

Submission to the Electricity Commission from David Close

Transparency of Charge Components

1.0 Introduction

- 1.1 I am pleased that the Commission has published a consultation paper on transparency of charges. In a submission on the Market Design Review in September 2008 (see Appendix 1) I argued strongly that requiring transparency of charges on invoices was a simple step that the Commission could take to exert some modest downward pressure on prices. In a letter to Meridian I also referred to the matter (see Appendix 2).
- 1.2 Although I am pleased that the Commission has initiated consultation on transparency of charges, I am disappointed by the content of the consultation paper and by the recommended options. On an issue such as this, the Commission should act as advocate for consumers; instead the Commission appears in many parts of the paper to be an apologist for the generator-retailers.

2.0 Persons being consulted

- 2.1 It is stated (Section 1.2.1) that the purpose of the paper is to consult with *participants and persons that the Commission thinks are representative of the interests of persons likely to be substantially affected*. I would like to know the extent to which the Commission has consulted directly with consumers through focus groups or the like. Unless the Commission has actively set out to inform and consult consumers, one would expect the views of the generator-retailers to continue to prevail.

3.0 Problem definition

- 3.1 The problem definition set out in Section 2.1 is defective. The primary reason for the breakdown of charges is to force retailers to justify their charges, and, in particular, to justify increases in their charges. Retailers have frequently justified price increases by reference to increased transmission and distribution charges when the latter have been an insignificant component in the increase, as is noted in 2.2.2 of the paper.
- 3.2 The paper claims that there is a risk of confusing the consumer by providing too much information and that some bland explanation for the increase in power bills over time might meet the requirement. Such a claim is patronising to the consumer and conflicts with the much more specific

requirement of the GPS. Telephone bills, which run to several pages and provide a breakdown into components, do not appear to confuse subscribers.

4.0 Resistance by retailers to providing transparency of charges

- 4.1 The paper contains a useful account (Section 2.2) of the manner in which retailers have persistently resisted requests from lines companies, trusts, consumer groups, and the Commission itself, to provide a breakdown of their charges. The stance of the retailers is to be expected; it is entirely rational for them to resist disclosure and to put forward plausible arguments in support of their view. However, it is naïve and irrational of the Commission apparently to accept at face value the arguments put forward.
- 4.2 It is hard to accept the argument that unbundling would increase costs significantly (2.2.4), given the ability to programme computers to implement revised formulas. Retailers have apparently had no difficulty in recording the precise amount of the Commission's levy on each month's invoice. This is useful information – the 65 cents I contributed to the Commission's levy in November confirms for me the very modest cost the Commission charges for its core activities of market management, monitoring security and contracting for system operation. (I note in passing that these costs will remain no matter what system of governance is imposed in the future.)
- 4.3 It is perfectly obvious that retailers have some formula for allocating line charges to consumers. One can assert with utter confidence that retailers will recover Transpower's increased charges when the massive reinforcement of the grid takes place in the coming years. Those increased charges will be recovered from consumers large and small, domestic, commercial and industrial, not at random, but by a formula designed for the purpose. All that is required is that retailers should show the outcome for each consumer of the formula that they apply now and in the future. If different formulas used by retailers result in different component charges, that could lead to useful re-examination of the formulas. Consumers will be guided by the bottom line.
- 4.4 The Commission should not accept retailers' claims that their customers did not want detail on their accounts, or the retailers' opinions that the information would be unhelpful to consumers. (2.2.3)

5.0 The need for regulation

- 5.1 The cost-benefit analysis conducted in 2007 assumed that transaction costs would exceed the unquantifiable value of the information to consumers. It ignored the possible effect on retailer behaviour of a disclosure requirement. If requirement for full disclosure resulted in a retailer trimming any of its margins even in a small degree, or if it resulted in a deferral of any increase, even for a short period, the savings to the consumer would greatly exceed the

cost of adjusting the computer programme to provide the detail on the invoice.

- 5.2 Also ignored in the analysis was the cost of not using regulation. The Commission has spent several fruitless years attempting to use persuasion. The retailers – with perfect rationality – have used delaying tactics. For five years consumers have been deprived of the basic pricing information that the GPS says they are entitled to. Over that period consumers have been deprived of the benefit that could have arisen from retailers having to justify their price increases. Only regulation (or the threat of regulation) will produce an outcome. The Commission's Guidelines to Protect Low Income Consumers were largely ignored by the retailers until the Prime Minister threatened regulation following the death of an Auckland woman.
- 5.3 The GPS wisely cautions against regulation where other means (information, discussion and persuasion) will achieve the desired outcome. In my view it is not the intention of the GPS that the Commission should shrink from regulation when non-regulatory methods have failed. It is also worth noting that the Commission administers a rule book several hundred pages long, principally to regulate the market and transmission investment. I find it anomalous that the Commission uses regulation extensively to protect industry participants from one another but is reluctant to regulate those participants to protect the consumer.

6.0 The Commission's Options

- 6.1 In my view the only option which achieves the GPS objective satisfactorily is the option which provides the information directly to the consumer, namely, Option 1, under which unbundled line charges and unbundled generation/retail charges are shown on monthly accounts. The other options fail the transparency and convenience test; they all put a barrier in the way of access to information that the consumer should have as of right.
- 6.2 I accept that the implementation of Option 1 will require regulation. As I have explained above, retailers have had five years to comply voluntarily with the GPS requirement and the model consumer contract.
- 6.3 I consider that regulation would be required for Option 2 to ensure that retailers placed the required breakdown on their websites.
- 6.4 Option 3 is cumbersome. In addition to the Commission assuming responsibility for providing limited information on its website, it is proposed that the retailers would provide a telephone service to supply the information to callers without internet access. Retailers would be reluctant to provide this service and it would undoubtedly add to their costs; this option would also require regulation.

- 6.5 Option 4. It appears that retailer participation is voluntary under this option; it is close to Option 5, the do-nothing option.

7.0 Customer switching

- 7.1 It is claimed that that an unbundled bill will make it harder for customers to compare offers. Even the most unsophisticated customer will have regard to the bottom line.

8.0 Disclosure a barrier to innovation?

- 8.1 In Sections 3.8.5 to 3.8.7 and 3.9.1 the paper argues that unbundled bills would discourage product innovation. I think the savings to be gained from the sort of product innovation mentioned are probably fairly limited. Much of the thinking is based on overseas situations which do not have widespread ripple control of water heating – a long-standing “innovation” in New Zealand. I agree, however, that the smart meters could help smooth peak loads even more.
- 8.2 How will unbundling discourage innovation? All consumers, no matter what tariffs they are on, will be charged according to the relevant formula, which must include line charges and energy/retail charges. Presumably consumers on time of use metering (of which ripple control is a type) will pay lower line (especially distribution) charges, but surely they will not be exempt from these charges, but will be charged at a lower rate according to the formula. All the proponents of unbundling request is that the pricing outcomes of the formulas be disclosed.

9.0 Downward pressure on prices

- 9.1 I argued above (Para 3.1 and 5.1) that requiring retailers to disclose the components of their charges and thereby justify tariff increases could put pressure on downward prices. I am delighted to see acceptance of this principle, albeit not until the very last paragraph of the paper, when it is stated that “the information disclosure allows customers to place downward pressure on lines company and retailer prices.” However, I am surprised that this claim is made for what I would call the soft options, Options 3 and 4. In my view the website disclosures of these options for typical tariffs are unlikely to have much effect. **If the Commission is serious about empowering consumers to “place downward pressure on prices”, Option 1, requiring the provision of the unbundled line and energy charges on each consumer’s invoice, should be adopted.**

10.0 An alternative option

10.1 Publication of the relevant information in newspapers is an option not considered in the paper. Well designed advertisements could provide comparative information on the common tariffs offered by each retailer in each distribution area, together with the breakdown of line and energy charges. This would enable consumers to see not only what their own retailer was charging, but also what rival companies were charging. These advertisements, which would contain information similar to that provided by the Power Switch website, would reach a wide audience and could be effective in promoting retail competition and customer switching.

10.2 My hunch is that the retailers would oppose the publication of comparative information in the newspapers more vehemently than providing the breakdown of their own charges on their consumers' monthly accounts. The evidence is clear that the retailers oppose disclosure *per se* for reasons of commercial self-interest that are understandable but unjustifiable.

11.0 Conclusion

I urge the Commission to take a bold step in consumer protection by adopting and implementing Option 1 without delay.

If hearings are held, I would like the opportunity to speak to my submission.

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