meridian

10 April 2018

Submissions
Electricity Authority
By email: submissions@ea.govt.nz

Review of two aspects of the customer compensation scheme

Meridian appreciates the opportunity to provide feedback on the Electricity Authority's consultation paper *Review of two aspects of the customer compensation scheme*.

The consultation paper seeks submissions on two aspects of the customer compensation scheme (CCS):

1. Whether a retailer should compensate a qualifying customer for all of a public conservation campaign even if it supplies the customer for only part of the campaign; and
2. Whether the Authority should review the minimum weekly amount more, or less, frequently than every three years.

Meridian supports the Authority's proposal to require retailers to compensate qualifying customers only for the days during a conservation campaign that the retailer supplies the qualifying customer. We agree that the current arrangements have the potential to significantly distort retail competition because some retailers might be:

- reluctant to take on customers during the campaign;
- more likely to let customers go; or
- have an incentive to push customers away or recover additional costs through price rises (assuming the campaign lasts more than the 30 day notice required for a price increase).

Non-eligible (spot exposed) customers might also have a greater incentive under the status quo to switch to a different plan or provider in the final days of a campaign, receive a compensation payment, and then switch back.

While we support the proposal, we do not think that the Authority has identified the full range of costs associated with it. In addition to the one-off costs of retail process changes,

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the cost of administering compensation payments in the event of an official conservation campaign would also increase when compared with the status quo. In particular, there would be a high cost to administer payments for customers that leave during a conservation period. Calculating and arranging payments to customers as they switch away would be more costly than a simple bill credit applied to a current customer's account (as would occur under the status quo up to two billing periods following a campaign). While it is important that the Authority takes these costs into account we believe that on balance the proposal would still result in net benefits.

While the proposal will help to ease the potential burden of a trader default, Meridian considers that there potentially remain some issues with the customer compensation scheme in trader default situations. If voluntary customer switching and the tender process do not result in all of the defaulting trader's customers being allocated to a new trader, the Authority will assign the remaining customers to others in the same network areas based on their market share. In these mandatory allocation situations a trader may not want additional customers for commercial reasons (it seems they will have already passed up the chance to acquire the additional customers voluntarily) and there is an open question in our view as to whether it is really to the long term benefit of consumers for traders to be required to also make compensation payments to customers who have been assigned to them against their wishes. We suggest the Authority should carefully consider whether customers allocated in this mandatory fashion should be deemed qualifying customers for the purposes of the customer compensation scheme – it may be that treating them as such increases the risk of the same type of retail competition distortions that the Authority is seeking to avoid by the other amendments it proposes.

On the second matter in the paper, Meridian supports the Authority's conclusion that amending the Code to put in place a different timeframe for reviewing the minimum weekly amount is not justified. The Authority can always review the amount more frequently if necessary following a change in the key inputs.

Please contact me if you have any queries regarding this submission.

Yours sincerely

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A. Responses to consultation questions

	Question	Response
1	Do you agree there are adverse effects on retail competition and market efficiency from a retailer having to compensate a qualifying customer for all of a PCP regardless of whether the retailer supplies the qualifying customer for all of the PCP?	Yes.
2.	Do you agree with our proposed approach to addressing these adverse effects?	Yes.
3.	Do you agree the current requirement for the Authority to review the MWA <u>at least</u> once every three years is appropriate?	Yes.
4.	Do you agree with the proposal's objective? If not, why not?	Yes.
5.	Do you agree the proposal would not require system changes that had a higher economically-efficient cost to those system changes required to implement the current CCS arrangements? If you disagree, please provide details of your additional economically-efficient costs under the proposal.	The proposal will require changes to Meridian systems and processes. In addition to the cost of system changes, the proposal would also increase the cost of administering payments in the event of an official conservation campaign. In particular, there would be a high cost to administer payments for customers that leave during a conservation period. Tracking down and arranging to pay former customers by cheque or bank transfer would cost more than a simple bill credit applied to an existing customer's account (as would likely occur under the status quo). A potential solution to this problem will be for retailers to develop the capability to calculate the necessary compensation payments in time for them to be applied to the final bill of a departing customer. In many cases the compensation payment will offset the final amount owing on an account – this is far simpler administratively than providing customers with a

		check or payment to a nominated bank account. Developing the capability to process compensation payments in time for final billing would be more costly than the Authority's current estimate of process change costs, which seems based on a simple process where compensation can be paid up to two billing periods after the end of a conservation period. While it is important the Authority takes these additional costs into account, we believe that on balance the proposal would have net benefits.
6.	Do you agree the benefits of the proposed amendment outweigh its costs?	Yes.
7.	Do you agree the proposed amendment is preferable to the status quo and the alternative? If you disagree, please explain your preferred option in terms consistent with the Authority's statutory objective in section 15 of the Electricity Industry Act 2010.	Yes.
8.	Do you agree the benefits of the proposed amendment outweigh its costs?	Yes.
9.	Do you agree that the Authority's proposal complies with section 32(1) of the Electricity Industry Act 2010?	Yes.
10.	Do you agree with the Authority's assessment of the proposal against the Code amendment principles? Please give reasons if you do not.	Yes.
11.	Do you have any comments on the drafting of the proposed amendment?	No.