



26 September 2014

John Rampton
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Electricity Authority
WELLINGTON
New Zealand

By email: submissions@ea.govt.nz

Dear John,

Improving transparency of consumers' electricity charges

Thank you for the opportunity to comment on Electricity Authority's consultation paper "Improving transparency of consumers' electricity charges", 24 June 2014. No part of our submission is confidential.

We have not had the capacity to review the Authority's proposals in detail so this submission presents our view on a few key points for the Authority's consideration. As a matter of principle we support transparency - where it assists consumers and/or can help promote competition.

We agree that the 'blame game' reflects poorly on the sector

We agree that an ongoing game of blame between different sector participants is unconstructive and implies a level of maturity that does not fairly represent the industry.

The Authority has stated that "For electricity, transparency primarily relates to whether consumers have timely access to sufficient information for them to understand their bills, see what is driving price changes, make choices about their retailers, and promote accountability across the electricity supply chain."¹ It should be recognised that there is a tension between these aspects of transparency. If electricity invoices include the added complexity of a breakdown of charges into distribution, transmission and retail this may make them more difficult for consumers to understand.

Would unbundling consumer bills help?

Access to 'key facts' such as relevant usage and tariff information in a digestible form can assist consumer decision making and promote the competitive process.

However, while we support increased transparency it is not clear to us that 'unbundling' consumers' monthly electricity bills is wanted by consumers, practical to implement or likely to enhance competitive outcomes or efficiency more broadly. For example, to mitigate commercial incentives to 'spin' any disclosure it seems inevitable that a requirement to unbundle charges would need to be accompanied by clear instruction/rules and translate between different units of measure. That prescription would cut across retail tariff innovation and may have other unintended consequences.

¹ Electricity Authority, Improving transparency of consumers' electricity charges, 24 June 2014, paragraph 2.1.1.

Perhaps the most useful and least cost intervention is for the Authority, as a neutral party, to extend its existing role in informing consumers about underlying trends and costs.

Consumer engagement and competition

We have not examined the issue in detail but it was not obvious to us why the unbundling of consumer bills would promote competition. The consultation paper explains clearly what is needed for consumers to be engaged and to consider switching between different retailers:²

For consumers to engage effectively, they need to:

- (a) have access to information about the various offers available in the market
- (b) assess these offers
- (c) act on this information and analysis by purchasing the good or service that offers the best value to them.

When any of these three elements of the consumer decision-making process breaks down, it will lead to reduced consumer engagement and impeded competition.

We struggled to see how the Authority's proposals would provide additional information that could assist with any of these factors. That is because the cause of price increases (networks, generators or retailers) is not particularly relevant to whether a consumer could save money by switching retailers i.e. assuming accurate and consistent disclosure of cost components is required, it is not clear how this information could help consumers deciding whether to switch retailers.

What is more likely is that unbundled information could make electricity bills even more confusing for consumers and potentially frustrate consumer engagement and switching.

Practical difficulties

We have not considered the issues in any detail however expect there may be practical issues that could exacerbate the substantive issues outlined above. For example, we expect the costs of reconfiguring billing systems, tariff redesign, customer education (etc) to be non-trivial.

We encourage the Authority to work through these matters before reaching a conclusion. One additional matter to address would be the representation of different units of measures and cost allocation mechanisms. For example, how the costs of transmission which are allocated through three different charges would be accurately represented.

Overall, we consider that the Authority's best option for trying to address its concerns may simply be by ensuring there is good quality information, reflecting a neutral party view, on pricing trends and what is driving price changes (option 4).

Yours sincerely,

A handwritten signature in black ink, appearing to be 'JC' followed by a long horizontal stroke.

Jeremy Cain
Regulatory Affairs Manager

² Electricity Authority, Improving transparency of consumers' electricity charges, 24 June 2014, paragraphs 2.2.4 and 2.2.5.