



MAJOR ELECTRICITY USERS' GROUP

26 September 2014

Dr John Rampton
General Manager Market Design
Electricity Authority
By email to submissions@ea.govt.nz

Dear John

Consultation Paper – Improving transparency of consumers' electricity charges

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority consultation paper¹ "Improving transparency of consumers' electricity charges" dated 24th June 2014. MEUG members have been consulted in the preparation of this submission. This submission is not confidential.
2. Responses to questions in the consultation paper follow:

Question	MEUG response
1. Do you agree with the Authority's view of the role of transparency in promoting competition? Please explain your answer.	MEUG agrees transparency is desirable. Deciding what information must be transparent from that which is not essential needs careful analysis.
2. Do you agree with the problem definition? Please explain your answer.	Based on the text in paragraph 3.1.1 with additions and deletions marked up, we agree the problem definition to be: <u>There may be a problem in providing consumers with sufficient transparency about electricity charges will to facilitate the development of engaged consumers who will make better decisions. This in turn If this is a problem and it was corrected it would stimulate competition to deliver innovation and long-term benefits to consumers.</u>

¹ f <http://www.ea.govt.nz/dmsdocument/18176> found at <http://www.ea.govt.nz/development/work-programme/retail/improving-transparency-charges/consultations/#c12828>

Question	MEUG response
<p>3. Do you agree with the Authority's proposal? Please provide reasons to support your answer.</p>	<p>MEUG suggest the Authority consider the following changes to the proposal:</p> <p>a) The benefits and cost of standardised transparency when prices change on individual customer invoices is understandable.</p> <p>The case for requiring retailers and distributors to consult prior to making media releases (new clause 11.41) is less clear. We understand the potential problems but are not convinced the incremental mandatory compliance costs will remove observed historic problems. For example it's not just individual distributors that make comments it can also be their industry association, the Electricity Networks Association, or owners of distributors and their spokespeople such as Trust Chairmen. The proposed Code amendment does not apply to those parties so quelling selective use of statistics by parties with a material financial interest will only be partial. There will still be scope for misinformation to be used by other parties not covered by clause 11.41.</p> <p>Under the status quo parties that make statements that are misleading or not balanced run the risk of being caught out and their credibility being damaged. This risk is high for retailers but low for monopolies and owners of monopolies. As competition improves retailers will not wish to put their credibility at risk so we think this problem in relation to retailers will diminish. The problem will remain for monopolies although if each ICP receives a standard format notice of the reasons for an increase disaggregated to show line tariff changes also; then that will mitigate line companies making statements inconsistent with advice given to each customer.</p> <p>MEUG suggests the Authority determine the incremental costs and benefits of proposed new clause 11.41 before agreeing it should be part of the package. On the basis of the analysis in the paper MEUG does not support inclusion of clause 11.41.</p> <p>b) In discussing option 1: Market forces, the paper notes "Similarly, competition as a result of market forces in the electricity industry will likely result in industry participants providing more transparent information to consumers in a form they find useful."</p> <p>MEUG agrees. As competition increases the market will reward suppliers that provide information consumers' want. At some future point in time therefore the market should be left to decide levels of transparency and the proposed Code requirements should cease.</p>

Question	MEUG response
	<p>MEUG suggest the Code amendment have a sunset provision based either on either:</p> <ul style="list-style-type: none"> • An explicit ex ante set Herfindahl-Hirschman Index (HHI) level; or • A predetermined review date included in the Code amendments, eg in 3 years time. <p>c) The proposed explanation of tariff rate change in schedule 11.6 (refer the example in appendix D) uses the last 12 months of demand. To change future demand behaviour consumers need to understand the value of lower tariffs if they reduce demand. To make this easy for consumers MEUG suggest that in addition to advising what the tariff changes are on the assumption the next 12 months demand is the same as the last 12 months; the tariff notice also have a scenario to illustrate tariffs and total annual charges if demand in the future decreases by say 5%.</p> <p>With this information a consumer would understand exactly how the relevant fixed and variable components of the line and energy components work and the value of investing in say PV or switching to a retailer with a different tariff structure. The latter presupposes the consumer will have historic data to give an alternative retailer to source prices including prices for lower demand. Access to consumption data is a separate but related Authority work stream. MEUG submitted on that work on 26th August 2014 agreeing with the proposed Code amendment to improve access to consumption data.</p>
4. Do you agree with the alternative options?	Yes those appear to cover all feasible options.
5. Are there any other options the Authority should consider?	See response above.
6. Do you have any comments on the proposed Code amendment?	Refer suggested policy design issues in response 3 above that, if shown to have merit, would require changes to the draft Code amendment.
7. Do you have any comments on the draft template?	No.
8. Do you agree with the statement of the objectives of the proposal? Please explain your answer.	MEUG agrees with section 6.2 Statement of the objectives of the proposed amendment. This also aligns with our understanding of the problem definition in response to Q2 above.

Question	MEUG response
9. Do you agree with the assessment of the costs and benefits of the proposal?	<p>The largest share of the expected benefits is allocative efficiency of network use-age. Having a mandatory distribution pricing methodology would achieve similar if not substantially higher benefits. The Authority is to commence a review of distribution pricing later in 2014/15. This was a newly announced second priority project #1.11 in the recently published Authority 2014/15 work programme. We expect changes will arise from this review such as accelerating the shift towards more of a capacity basis and less use of c/kWh charges.</p> <p>Having improved transparency of changes in distribution pricing for each customer at an ICP will be helpful to avoid misinformation being circulated undermining these expected changes in pricing structures.</p> <p>Once a standard form for informing consumers is in place pursuant to schedule 11.6 we expect the ongoing transaction cost for consumers to consider these notices to decline over time as people become familiar with their content.</p>
10. Are there any other costs or benefits that should be included in the assessment?	No.
11. Do you agree with the evaluation of the alternative options? If not, why not?	No comment.
12. Do you agree with the assessment of the proposed amendment against the requirements of section 32(1) of the Act? If not, why not?	Item (c) in the table on page 50 comments on "the efficient operation of the electricity industry". The discussion on the right hand side panel should include allocative efficiency of network use-age.
13. Do you agree with the assessment against the Code amendment principles? If not, why not?	The proposal appears to be better than both the status quo and the alternatives. The modifications to the proposal noted in response to Q 3 above may further improve the proposal.

3. This issue is complex and has been controversial for some time. MEUG suggests there is no urgency to make a Code amendment. We would support making incremental improvements to the proposal following consideration of submissions and then have a further consultation round.

Yours sincerely



Ralph Matthes
Executive Director