14 August 2018
Submissions
Electricity Authority
PO Box 10041
Wellington 6143

Consultation Paper - MDAG issues paper: Saves and win-backs
By email: mdag@ea.govt.nz

Dear James,

Customer Acquisition, Saves and Win-backs – Cross Submission

Mercury welcomes the opportunity to comment on the MDAG "Customer Acquisition, Saves and Win-backs – Cross Submissions".

Mercury supports evidence based regulatory reform where facts have been established that a problem exists and a robust benefit analysis clearly indicates the most appropriate course of action. There has been some valuable initial analysis through the MDAG assessment phase which should be expanded.

A number of submitters have stated that the current regime does not promote sufficient retail competition. This appears to be defined as new entrant retailers not retaining 100% of their initial acquisitions with the implication being they are losing customers predominantly to supposedly better resourced incumbents. Mercury's view during the 2014 consultation was that the proposed save protection changes were not likely to deliver materially improved competition outcomes in the short term. The analysis provided to the MDAG confirms this point in that its shows a wide variation of retention and acquisition activity between all participants and nothing to suggest incumbent retailers winback more customers from new entrant retailers than from other participants. In fact, the MDAG analysis reached the opposite conclusion; that if typical switch patterns were to continue in the long term most large retailers would lose market share[1].

The concern therefore from many submitters appears to be not that competition is not working but that is not working *fast enough* for their liking. This in our view just serves to underscore the key point: competition is hard and the gains for consumers come in the long term. Some new entrants will win and some will lose just as some incumbents will win and some will lose. Consumers however will win overall as the best products and service offerings emerge through constant innovation and cost reductions.

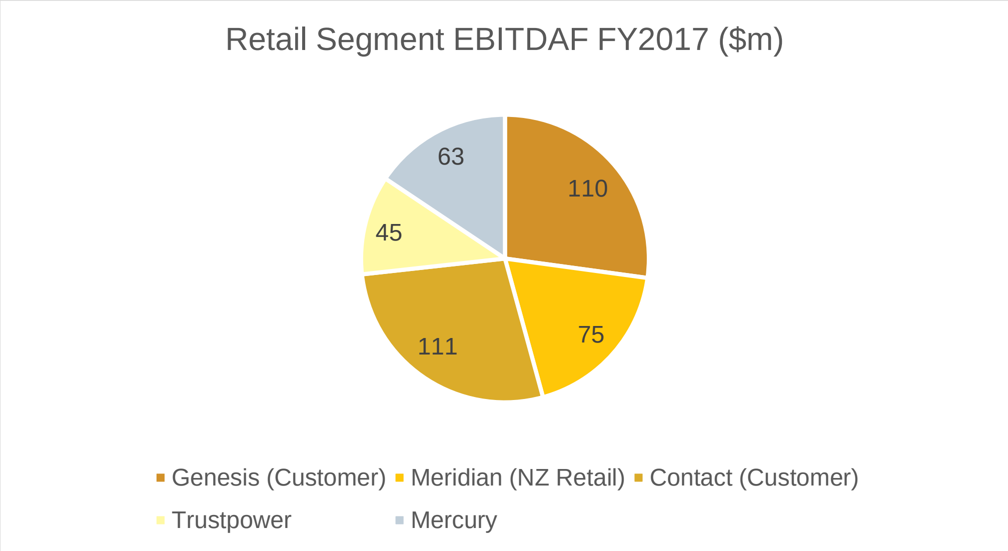
Care must also be exercised to ensure that high levels of switching rates are not seen as a defacto indication that competition exists in a market. This point was well made by Martin Cave from UK's Ofgem while in New Zealand recently. This supports Mercury's view that customer education and energy literacy would be of greater benefit to consumers than tweaks to regulation and that switching statistics including saves and winbacks shouldn't be used to suggest that the market lacks competition.

[1] See paragraph 5.3.3

Level 3, 109 Carlton Gore Road, Newmarket 1023
PO Box 90399, Auckland 1142 New Zealand
PHONE: + 64 9 308 8200
FAX: + 64 9 308 8209
mercury.co.nz

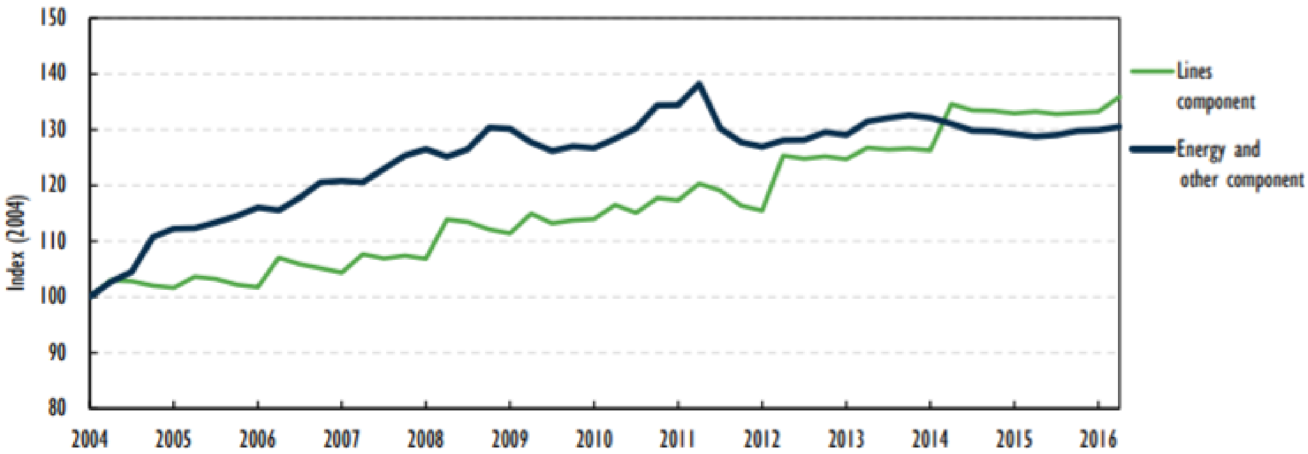
Some of the claims made in cross submissions as to apparent consumer detriment appear to Mercury to not be capable of standing up to scrutiny. Mercury is surprised that Entrust for example would claim that incumbent retailers are somehow overcharging consumers by up to $360m p.a. This claim appears to be based off a media report from Electric Kiwi. A number of other submitters appear to make these claims in a similar range.

Based on publicly available data from the annual reports on the five largest retailers in the market the combined retail segment earnings from these entities in FY2017 was circa $400m.



These figures are also likely an overstatement of the true retail segment EBITDAF as there is no allocation of corporate or billing system overheads or exclusion of larger commercial or industrial customers in some retailers figures. Regardless it is simply not credible to assert there could be overcharging in excess of the majority of annualised retail earnings. Data from the IEA also show that the competitive components on the bill have been flat to declining since 2012 while network costs have been increasing significantly so again it is not credible that any overcharging could be prevalent when competition is evidently working.

Trends and composition of electricity prices, 2004-15[2]



[2] Source: Figure 5.8 pg 75 Energy Policies of IEA countries – New Zealand 2017

Mercury notes that unlike the UK and Australia there is a significant focus in New Zealand on rewarding existing customers as a retention incentive given the high rates of competition we have here. Free Power Days, Airpoints rewards, energy monitoring tools, award winning customer service, discounts on e-bikes and e-scooters, EV charging discounts and solar packages are all great examples of how Mercury provides value to existing customers.

Mercury suggests there needs to be further analysis to understand what is the problem that is looking to be solved. With increasing customer choice of retailers, innovative consumer offerings based on a varied value basis and small retailers successfully growing their market share Mercury is unclear of the issue the market is facing.

If you have any questions on the above submission please Andrew Robertson, Regulatory and Compliance Strategist 09 308 8276 or andrew.robertson@mercury.co.nz

Yours sincerely

Andrew Robertson
Regulatory and Compliance Strategist