

Appendix A Draft AECT submission

Introductory remarks

The Auckland Energy Consumer Trust (AECT) welcomes the opportunity to provide a submission on the “Retail Project – Issues Paper” released by the Electricity Authority (EA) dated 28 January 2014.

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AECT agrees that consumers do not have readily accessible information about the components of retail energy pricing in a form that enables most consumers to easily compare the cost of different energy pricing plans offered by retailers. AECT supports the EA’s aims of improving the availability of retail price and energy consumption data.

Draft AECT submission content – Response to questions

Table 1 Incomplete data about retail prices and costs

AECT submission on Retail Project – Issues Paper, Section 2, Questions 1 to 7

| Question | AECT submission |
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| Q1. Do you agree that there is incomplete data about retail costs and prices? | Yes. Neither the MBIE nor the Statistics New Zealand data provide an indication of how representative the prices are relative to average energy users or the dispersal of energy usage charges around the user identified by MBIE. |
| Q2. Do you agree that the consequences of incomplete data include inefficient decisions and reduced confidence in retail competition? | Yes the data readily available is clearly not useful for individual consumers in benchmarking their energy costs against competitors. At a more basic level these series do not give an authoritative picture of either the rates of change of average consumer energy ‘price’ or the drivers of the rates of change. Debate over differing estimates of the rate of change of components of energy price hinder discussions with regulators and politicians about the competitiveness of energy markets. |
| Q3. Do you agree that there is incomplete information about retail tariffs? | Yes. See response to Q2 above. |
| Q4. Do you agree that there is incomplete information about consumption data? | Yes. See response to Q2 above. |
| Q5. Do you agree that these issues inhibit effective decision-making by consumers? | <p>Yes. The limited information on tariff plans creates a barrier for consumers attempting identify and compare alternatives to their own offer. if this discourages consumers from ‘shopping around’, it shifts the initiative for making the change in retailer decision from the consumer to the retailer. This model means retailers would be expected to target special offers at:</p> <ul style="list-style-type: none"> – their estimate of profitable consumers served by other retailers – profitable consumers they have lost to other retailers who are approaching the end of their ‘lock-in’ period. <p>Such a model of retailer behaviour is most effective where the retailer can segment their consumer base into a large group of users that are “reluctant to move” retailers and a small group of profitable “offer-sensitive” consumers.</p> <p>We would expect that the experience of the “what’s my number” campaign and analysis of the data on consumer switching would provide an estimate of the relative size of the “reluctant to move” and “offer sensitive” consumer groups for each retailer.</p> |
| Q6. Do you agree that the perception of the electricity retail market as competitive is important for the efficient operation of the electricity industry? | Yes. The perception of the competitiveness in the retail market affects government and regulator views on the need for further intervention in the market, and the objective for such intervention. But it is only one factor in the efficient operation of the industry and less important than real factors, like the actual degree of competition. |
| Q7. Do you consider that the various survey findings on perception of competitiveness in the retail energy market align with reality? Please describe your understanding of current perceptions of retail competition. | The themes of the survey results are consistent with our experience but we believe the results underrate the weakening of competition caused by the difficulty in comparing tariff plans and retailers use of special offers to compete selectively for new consumers. A case in point is the reluctance of retailers to pass on the Commerce Commission imposed 10 percent reduction in Vector electricity lines charges to their consumers. |

Table 2 Things the Authority might do to address these issues

AECT submission on Retail Project – Issues Paper, Section 3, Questions 8 to 16

| Question | AECT submission |
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| Q8. Do you agree with the objectives of part 1 | Yes, we agree with the principles as a starting point but suggest that the principles are extended to include analysis that collects data to compare the characteristics of consumers that switch with those that do not. This extension is necessary to focus the analysis on the nature and intensity of market competition between retailers, and consumer responsiveness to differences in tariff plan price level and structure. |
| Q9. What comments do you have on the Authority’s preliminary thinking on how to achieve the objectives of part 1? | We suggest the data collection and analysis is extended to the price level and plan structure differentials that induce consumers to switch retailers and also comparison of the size and of the group of consumers that remain with their incumbent retailer, but have similar consumption and pricing levels to the consumers that switch retailers. |
| Q10. Are there alternative approaches that you would like the Authority to consider in part 1? | As described above we suggest that the EA broaden the design and focus of the data collection to include the analysis of the nature and intensity of price competition between retailers and the response of consumers to price differentials rather than limiting the data collection to a more detail about what consumers have paid for electricity and gas. |
| Q11. Do you agree with the objectives of part 2? | Yes, but our answer to ‘Q8’ also applies to this question. |
| Q12. What comments do you have on the Authority’s preliminary thinking on how to achieve the objectives of part 2? | In addition to our response to ‘Q9’ we suggest that the EA consider carefully how to make the data available in a timely fashion to ‘brokers’ or other agents that may emerge as interpreters of the information and act as intermediaries to encourage consumers to recognise and act on information on price differentials. We also suggest that the EA consider how to make the same information publically available and accessible to analysts promptly. We fear that providers of data may argue against the release of the data immediately on the grounds of commercial sensitivity. |
| Q13. Are there alternative approaches that you would like the Authority to consider in part 2? | Our answer to ‘Q10’ and ‘Q12’ apply to this question in that they suggest an extension of the EA proposal. |
| Q14. Do you agree with the objectives of part 3? | Yes, our answers to ‘Q8’ and ‘Q11’ apply to this question. |
| Q15. What comments do you have on the Authority’s preliminary thinking on how to achieve the objectives of part 3? | Yes, our answers to ‘Q9’ and ‘Q12’ apply to this question. |
| Q16. Are there alternative approaches that you would like the Authority to consider in part 3? | Yes, our answers to ‘Q10’ and ‘Q13’ apply to this question. |

Table 3 Approach to project

AECT submission on Retail Project – Issues Paper, Section 4, Questions 17 to 19

| Question | AECT submission |
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| Q17. Do you have any comments on the approach to project presented here? | In addition to the extension of scope suggested in our responses to 'Q8' to 'Q13' we also suggest that the issues paper include a stocktake of the: <ul style="list-style-type: none">– lessons learned from the 'What's my number' campaign– data available on consumer switching between retailers and through the EIEP 1 process. |
| Q18. Do you have any suggestions for topics or particular questions you would like addressed at industry workshops regarding this project? | We suggest workshop discussion consider how the data is expected to be used; and what change in the market is expected as result of improved access the data. This discussion should form the basis of either confirmation or amendment of problem definition in the issues paper. |
| Q19. Would you be interested in providing sample data to the Authority to assist us with developing detailed options? | Not applicable to AECT. |