices, bill stuffers, internet research, etc);
 - (b) what consumer information needs are and any information gaps/misconceptions (how are prices determined, why bills have increased so significantly over the last few years, how has network reliability changed over time or how does it compare with other networks, is the market working properly, how are consumers being protected from excessive price rises, why have residential prices increased more than commercial prices, future price expectations, etc);
 - (c) in what detail should this information be provided (New Zealand average information, regional, rate specific etc);
 - (d) who is the best party to prepare this information (retailer, distributor, Commission/Electricity Authority, Ministry of Economic Development etc);
 - (e) what medium should be used to provide this information (invoices, internet, bill stuffers, trust circulars, media through proactive development of relationships with (i) media sources and/or (ii) other parties who interact with the media on matters relating to the electricity industry, etc);
 - (f) how often should this information be provided (annually, monthly, ad hoc etc), and in what format; and
 - (g) monitoring overall levels of consumer confidence in the market to determine how well consumer information needs are being met, and if information gaps/misunderstandings are being addressed.
- 1.1.11 As a result of existing work commitments, it is unlikely that significant progress will be made on this project before the proposed transition of functions from the Commission to the Electricity Authority (Authority) takes place on 1 October 2010. The Commission therefore recommends that the Authority undertakes a project to identify and address consumer information needs as

part of its proposed function of market facilitation through education and provision of information to consumers.

- 1.1.12 In the interim, the Commission will proceed with the development of a user-friendly interface to make it easier for interested parties to analyse MED data as it relates to the breakdown of invoices into their components and the changes in price of those components over time.
- 1.1.13 While this will not address broader consumer information needs (for example, around why prices are increasing), it can be undertaken at minimal cost and may be of use to participants wishing to develop communication material for consumers, as well as for those consumers who may wish to make use of this information themselves. The Commission will ensure participants, including consumer representatives and trusts, are made aware of the existence and potential use of this information.

Glossary of abbreviations and terms

Authority	Electricity Authority
Bill	Electricity Industry Bill
Commission	Electricity Commission
EGCC	Electricity and Gas Complaints Commission
ETNZ	Energy Trusts of New Zealand
GPS	May 2009 Government Policy Statement on Electricity Governance
GXP	Grid Exit Point
MED	Ministry of Economic Development
MRP	Mighty River Power
Trust	Community trust owning shares in a distributor

Contents

Executive summary	C
Background	C
November 2009 consultation paper	C
Submissions	D
Retail and Consumer Advisory Group (RCAG) Input	E
Response to submissions	F
Glossary of abbreviations and terms	H
2. Introduction and purpose of this report	13
2.1 Introduction	13
2.2 Purpose of this report	13
2.3 Submissions received	14
3. Analysis	15
3.1 Introduction	15
3.2 Interpretation of GPS	15
Submissions	15
Response	16
3.3 Determining consumer information needs	17
Submissions	17
Response	18
3.4 Interim measures	19
4. RCAG Input	20
5. Conclusion	20
Appendix 1 Summary of submissions by issue	23
1.1 Overview	23
1.2 Additional options that should be considered	23
Variations on Option 1	24
Variations on Option 3	24
Variations on Option 4	25
Variations on Option 5	25
Other suggestions	25

1.3	Short-listed options	27
	Option 1, 1a, and 1b	27
	Submissions	27
	Response	28
	Option 2	29
	Submissions	29
	Response	30
	Option 3, 3a, 3b	30
	Submissions	30
	Response	31
	Option 4, 4a, 4b	31
	Submissions	31
	Response	31
	Option 5, 5a	32
	Submissions	32
	Response	32
1.4	Advertising information on invoices	34
	Submissions	34
	Response	35
1.5	Implementation issues	36
	Presentation of data	36
	Submissions	36
	Response	36
	Transition to Electricity Authority	37
	Submissions	37
	Response	37
	Timeframe to implement	37
	Submission	37
	Response	38
1.6	Other issues	38
	Repackaging of Distributor pricing signals	38
	Submission	38
	Response	38
	Regulation threshold	38
	Submissions	38
	Response	39
	Distributors who are also retailers	40
	Submission	40
	Response	40
	Consumer understanding of fixed charge	40
	Submission	40
	Response	40
	Switching	41

	Submissions	41
	Response	41
	Retailer code of conduct in explaining bill increases	41
	Submissions	41
	Response	42
Appendix 2	Line charges information	43
2.1	Data available from unbundled invoices (Counties Power Consumer Trust Submission (Appendix B))	43
2.2	2006 Network Tasman Trust Circular	44
Tables		
Table 1:	Summary additional options	26
Table 2:	Summary of submitters preferred option	33

2. Introduction and purpose of this report

2.1 Introduction

- 2.1.1 Paragraph 38 of the May 2009 Government Policy Statement on Electricity Governance (GPS) states that the terms and conditions of contracts between domestic consumers and electricity retailers (and where applicable, contracts between domestic consumers and electricity distributors) should reflect the reasonable expectations of customers. Paragraph 39 then goes on to state that the Commission, amongst other matters, should ensure transparency of charge components are addressed in contracts.
- 2.1.2 While the GPS does not specifically define what this means, over the years it has been assumed by some stakeholders that it relates to separating out the distribution and transmission line charges from the generation/retail charges on the customer's bill (this is referred to as unbundling).
- 2.1.3 The Commission issued a consultation paper in November 2009 to address the issue of transparency of charge components on consumer bills.

2.2 Purpose of this report

- 2.2.1 This report provides a summary of submissions for the transparency of charge components consultation paper, and the Commission's response. Submitters provided general comments on the consultation paper and some responded to questions asked in the consultation paper.
- 2.2.2 The summary seeks to give an overview of the responses from participants while noting that popular responses are not necessarily indicative of a preferred solution. The aim was to consult on the issues in order to gain a fuller understanding of the issues and impacts on participants.

2.3 Submissions received

2.3.1 Twenty three interested parties provided submissions. These parties are listed in the table below.

Category	Submitter
Retailer and generator/retailer	Contact Energy
	Energy Online
	Genesis Energy
	Meridian Energy
	Mighty River Power
	Powershop
Distributor (not-community trust owned)	Orion Group
	Powerco
	Vector
	Wellington Electricity
Distributor (community trust owned)	Network Tasman
	Unison
	WEL Networks
Community trust owning shares in a distributor	Buller Electric Power Trust
	Counties Power Consumer Trust
	Energy Trusts of New Zealand (ETNZ)
	Network Tasman Trust
	WEL Energy Trust
	Top Energy Consumer Trust
	West Coast Electric Power Trust
Residential consumer	David Close
Energy management	Smart Power Ltd
Transmission provider	Transpower

3. Analysis

3.1 Introduction

3.1.1 There were two main assumptions, which seem to have impacted the positions put forward by submitters:

- (a) interpretation of the GPS requirement; and
- (b) consumer information needs.

3.1.2 These two main assumptions are addressed below. Appendix 1 provides a summary of submissions and Commission responses regarding options outlined in the *Transparency of charge components* consultation paper, as well as additional options put forward by market participants in their submissions.

3.2 Interpretation of GPS

Submissions

3.2.1 The Commission is required to give effect to the GPS.¹ Paragraph 39 of the GPS states that “*The Commission should ensure the following matters are addressed in contracts ... transparency of charge components.*”

3.2.2 The consultation paper (paragraph 2.3.2) stated that:

“over the last few years, it has been noted by retailers and the Commission that the transparency of charge components requirement in the GPS does not actually require separation of line charges on the consumer’s invoice.”

3.2.3 The consultation paper also noted (paragraph 2.3.3) that the GPS requirement could be interpreted as meaning that either:

- (a) *“any consumer can clearly see how their energy rate is broken down into its components (fixed, variable, time of use etc), or*
- (b) *a breakdown of the consumer’s bill into line and generation/retail components is available to the consumer, but does not have to be specifically disclosed on the invoice”.*

3.2.4 In its submission, Counties Power Consumer Trust stated that the Commission had misinterpreted the GPS transparency of charges requirement, and that the only real interpretation could be that charges made by different suppliers should

¹ These requirements may change if the Electricity Industry Bill is passed. Refer to <http://www.med.govt.nz/upload/71002/cabinet-paper.pdf> (paragraph 143 and 144).

be transparent. David Close also considered that showing unbundled line charges on the invoices was the only option which achieves the GPS objective.

Response

3.2.5 The GPS requirement to ensure transparency of charge components in domestic consumer contracts does not specifically require unbundling of line charges on invoices. Any proposal to require unbundling of line charges on invoices will therefore have to stand on its own merit.

3.2.6 Changes to the GPS are also anticipated. The Electricity Industry Bill (Bill) proposes disestablishing the Electricity Commission and setting up the Authority to govern the electricity industry from 1 October 2010.² The Bill retains the power for the Minister to issue a GPS, but the Authority is only required to “have regard to”, not “give effect to”, such statements. It is therefore expected that the GPS will change in style and content to reflect the higher level of independence of the Authority compared to the Commission.

3.2.7 Both the GPS and the Bill, however, support a broader objective of meeting consumer information needs:

- (a) paragraph 8 of the GPS addresses the matter of provision of information to consumers, albeit at a higher level:

“High quality information is essential for efficient markets. The Commission should give high priority to ensuring that relevant information is made available to market participants and to the public at large on matters relating to the electricity sector.”

- (b) the proposed functions of the Authority include market facilitation through education, guidelines, model contracts and the like.

3.2.8 The Commission remains unconvinced that consumer information needs will be best met through unbundling line charges on invoices as unbundling could result in (i) costs to change retailer billing systems; (ii) negative impacts on retailers’ and distributors’ ability to develop innovative pricing options without resulting in overly complex rates; and (iii) potential negative impacts on consumers’ ability to compare competing offers when making switching decisions.

3.2.9 Specifically, a requirement to unbundle invoices could negatively impact innovation by:

- (a) increasing the complexity of invoices, and so reduce the ability of retailers to introduce additional complexities (such as time-of-use and critical-peak-pricing products) while still ensuring tariffs are understood by end-users;

² <http://www.legislation.govt.nz/bill/government/2009/0111/11.0/DLM2634233.html>

- (b) undermining the ability of retailers who want to differentiate themselves based on the simplicity of their tariff offering (such as zero fixed charge products); and
 - (c) result in pressure for distributors to design simpler tariffs that are easier for retailers to unbundle on their invoices, but which may be less efficient.
- 3.2.10 As a result, the Commission will not be pursuing options to require retailers to unbundle line charges on invoices as a response to paragraph 39 of the GPS, although retailers may still choose to unbundle line charges on invoices if they wish to do so.

3.3 Determining consumer information needs

Submissions

- 3.3.1 A large number of submitters expressed concern that the Commission had not undertaken a survey of consumers to obtain their views about what information customers themselves need. Others had differing opinions on the information needs of consumers. For example:
- (a) Transpower and David Close recommended that the Commission undertake a domestic consumer survey to obtain consumers' views. Transpower stated that sometimes members of the industry are too heavily involved with their own commercial concerns to form a fair view of what domestic consumers would actually value;
 - (b) Distributor and trust submitters generally considered that consumers would find unbundling of line charges useful:
 - (i) Vector and Unison surveyed consumers on their networks. Vector found that 69% of customers sampled preferred to have different charges split out on their invoices. Unison found that more than 40% of their customers surveyed wanted better transparency of line charges;
 - (ii) Counties Power Consumer Trust considered that probably all a consumer wants to know is why their bill has increased, and who has increased (or reduced) it;
 - (iii) ETNZ, WEL Energy Trust, and Smart Power considered that generic information is of little benefit to consumers, and instead all that customers want is specific information relating to their own account. WEL Energy Trust also stated that the real issues around exorbitant power bills have not been addressed at the retailer end, and that distribution businesses have been subjected to heavy handed regulation while retailers have escaped; and

- (iv) Top Energy Consumer Trust stated that there has never been a serious and concerted effort made to ensure that consumers understand how the industry is structured, how the costs are incurred and accumulated and finally appear on their power bills.

The trust considers that there are two basic pieces of information that are of interest and value to consumers: the first is the makeup of the account, split between the two monopoly parts of the industry, retailers and distributors, and also the rest of the bill. The second is the trend in those electricity prices over time;

- (c) Retailer submitters generally considered that consumers would not find unbundling of charges useful:
 - (i) Mighty River Power (MRP) stated that what matters most to consumers is the overall price and other considerations such as service quality, and it is irrelevant what portion of the retail price is to recover distribution costs. MRP also stated that the Commission's decisions on line-energy separation should be driven by the lack of indication that customers would find the additional disclosure helpful;
 - (ii) Meridian considered that listing multiple charges for different components of a price largely obscures the total price, rather than making it more transparent; and
 - (iii) Genesis stated that there does not appear to be any compelling evidence of unmet consumer demand for information on charge components.

Response

3.3.2 While a proposal to undertake a consumer survey has merit, if it is narrowed in scope to cover only line charges it could lead to biased results. Lack of a general understanding by consumers on key aspects of the electricity market could create a bias towards provision of any kind of information, even where it does not specifically address their underlying concerns or is not the most cost effective way of doing so.

3.3.3 This project has instead highlighted a need for a broader project to address unmet consumer information needs. This could include consulting with consumers to obtain a better understanding of:

- (a) how consumers obtain information about the electricity industry (media, invoices, bill stuffers, internet research, etc);
- (b) what are consumer information needs and information gaps/misconceptions (how are prices determined, why bills have increased so significantly over the last few years, how has network reliability changed

over time or how does it compare with other networks, is the market working properly, how are consumers being protected from excessive price rises, why have residential prices increased more than commercial prices, future price expectations, etc);

- (c) in what detail should this information be provided (New Zealand average information, regional, rate specific etc);
- (d) who is the best party to prepare this information (retailer, distributor, Commission/Authority, Ministry of Economic Development (MED) etc);
- (e) what medium should be used to provide this information (invoices, internet, bill stuffers, trust circulars, media through proactive development of relationships with (i) media sources and/or (ii) other parties who interact with the media on matters relating to the electricity industry, etc);
- (f) how often should this information be provided (annually, monthly, ad hoc etc), and in what format; and
- (g) monitoring overall levels of consumer confidence in the market to determine how well consumer information needs are being met, and if information gaps/misunderstandings are being addressed.

3.3.4 The Commission supports undertaking a project to identify and address consumer information needs; however, as a result of existing work commitments, it is unlikely that significant progress on this initiative will be made before the proposed transition from the Commission to the Authority takes place on 1 October 2010. The Commission therefore recommends that the Authority undertakes this project as part of its proposed function of market facilitation through education and provision of information to consumers.

3.4 Interim measures

3.4.1 Whilst addressing the real issue requires further work in the form of a consumer information needs initiative, in the interim the Commission will proceed with the development of a user-friendly interface to make it easier for interested parties to analyse MED data as it relates to the breakdown of invoices into their components and the changes in price of those components over time.

3.4.2 While it is accepted this will not address broader consumer information needs (for example, around *why* prices are increasing), it can be undertaken at minimal cost and may be of use to participants wishing to develop communication material for consumers, as well as for those consumers who may wish to make use of this information themselves. The Commission will ensure market participants, including consumer representatives and trusts, are made aware of the existence and potential use of this information.

4. RCAG Input

- 4.1.1 Submissions on the consultation paper were also discussed at the 10 March 2010 RCAG meeting. RCAG members were not opposed to the Commission's interim proposal, provided costs to do so were low. However, they were unanimous in considering that the real issue uncovered during the consultation relates to unmet consumer information needs around how the industry works and why prices are still going up, rather than the narrower issue of whether line charges should be unbundled on invoices. All parties agreed that meeting these broader information needs was the goal, regardless of who provided that information.
- 4.1.2 There was strong encouragement from RCAG for the Commission/Authority to engage directly with consumers to better define their information needs and determine the most effective ways of addressing them.

5. Conclusion

- 5.1.1 It is concluded that the underlying issue in the transparency of charge components project relates to unmet consumer information needs. The Commission supports undertaking a project to identify and address consumer information needs; however, it is unlikely that significant progress on this initiative will be made before the proposed transition from the Commission to the Authority takes place on 1 October 2010.
- 5.1.2 The Commission therefore recommends that the Authority undertake this project as part of its proposed function of market facilitation through education and provision of information to consumers.
- 5.1.3 In the interim, the Commission will proceed with the development of a user-friendly interface to make it easier for interested parties to analyse MED data as it relates to the breakdown of invoices into their components and changes in the price of those components over time. This can be undertaken at minimal cost and may be of use to participants wishing to develop communication material for consumers, as well as for consumers themselves. The Commission will ensure market participants, including consumer representatives and trusts, are made aware of the existence and potential use of this information.

Appendices

Appendix 1	Summary of submissions by issue	23
1.1	Overview	23
1.2	Additional options that should be considered	23
1.3	Short-listed options	27
1.4	Advertising information on invoices	34
1.5	Implementation issues	36
1.6	Other issues	38
Appendix 2	Line charges information	43
2.1	Data available from unbundled invoices (Counties Power Consumer Trust Submission (Appendix B))	43
2.2	2006 Network Tasman Trust Circular	44

Appendix 1 Summary of submissions by issue

1.1 Overview

- 1.1.1 Most submitters welcomed the review, although MRP stated that there are much more important matters the Commission should be prioritising.
- 1.1.2 In general, trusts and trust owned-distributors favoured full unbundling of lines charges on invoices (Option 1), while retailers favoured either no requirements (Option 5) or provision of higher level information on the Commission's or other independent website (Option 4).
- 1.1.3 Non trust-owned distributors tended to fall in between these options, generally favouring advertising of the higher level information on the Commission's or other independent websites on either invoices (Option 3), or in retailers' annual marketing material (Option 4b proposed by MRP).

1.2 Additional options that should be considered

- 1.2.1 The consultation paper proposed the following five options:
 - (a) Option 1: full unbundling (tariff and total dollar amount) of line charges on consumer bills.
 - (b) Option 2: average dollar amount attributable to line charges for each tariff (based on average residential consumption) would be disclosed on the retailer's website or could be obtained by calling the retailer directly. A line/energy split would be provided by the retailer at the time of each tariff or rate change (at least annually), and all tariffs published by the retailer would include a breakdown showing line and energy charges as distinct components.
 - (c) Option 3: the Commission would publish on its website information on the breakdown between line and energy charges for the most common tariff in each distributor area (based on MED data), and provide trend information over time. Retailers would be encouraged to advertise the existence of this information on invoices, and provide this information in hard copy to consumers who request it but who do not have internet access.
 - (d) Option 4: the Commission provides the same information as for Option 3, but with no encouragement for retailers to advertise the existence of this

information on invoices. Retailers would, however, be encouraged to provide this information to consumers on request.

(e) Option 5: no disclosure.

1.2.2 Submitters were asked if there were any other options that have not been considered in this consultation paper that require further investigation, and to provide details and reasons for their views.

1.2.3 Several variations on Options 1, 3, 4 and 5 were proposed by submitters.

Variations on Option 1

1.2.4 Option 1 includes full unbundling (tariff and total dollar amount) of line charges on consumer bills. The following variations on Option 1 were proposed:

- (a) Option 1a (proposed by West Coast Electric Power Trust) would unbundle the total dollar amount only and not the individual c/day / c/kWh charges;
- (b) Option 1b (proposed by Top Energy Consumer Trust) adds a component of Option 3 (publishing analysis on an independent website with advertising of the existence of this information on invoices) to 1a above.

Variations on Option 3

1.2.5 Option 3 includes the Commission publishing information on its website, with retailers encouraged to advertise the existence of this information on invoices and to provide this information to consumers on request. The following variations were proposed on Option 3:

- (a) Option 3a was proposed by several submitters and proposes publishing of line charges information on other independent websites, such as Powerswitch or MED's website.
- (b) Option 3b was proposed by Wellington Electricity and includes a mandatory requirement (as opposed to encouragement) for retailers to advertise the existence of line charge information on the Commission's website. Network Tasman included a similar proposal that, where consumers request a breakdown, retailers must respond by providing information in accordance with some agreed format based on the relevant information published by the Commission.

Variations on Option 4

- 1.2.6 Option 4 includes the Commission publishing information on its website and encouraging retailers to provide this information to consumers on request. The following variations were proposed on Option 4:
- (a) Option 4a (proposed by MRP) does not place any requirements on retailers. MRP suggests that distribution companies or trusts that see merit in providing consumers with additional information on line charges, provide the information themselves, through Trust circulars, their own websites and the like; and
 - (b) Option 4b (proposed by several trusts, Vector and Network Tasman), encourages retailers to provide easy to understand information similar to that proposed for the Commission's website in their annual communications with consumers and/or when they advise of price increases.

Variations on Option 5

- 1.2.7 The following variations were proposed on Option 5 (no disclosure):
- (a) Option 5a (proposed by WEL networks and several trusts) suggests that the Commission promote separate billing by distribution companies or subcontracting billing to a third party.

Other suggestions

- 1.2.8 Powerco proposed that the Commission also creates graphs of the national average price for distribution businesses exempt from price control, and those who are not, to help promote transparency of pricing. Powerco considers that it is important that consumers have a general understanding of the drivers of electricity price increases, and that they understand that prices of non-trust owned electricity distribution businesses are capped by regulation.
- 1.2.9 Network Tasman Trust also proposed a central website for consumers where they can access information giving comparative data, not only as to retailers in their region, but also across the regions.
- 1.2.10 David Close suggested publication of relevant material in newspapers, which could also provide comparative information on the common tariffs offered by each retailer in each distribution area, together with the breakdown of line and energy charges.

1.2.11 These proposals could be considered by the Authority as part of a broader project to address consumer information needs.

Table 1: Summary additional options

Consultation paper option	Information on Invoice	Information Elsewhere	Additional option	Proposed by
1	Unbundled invoice (tariff and total dollar amount)	-	1a. Unbundle \$ amount only 1b. Unbundle \$ amount only and make reference on invoice to analysis included on an independent website	West Coast Electric Power Trust Top Energy Consumer Trust
2	One line item on invoice advertising information on retailers' website	Breakdown of line/energy charges for standard tariffs on retailers' website		
3	Retailer encouraged to put one line item on invoice advertising that there is information on Commission's website	Publishing breakdown of typical bill by region and trends over time on Commission's website	3a. Publishing breakdown of bills and trends on other independent websites such as Powerswitch or MED 3b. Mandatory requirement to place line item on invoice	Several distributors, Transpower and Energy Online Wellington Electricity
4	No encouragement to advertise website on invoices, but retailers encouraged to provide information on request.	As above	4a. No requirements on retailers 4b. Retailers encouraged to provide breakdown of typical bill and trends over time in annual communication with consumers	Mighty River Power Several trusts, Vector, and Network Tasman
5	No requirement	None	5a. Promote separate billing by distribution companies	Several trusts and WEL networks

1.3 Short-listed options

- 1.3.1 Submitters were asked to comment on whether they agreed with the Commission's short-listed proposals (option 3 and option 4), and to provide reasons for their view.

Option 1, 1a, and 1b

Submissions

- 1.3.2 Trusts were almost unanimous in their support for Option 1 (unbundled invoice) as the best way of meeting consumer information needs. Specific comments were:
- (a) it is not customer friendly for consumers to have to refer to a separate website or ring a retailer to determine a breakdown of their invoice. Many consumers do not have internet access, or may find telephone support frustrating (Buller Electricity Power Trust);
 - (b) unbundling invoices is the only correct way to show consumers what makes up their fixed and variable costs, and keep respective parties honest when it comes to both the amount they increase their price by and the reasons they give for the increase (WEL Energy Trust);
 - (c) unbundling on invoices is probably less costly for retailers than being required to answer specific individual queries (Counties Power Consumer Trust); and
 - (d) doubts that unbundling would be costly to administer (Vector).
- 1.3.3 West Coast Electric Power Trust proposed Option 1a (unbundle total dollar amount only) and Top Energy Consumer Trust proposed Option 1b (unbundle total dollar amount only and include a notice on invoices that additional information is available on an independent website). Option 1 was also supported by Unison, WEL networks, and David Close.
- 1.3.4 Option 1 was not supported, however, by any of the retailers, most of the non trust-owned distributors, or Transpower. The main reasons provided for this were the lack of evidence that this information would be useful to consumers, risks of limiting innovation in distribution and retail pricing, and concerns that invoices would become confusing because of the inclusion of information which is irrelevant to most consumers. Orion also raised the following implementation issues:
- (a) components as displayed by retailers would differ for reasons other than wholesale allocation methods, such as differing GST treatments and prompt

payment discount arrangements. There are also innovative retail offerings, such as Powershop, where all charge components are rebundled into a single variable rate irrespective of how the distributor publishes its prices;

- (b) not all customers receive invoices. The paper notes “older” prepayment metering would be an issue, but Orion is not aware of any prepayment technology that supports the provision of charge components. There are also other situations where the traditional invoice is not produced. For example Powershop would need to redevelop its systems if it had to display charge component information. This concern was also raised by Genesis;
- (c) the further separation of distribution and transmission components may be beyond the capability of many retailers’ systems and not all distributors separately identify transmission components; and
- (d) a prescriptive approach to invoice transparency runs the serious risk of limiting innovation in distribution as well as retail pricing and imposing significant costs on retailers which would inevitably be borne by all consumers.

1.3.5 MRP also raised a concern that Grid Exit Point (GXP)-pricing, averaging of line charges in a network area, and timing of flow through of increases could result in disclosed line charges varying by a retailer. They expressed concern that these issues could potentially lead to Fair Trading Act issues if disclosures are not entirely accurate.

1.3.6 The consultation paper also raised a concern that separation of line charges on invoices could negatively impact innovation. Several submitters disagreed, while some others were unsure how a requirement to unbundle line charges on invoices could negatively impact the ability of retailers to develop innovative products such as time-of-use, no fixed charge, critical peak pricing, and bundling electricity with other product options such as gas and internet services.

1.3.7 Orion stated in its submission that a requirement to unbundle line charges also runs the risk of limiting innovation in distribution pricing. For example, it may result in pressure to design simpler tariffs that are easier for retailers to unbundle on their invoices, but which may be less efficient.

Response

1.3.8 Following a review of the submissions, the Commission remains unconvinced that consumer information needs will be best met through unbundling of line charges on invoices as unbundling could result in (i) costs to change retailer billing systems; (ii) negative impacts on retailers’ and distributors’ ability to develop innovative pricing

options without resulting in overly complex rates; and (iii) potential negative impacts on consumers' ability to compare competing offers when making switching decisions.

- 1.3.9 Specifically, a requirement to unbundle invoices could negatively impact innovation by:
- (a) increasing the complexity of invoices, and so reduce the ability of retailers to introduce additional complexities (such as time-of-use and critical-peak-pricing products) while still ensuring tariffs are understood by end-users;
 - (b) undermining the ability of retailers who want to differentiate themselves based on the simplicity of their tariff offering (such as no fixed charge products); and
 - (c) result in pressure for distributors to design simpler tariffs that are easier for retailers to unbundle on their invoices, but which may be less efficient,
- 1.3.10 While unbundling of invoices will allow consumers to undertake more detailed analysis of their bill (such as that in the example put forward by Counties Power Consumer Trust), it has not been demonstrated that this will be of more use to consumers than less detailed information similar to that included in the Network Tasman Circular (both examples are included in Appendix 2 of this document). This assumption could be tested as part of the a broader project to address consumer information needs.

Option 2

Submissions

- 1.3.11 Under Option 2, the average dollar amount attributable to line charges for each tariff (based on average residential consumption) would be disclosed on the retailer's website (or by calling the retailer directly and requesting the information). A line/energy split would be provided by the retailer at the time of each tariff or rate change (at least annually), and all tariffs published by the retailer would include a breakdown showing line and energy charges as distinct components.
- 1.3.12 Option 2 was not supported by any of the submitters (except for Smart Power who believed this option best met consumer information needs), or the Commission in its consultation paper.

Response

1.3.13 Option 2 is not recommended for the reasons set out in the consultation paper.

Option 3, 3a, 3b

Submissions

- 1.3.14 Under Option 3, the Commission would publish information on its website on the breakdown between line and energy charges for the most common tariff in each distributor area (based on MED data), and provide trend information over time. Retailers would be encouraged to provide this information to consumers on request and advertise the existence of this information on invoices. Option 3a included publishing this information on another independent website such as Powerswitch.
- 1.3.15 Options 3/3a were supported by two non-community trust owned distributors, Transpower and Network Tasman. Transpower supported Option 3 as providing a reasonable balance between consumer utility, practicality and cost. It proposed that this be confirmed more conclusively by undertaking a survey of retail consumers' preferences.
- 1.3.16 However, several trusts considered that the difficulties for consumers accessing and using websites suggests that online provision of unbundled bill information may be an impractical solution for many consumers. No retailer supported Option 3. Generally, they did not consider that separation of line charges data would be particularly helpful to consumers, and wanted to ensure invoices and consumer communications are not confused through the inclusion of information which is irrelevant to most consumers.
- 1.3.17 Wellington Electricity proposed Option 3b, which includes a mandatory, rather than optional, requirement for retailers to advertise the existence of this information on invoices. Network Tasman also proposed that retailers have a mandatory requirement that when consumers request a breakdown of their invoice, retailers must respond by providing information in accordance with some agreed format.
- 1.3.18 However, the Commission also has a GPS requirement to, whenever possible, use its powers of persuasion and promotion, and provision of information, guidelines and model arrangements, to achieve its objectives rather than recommending regulations and rules.³

³ Government Policy Statement on Electricity Governance May 2009, paragraph 2.

Response

- 1.3.19 Under Option 3, retailers are encouraged to advertise the existence of information held on the Commission's website on invoices. Option 4 does not include this statement.
- 1.3.20 Option 3 (and variants thereon) are not supported over Option 4 as submissions show that advertising on invoices the existence of line charge information held on an independent website is probably not the most appropriate way to communicate this information to interested consumers,

Option 4, 4a, 4b***Submissions***

- 1.3.21 Under Option 4, the Commission publishes information on its website and retailers are encouraged to provide this information to consumers on request. Option 4 was supported as the primary or secondary preference by most retailers and Network Tasman. ETNZ expressed concern over retailers' call centre ability to provide consumers with accurate information on the industry and bill composition when enquiries are made by consumers.
- 1.3.22 MRP proposed Option 4a, which does not place any requirements on retailers to provide this information to consumers on request. MRP noted that distributors/trusts could take responsibility for providing this information directly to consumers where they determine there is a net benefit to consumers.
- 1.3.23 Several trusts, Orion, Vector and Network Tasman proposed that retailers provide easy to understand information similar to that proposed for the Commission's website in their annual communications with consumers and/or when they advise of price increases (Option 4b).

Response

- 1.3.24 The Commission is not convinced that Option 4, 4a, or 4b adequately address the underlying issue of unmet consumer information needs. It is therefore proposed that the scope of the project is expanded to identify and address unmet consumer information needs.
- 1.3.25 However, as a result of existing work commitments, it is unlikely that significant progress will be made on a broader project to identify and address unmet consumer information needs before the proposed transition from the Commission to the

Authority takes place on 1 October 2010. The Commission therefore recommends that the Authority undertakes this project as part of its proposed function of market facilitation through education and provision of information to consumers

- 1.3.26 In the interim, the Commission will proceed with the development of a user-friendly interface to make it easier for interested parties to analyse MED data as it relates to the breakdown of invoices into their components and changes in the price of those components over time. This can be undertaken at minimal cost and may be of use to participants wishing to develop communication material for consumers, as well as for consumers themselves.

Option 5, 5a

Submissions

- 1.3.27 Option 5 (no disclosure) was also strongly supported by retailers. WEL Networks and several trusts proposed Option 5a (the Commission promote separate billing by distribution companies).

Response

- 1.3.28 Option 5 is not supported as, although unbundled bill information is published by MED, (i) information is not provided in a user-friendly format, and (ii) the cost to develop a user-friendly interface to allow users easier access to this data is low.
- 1.3.29 The decision of whether or not there is a net benefit to consumers of separately billing for lines company services is best left to individual distribution companies.

Table 2: Summary of submitters preferred option

Option	Information on Invoice	Information Elsewhere	First Preference or Option supported	Second Preference
1	Unbundled tariff	-	David Close, Vector, WEL networks, Unison, Buller Electricity Power Trust, West Coast Electric Power Trust, WEL Energy Trust, Counties Power Consumer Trust, ETNZ	
1a	Total dollar amount only	-	West Coast Electric Power Trust	
1b	Total dollar amount unbundled only. One line item on invoice advertising information elsewhere	Breakdown of typical bill by region and trends over time on Commission website	Top Energy Consumer Trust, Network Tasman Trust ⁴	
2	One line item on invoice advertising information elsewhere	Breakdown of line/energy charges for standard tariffs on retailer website	Smart Power	
3	Retailer <i>encouraged</i> to put one line item on invoice	Breakdown of typical bill by region and trends over time on Commission website	Transpower, Orion, Network Tasman	
3a	As above	Information published on independent website	Vector, Transpower	
3b	Retailer <i>required</i> to put one line item on invoice		Wellington Electricity	

⁴ Network Tasman Trust did not specifically support Option 1b in its submission, but stated that it did not believe the measures proposed by the Commission went very far at all in providing information to consumers, and that there is a need for consumers to have a central website where they can access information giving comparative data, not only as to retailers in their region, but also across regions.

Option	Information on Invoice	Information Elsewhere	First Preference or Option supported	Second Preference
4	Retailers encouraged to provide information published on Commission website to consumers on request	Information published on Commission website	Powershop, Energy Online, Meridian, Genesis	Contact, Network Tasman
4a	None	As above and distributors/trusts who see the merit to provide additional information	Mighty River Power	
4b	None	Information published on independent website and retailer encouraged to publicise its existence (and/or include key graphs) in marketing material at least annually.	Powerco, Orion, Network Tasman, Unison	Vector
5	None	None	Mighty River Power, Contact	Genesis
5a	None	Commission to promote direct billing by distributors	WEL Networks, WEL Energy Trust, Buller Trust, Counties Power Consumer Trust, ETNZ	

1.4 Advertising information on invoices

Submissions

- 1.4.1 Submitters were asked if they considered there was a net benefit to consumers of advertising on invoices the existence of line charge information held on the Commission's website.
- 1.4.2 Retailers generally did not consider that there was a net benefit to consumers of advertising the existence of line charge information on invoices. Specific comments were as follows:
- (a) MRP, Genesis and Contact considered that it would just add 'noise' to customer bills, resulting in them being less clear and user-friendly;

- (b) MRP and Contact noted that retailers provide an explanation of any price increases with the price increase notifications, but that the Commission should not prescribe a particular requirement; and
 - (c) Contact stated that as website information would be aggregated, generic promotion and links from within the Commission's own website would be a more appropriate way of promoting this information.
- 1.4.3 Transpower considered that there probably was a net benefit to consumers of advertising on invoices the existence of information showing breakdowns of typical bill by region and trends over time. However, it stated that this could be confirmed more conclusively by surveying retail customers' preferences.
- 1.4.4 Network Tasman supported advertising on invoices the existence of unbundled information. Wellington Electricity stated that this would be critical to achieve the objective of transparency.
- 1.4.5 Trusts generally considered that there may only be limited benefit of advertising on invoices the existence of this information. Specific comments were:
 - (a) there is every likelihood that the statement will never be read or actioned. The focus needs to be on assisting consumers, not merely being able to say "we tried" (Top Energy Consumer Trust);
 - (b) New Zealanders' availability and access to the internet is over rated with large sections of the community having few skills of the kind needed to research information on the internet then apply it to their personal situation (ETNZ); and
 - (c) generic information does not provide specifics for comparison and would not be beneficial to consumers (WEL Energy Trust, ETNZ).

Response

- 1.4.6 Advertising on invoices the existence of information held on the Commission's or an independent party's website is probably not the most appropriate way to communicate this information to interested consumers.

1.5 Implementation issues

- 1.5.1 Participants were asked to identify any implementation difficulties with implementing these proposals.

Presentation of data

Submissions

- 1.5.2 MRP stated that the Commission should be careful in the way it presents unbundled data on its website. For example, it noted that Vector's residential distribution charge increases in the Auckland area over the past four years were principally a consequence of tariff rebalancing requirements. It considered that a more accurate time-frame to compare generation/retail cost increases with network cost increases would be from before the Electricity Industry Reform Act and the price thresholds regime under Part 4A of the Commerce Act were introduced.
- 1.5.3 Contact stated that it is important for the Commission to ensure that:
- (a) an effective date is displayed on the Commission's website, and that all price changes are included as they occur;
 - (b) only the most common plan in each area is used;
 - (c) it provides either price or bill figures in addition to graphical data in order to give customers a greater level of detail. This was also raised as an issue by Network Tasman Trust;
 - (d) the methodology and assumptions, including assumptions around annual consumption, as well as the limitations of the data, are clearly explained. Areas with GXP-based pricing should be completely excluded from the website with an explanation provided to customers; and
 - (e) total lines pricing amount (distribution and transmission) should be expressed as a single cost in order to simplify the data displayed to customers.
- 1.5.4 Network Tasman stated that the Commission needs to provide clear specification and standardisation of the representative customers used for the analysis.

Response

- 1.5.5 It is important to ensure assumptions used in data collection are clearly presented, and that the time frames used for comparison are appropriate. The use of data

collected and published by MED in its quarterly and annual reports as the source data for information presented on the Commission's website should address many of the concerns raised over the comparability of the data used.⁵

Transition to Electricity Authority

Submissions

- 1.5.6 Two trusts' submissions raised a concern that, as a result of recommendations arising from the Ministerial Review, the Commission (or its successor) would no longer be the authority for implementation of proposals relating to transparency of charge components.

Response

- 1.5.7 The Bill proposes disestablishing the Electricity Commission and setting up the Authority to govern the electricity industry from 1 October 2010. The proposed functions of the Authority include market facilitation through education, guidelines, model contracts and the like, as well as developing and administering market rules and monitoring performance of all aspects of the electricity market.⁶
- 1.5.8 Guidelines concerning information disclosure would therefore appear to be within the mandate of the Authority, provided that the purpose of such disclosure is associated with one of the Authority's functions.
- 1.5.9 Changes to the GPS are also anticipated. The Bill retains the power for the Minister to issue a GPS, but the Authority is only required to "have regard to", not "give effect to", such statements. It is therefore expected that the GPS will change in style and content to reflect the higher level of independence of the Authority compared to the Commission.

Timeframe to implement

Submission

- 1.5.10 Top Energy Consumer Trust stated that there will be development costs incurred by retailers and the Commission (or its successor organisation) in unbundling invoices (Option 1). It proposed a timeframe for implementation of no longer than one year.

⁵ http://www.med.govt.nz/templates/StandardSummary____41887.aspx

⁶ <http://www.beehive.govt.nz/sites/all/files/BROWNLEE%20Ensuring%20effective%20and%20stream.pdf>

Response

- 1.5.11 The time frame for implementation is a relevant consideration and will likely vary with the option selected. It is anticipated that the interim measure (development of a user-friendly interface on the Commission's website) should be implemented by the end of September 2010.

1.6 Other issues

Repackaging of Distributor pricing signals

Submission

- 1.6.1 A concern was raised by Unison that pricing signals designed to promote efficient use of its system are being diluted by retailers in their bundled tariffs.

Response

- 1.6.2 Retailers have an incentive to flow through the distributor's pricing signals in order to reduce re-pricing risk. However they are also incentivised to design products that meet consumers' needs. Consumers may be best served by having a variety of product options to select from, some of which flow through distributor pricing signals and some of which do not.
- 1.6.3 If dilution of pricing signals is of concern to distributors (for example, where cost savings could be achieved if consumers shifted load from peak to off-peak periods), this could be addressed by increasing the strength of the pricing signal to further encourage retailers to pass it through to consumers or, if benefits outweigh the costs, through direct billing by the distributor.⁷

Regulation threshold

Submissions

- 1.6.4 Several submitters expressed concern that the Commission included in its assessment framework consideration of whether regulation would likely be required to ensure compliance.

⁷ This would be consistent with the Commission's distribution pricing principle of taking consumers' demand responsiveness into account when designing efficient prices.

Response

- 1.6.5 Paragraph 2 of the GPS requires that, whenever possible, the Commission should use its power of persuasion and promotion, and provision of information, guidelines and model arrangements, to achieve its objectives rather than recommending regulations and rules.
- 1.6.6 In addition, sections 172E and 172F of the Electricity Act (Act)⁸ require that, before recommending electricity governance regulations, the Commission must:
- (a) seek to identify all reasonably practicable options for achieving the objective of the regulation; and
 - (b) assess those options by considering:
 - (i) the benefits and costs of each option; and
 - (ii) the extent to which the objective would be promoted or achieved by each option; and
 - (iii) any other matters that the Commission considers relevant; and
 - (c) ensure that the objective of the regulation is unlikely to be satisfactorily achieved by any reasonably practicable means other than the making of the regulation (for example, by education, information, or voluntary compliance).
- 1.6.7 The ability to implement an option without resorting to regulation is therefore a factor to be considered in assessing options. For example, consider the following scenario:
- (a) Option A is an option which is of some value to consumers and is also acceptable to retailers without requiring regulation; and
 - (b) Option B which is of slightly more value to consumers, but does not pass the cost/benefit test required for regulation and would not be implemented by retailers.
- 1.6.8 In this scenario, Option A would be preferable to Option B.

⁸ <http://www.legislation.govt.nz/act/public/1992/0122/latest/DLM283733.html#DLM283733> and <http://www.legislation.govt.nz/act/public/1992/0122/latest/DLM283736.html#DLM283736>

Distributors who are also retailers

Submission

- 1.6.9 ETNZ stated that, with the opening of the retailing sector to the distribution sector (albeit with constraints), separation of line and energy charges on customers' bills would ensure a level playing field between retailers.

Response

- 1.6.10 Unbundling of the line charges by distributors who are also retailers may be of benefit where there is a concern that retailer/distributors are charging competing retailers a higher tariff to access their system than they charge themselves.
- 1.6.11 However, the Electricity Industry Bill proposes that the Authority will be responsible for monitoring the entry of distributors into the retail market to ensure it enhances, rather than detracts from, retail competition. At this time it is not considered necessary to recommend that retailers/distributors unbundle their line charges on customers' invoices in order to address this risk.

Consumer understanding of fixed charge

Submission

- 1.6.12 Network Tasman proposed that the Commission highlights that the fixed portion of the total retail price paid by consumers is not the line charge, as is commonly misconstrued by consumers, some industry participants and the media.

Response

- 1.6.13 Some consumers have incorrectly interpreted the fixed charge on their invoices as being the lines charges. This was evidenced in several consumer submissions to the August 2009 Ministerial Review Improving Electricity Market Performance⁹. This issue could be addressed by the Authority as part of a broader project to address consumer information needs.

⁹ http://www.med.govt.nz/templates/Page____41966.aspx

Switching

Submissions

- 1.6.14 Some submitters rejected the idea that unbundled bills may make it harder for consumers to compare retailers' offers.

Response

- 1.6.15 A more complex bill could make it harder for consumers to compare offers. For example:
- (a) Theresa Gattung (former CEO of Telecom New Zealand) controversially stated in 2006, "What has every telco in the world done in the past? It's used confusion as its chief marketing tool"; and
 - (b) Meridian Energy noted in its submission that the Commerce Commission found separating out the various components that contribute to the overall cost of a service obscures the total cost, rather than making it more transparent (2006 prosecution of Air New Zealand under the Fair Trading Act).
- 1.6.16 Consumer confusion in comparing competing offers could also occur where monopoly line charges vary across retailers, for example, as a result of differences in the timing of flowing through line charge increases or repackaging of innovative distribution rate designs.

Retailer code of conduct in explaining bill increases

Submissions

- 1.6.17 Several trusts and distributors expressed concerns that distributors (intentionally or unintentionally) have been incorrectly identified by retailers as the reason for bill increases, and that this is a difficult perception to diffuse where the charges are bundled.
- 1.6.18 Vector recommended that the Commission develop a guideline/code of practice on how to accurately communicate with customers. Contact stated that retailers who are members of the Electricity and Gas Complaints Commission (EGCC) scheme, and have agreed to the codes of practice, are required to give an explanation for tariff increases to customers; and that retailers, as a matter of course, undertake to explain increases to customers.

Response


- 1.6.19 In December 2009, the Commission issued a consultation paper titled 'Approach to domestic retail contracting arrangements – issues and options discussions' which recommended the adoption of a suggested (ie not mandatory) set of contracting principles and suggested minimum terms and conditions, drawn largely from the existing EGCC Codes of Practice.¹⁰
- 1.6.20 That consultation paper also proposed regular proactive monitoring by a central agency (eg the Commission or the Electricity Authority) of all retail domestic contracts, to enable annual publication of a report specifying the extent to which each retailer's contract is consistent with the contracting principles and suggested minimum terms and conditions. Part of those proposals included a requirement similar to the one in the EGCC Codes of Practice, that retailers give an explanation for a tariff increase of over 5%.
- 1.6.21 In addition, the Commerce Commission can address the issue that distributors have been incorrectly identified by retailers as the reason for bill increases, under the Fair Trading Act. There have been successful Fair Trading Act cases in 2003 and 2004 relating to misleading explanations by retailers as to the reason for bill increases.
- 1.6.22 As a result, it is not considered that separation of line charges on consumer invoices is required to address this concern.

¹⁰ Consultation paper is available at <http://www.electricitycommission.govt.nz/consultation/domestic-contracts> and submissions at <http://www.electricitycommission.govt.nz/submissions/retail/domestic-contracts>

2.1 Data available from unbundled invoices
(Counties Power Consumer Trust Submission
(Appendix B))

Figures highlighted denote increases.

2.2 2006 Network Tasman Trust Circular



Dear Network Tasman Consumer,

I am writing to you on behalf of Network Tasman Trustees to update you on several matters of interest – your recent power bill price rises, the Trust's Christmas distribution to consumers, the eco bulb campaign, trustee election results, and our community grants and loans scheme.

Adding up your power price rises

We feel it's important, as elected trustee shareholders of your local lines company that we are able to fully explain how your monthly power bills have changed over time. Your bill is a combination of charges from three different companies who combine to bring you your electricity. Here's a little about each of them and what they supply you with:

Energy Retailers – the retailers generate electricity and sell it to consumers. The retailers include Contact Energy, Meridian Energy, Genesis, Mighty River Power and Trustpower .

For the purpose of the price comparisons below we have used Contact's prices as they are the dominant retailer in our area, but other retailers offer similar prices. Contact Energy is a private company listed on the NZ stock exchange.

Transpower – is a State Owned Enterprise that distributes power through the national grid, which it owns and maintains.

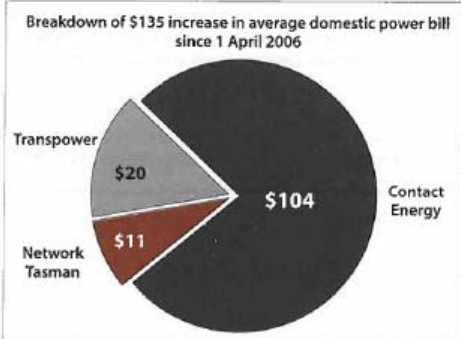
Network Tasman – owns and operates the power lines and equipment used to transport power from the national grid to your property boundary. To get electricity to your property the electricity retailers, such as Contact Energy, have agreements with Network Tasman permitting them to use the distribution network to transport electricity to you.

Understanding your power bill

The information that follows is for a typical residential consumer in the Tasman region using 8000 kWh per annum.

The breakdown of your 2006 price increase

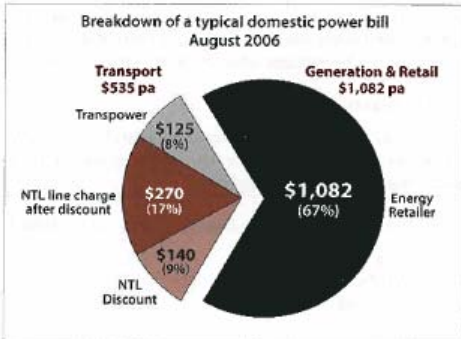
Let's see how the three companies above have contributed to the recent power price rise of \$135 per year for the average residential consumer in the Tasman region:



Company	Amount (\$)
Contact Energy	\$104
Transpower	\$20
Network Tasman	\$11

The makeup of your annual power bill

Now let's have look at how these companies contribute to the typical total annual power bill of around \$1,617 (including GST), or about \$135 per month on average:



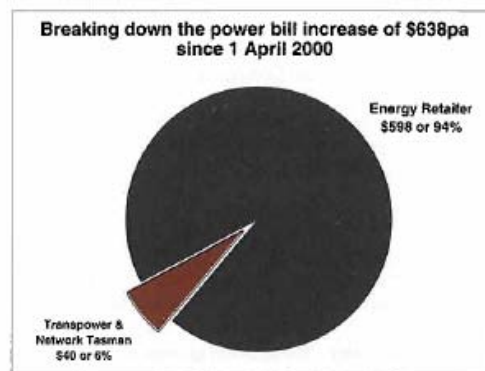
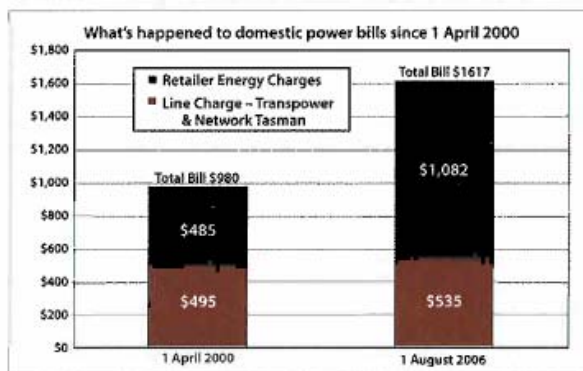
Component	Amount (\$)	Percentage (%)
Generation & Retail	\$1,082	67%
Transport	\$535	-
NTL line charge after discount	\$270	17%
NTL Discount	\$140	9%
Transpower	\$125	8%

So what's happened to your power bill over the last six years?

Six years ago in 2000, an average monthly bill would have been around \$81 per month or \$980 per annum. In 2006 this annual bill is now nearly \$1620. So where has the increase come from?

Transpower and Network Tasman have been upgrading the regions supply lines. Network Tasman has spent \$30 million over the past six years and Transpower has spent over \$30 million in the last 18 months reinforcing the region's supply lines. Despite this expenditure their combined line charges to you are only \$40 per annum higher now than they were 2000 – that's an increase of \$7 per year or 1.3% per annum on average, which is less than the rate of inflation.

In comparison, Contact Energy's charges over the same period are \$598 higher –that's an increase of 19% per annum or a substantial \$92 each year on average since 2000.



The graphs above show that the major proportion of the rise in power bills is attributable to your energy retailer (eg: Contact Energy, Meridian etc).

We hope this has clarified the background of your power price rises. We want you to feel fully informed now and in the future.

More money coming to you from NT Trust's end of year distribution

Good news for our customers. We can now announce that this year's NT Trust distribution to consumers will increase from \$95 to \$100. That's because we are passing on the benefits of a successful year with our investment fund. Consumer cheques will start appearing in letterboxes about the end of November.

Ecobulb promotion exceeds expectations

The recent Network Tasman Trust offer of five eco bulbs for \$10 using the cut-out voucher has been a great success. Another 25,000 bulbs were sold, bringing the overall total to 102,000 bulbs. The campaign was developed in conjunction with local energy efficiency company Energy Mad. The trustees were extremely pleased so many people took up this energy saving offer.

Trustee election results

As you may already be aware trustee elections have recently been held. There is one new trustee – Richmond businessman Trevor Tuffnell – who takes the place of the late Peter Malone. All the other trustees –Kelvin Haycock and Albie Aubrey were re-elected for another term. The trustees who continue in office from the last elections are Ted Anderson, Gwenny Davis and Terry Kreft.

Trustee's legacy lives on

Peter Malone's contribution to the community lives on in the grants and loans scheme now named after him. Each year groups and individuals who work for the benefit of our region are publicly invited to apply for some of the \$70,000 of grants and \$200,000 in low interest loans that are available.

Application forms and loan and grant criteria are available from:

Craig, Anderson & Co,
270a Queen Street
Richmond,

Phone 03 544 6179 or you can download information from the Network Tasman Limited website – www.networktasman.co.nz.

Thank you for your time in reading this letter, which we hope has helped you become more informed about us and the electricity industry.

Yours faithfully,

Ted Anderson

Chairman
Network Tasman Trust