

# CONSUMER COALITION ON ENERGY (CC93)

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**The Coalition:** Business NZ Inc  
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Maree McGregor  
Electricity Commission  
WELLINGTON

Delivered by email to [submissions@electricitycommission.govt.nz](mailto:submissions@electricitycommission.govt.nz)

Dear Maree

## **Submission on model contracts and in particular transparency of line and energy charges**

The Consumer Coalition on Energy (CC93) welcomes the opportunity to comment on the draft revisions of the Model Domestic Contracts and related guidelines along with a consultation document published by the Electricity Commission on 17<sup>th</sup> April 2008. Our submission focuses on the discussion in paragraphs 46 and 47 of the consultation document titled "Transparency of line and energy charges" and the subsequent proposed changes to the guidelines and model contracts.

The consultation document proposes removing the requirement in the current voluntary model contracts for detailed cost components to be itemised on invoices and to replace it with a requirement to have a sentence referring the consumer to a web site or the offices of the supplier for further details.

This proposed change is in response to 4 concerns raised by suppliers. Each of those concerns is listed in the consultation document and repeated below in italics with comments on each:

- (a) *The cost of changes to their billing systems to provide this information on each invoice would be excessive.*

CC93 agree retailers will incur costs to amend their invoices and to continuously update that information to ensure it is current. The question that needs asking is whether the benefits of listing on individual customer invoices the key cost components are more or less than the costs? We think it is more likely the benefits will exceed the costs.

Take for example if the cost to suppliers of listing on each bill the actual cost details is \$1 million per annum. The energy component of the household sector's power bills is approximately \$1.4 billion per annum<sup>1</sup>. If household consumers armed with that improved information increase the pressure on retailers to be more competitive or change their consumption patterns to lower the overall cost of energy by more than 0.07%, then making it mandatory on retailers to itemise costs on invoices would be worthwhile.

In other words it would take only a miniscule gain in improving competitive pressures on retailers to more than offset the cost of making it mandatory to publish cost details on invoices. CC93 believes there is considerable untapped opportunity for households to seek out alternative competitive supply and an important key to unlocking that is access to customer specific information through details being listed in invoices.

- (b) *That where the distributor charges in bulk at the grid exit point the retailer can only arbitrarily establish a way to allocate these charges to individual consumers.*

Use of GXP pricing by some distributors is a policy that needs reviewing because it mutes cost-reflective and therefore efficient pricing signals being given to each end consumer. It is beyond the scope of this consultation on model contracts to examine the impact on competition and efficiency of the overall supply chain of the use of GXP pricing. Suffice to say that at this stage we have doubts about the value to consumers of GXP pricing by line companies.

Therefore we have some sympathy with retailers that must operate in areas with GXP pricing. It's not the retailer's fault an accurate cost of distribution charges for each invoice period cannot be given to individual consumers. Until the Commission considers in detail GXP pricing we suggest the distribution costs published on invoices will have to be those estimated by retailers.

- (c) *That there are no benefits to consumers.*

The assertion that there are no benefits is ludicrous. There clearly will be some benefits as the commentary on (a) above demonstrates and only a very small improvement in the market will more than justify the cost of requiring cost details to be published on invoices.

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<sup>1</sup> Refer MED, Energy Data File, June 2007, table G.5e: Electricity End Use for the 2006 March Year. The \$1.4b is for the energy costs only. Households also paid \$0.7b for line costs. All cost data is before GST.

(d) *It would cause confusion for the majority of consumers.*

Giving consumers more information on their invoices will only cause long term confusion if the information is not presented well or lacks credibility. Both how the information is presented and ensuring the information is robust are factors within the control of retailers.

There may be some initial confusion as consumers get used to and learn how to interpret the additional information. That is to be expected but again the retailers that manage that process well will improve their reputation in the market and those that don't will suffer. That's how the market works.

In summary CC93 does not agree that the four concerns raised by retailers as set out in the consultation paper are sufficient reasons to shift from the current requirement requiring publication on each invoice of key costs.

It is extremely disappointing that rather than breaking down the barriers for households to access information on the cost of power, the consultation document proposes a U-turn. Many consumers do not have access to web sites or the knowledge to take a generic formula for any given tariff rate and then apply that to their own circumstances. Detailing key costs on invoices is an effective way to lower barriers to information.

Only with improved information can the countervailing power of consumers be improved. This in turn will lead to retailers having to become more innovative and competitive.

Therefore CC93 strongly opposes the proposed change to reduce the existing requirements for transparency of line and energy charges on individual consumer invoices.

Furthermore, CC93 believes retailers have not only been tardy in implementing the model contract requirements for transparency, but have also undermined a policy that would put them under more competitive pressure. The Electricity Commission should see the policy of improved transparency as a simple and cost effective way to help consumers get better service and choice. We do not think keeping this requirement as a voluntary option for retailers will gain any traction in the near term.

The survey by UMR for the Commission on retail competition had a clear message that we are some distance from having a retail electricity market consumers are aware of, where retailers are constantly searching for innovative services and aggressively compete, and where price offers are easy to compare. Having cost details mandated on invoices would, in our view, be a significant step to improving both the perception by consumers and the actual level of competition in the retail market.

Accordingly CC93 recommends the Electricity Commission commence drafting regulations making it mandatory for retailers to disclose key cost components. If this submission is not the appropriate process to make such a recommendation, then please advise of how we can formally initiate such a process.

This submission is not confidential.

We would welcome an opportunity to discuss our submission further if you wish.

Yours sincerely



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