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Submissions
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SUBMISSION ON RETAIL DATA PROJECT PAPER

- 1 Orion New Zealand Limited (**Orion**) welcomes the opportunity to comment on the “Retail data project” issues paper (the **paper**) released by the Electricity Authority (Authority) in January 2014.

Introduction

- 2 Most of our submission is contained in our responses to the questions in the paper, however we also make some more general comments.

General comments

- 3 The paper covers quite a bit of ground, and we struggle to see how some of the matters are related. Overall the paper seems to identify three somewhat distinct problems, but at least in part implies these can be dealt with by a common solution. We doubt this is achievable.
- 4 Our view on the paper’s perception of the three problems is:
 - All stakeholders have a limited understanding of what drives retail prices,
 - Consumers have difficulty making reliable comparisons of retailer offerings, and
 - Consumers do not have access to sufficient consumption data to support comparisons.
- 5 In our view, they are quite different problems, yet the paper seems to think they are closely related, and that there is perhaps a common solution via ‘big data’. We don’t think this conclusion follows even if the problems are granted.

Stakeholder understanding

- 6 We agree that consumers probably do have an overall perception that retail prices / markets are not competitive. That perception is important, but it is not the only consideration for the Authority. Moreover, it is important to think about how the perception might be addressed. We do not think the collection and dissemination of more and more data on retail prices and their components is a good way to go about this.
- 7 We consider that the Authority has already done a significant amount of good quality work identifying the different components of consumer prices and what drives them. We think this establishes the reasons for a number of the key movements in retail prices over the last 10 years or more, and which are:
- Increases in the transmission component reflecting the very significant new investment in the grid in recent years (but reasonably flat before that)
 - Moves to more commercial and more cost reflective distribution pricing which may in some areas have been associated with reallocation of costs between consumer categories
 - Increases in generation costs as more expensive plant¹ is added to the generation stack.
- 8 But analytics, whatever the quality, do not necessarily get any cut-through with, and indeed are probably not read by, most consumers. It is therefore unlikely to address perception. While we have not yet had time to examine it closely, the UMR research recently commissioned by the RAG² may provide some insights into what drives these perceptions, and that may also suggest ways that those perceptions can best be managed.
- 9 Perhaps an example based on a specific current problem will help here. In recent days (as of early March 2014) there has been quite a bit of media commentary about various parties views on the subject of “transparency” of retail prices in the context of price changes announced by retailers, and what is behind them. In particular there have been claims that there are conflicting accounts of which party is responsible for what. The Authority has now indicated that it will investigate. But, even if the Authority reaches firm conclusions about the “blame game”, we are not sure that layering even more analytics over this will help with consumer perception.

¹ Acknowledging the Authority’s observation that the offers of some older generation assets may not accurately reflect the actual cost incurred in constructing them many years ago.

² This research also presents a rather complicated customer segmentation which we suspect indirectly challenges the idea in the paper that even “big data” would allow the analysis by “any” group of customers as anticipated in 3.2.6(d) of the paper.

Comparing retailer offerings

- 10 The paper does not establish that consumers have difficulty comparing retailer offerings in a general sense, and nor does it provide specific examples of problems that some consumers might have. The absence of a discussion (or even a mention) of Powerswitch in the paper appears to be an oversight.
- 11 What we can say is that, whatever the perception of competition, and whatever level of detail is needed to understand what has been driving price changes in the sector, neither of those things is obviously relevant for a consumer working out who is the lowest cost retailer right now.

Access to consumption data

- 12 There is a lack of clarity in the paper about what particular consumption data is seen as a problem, and for what purpose more data might be useful. The appropriate data rather depends on what problem is being examined.

Wider risks

- 13 Some aspects of the paper seem to suggest, or have as a possible consequence, a general approach of standardising at any cost. For example the idea that consumers should be able to do comparison based on a single number suggests the idea that perhaps all prices should be fully variabilised, and perhaps there should only be one price? Leaving aside the fact that Powerswitch does turn all of the complexity into a single number - overall average dollar cost for the consumer in question based on the various retailer offerings - there is a real risk that both dynamic efficiency and wider consumer choice are compromised if we dumb down pricing to make intermediaries jobs easier.
- 14 Another possible consequence of standardisation is stifling innovation. In the attempt to make everything easy to understand and comparable, some retailers such as Powershop, may be forced to change what has proved to be a very popular business model with customers, and a model based, ironically, on an attempt to reduce all of the complexity in the supply chain to a set of customer-specific price offerings.
- 15 In a similar vein, we note the ambition in the paper to deal with dual-fuel (electricity and gas) offers. This adds a considerable layer of complexity in an already difficult area, but it also begs the question of what else should be in. Telecommunications services is an area that at least one retailer bundles in with its overall service and product offerings. How wide should the net be cast?

Concluding remarks

- 16 Thank you for the opportunity to make this submission. Orion does not consider that any part of this submission is confidential. If you have any questions please

contact Bruce Rogers (Pricing Manager), DDI 03 363 9870, email
bruce.rogers@oriongroup.co.nz.

Yours sincerely

A handwritten signature in black ink, appearing to be 'BR', written in a cursive style.

Bruce Rogers
Pricing Manager

Appendix: Response to specific questions

#	Question	Response
1	Do you agree that there is incomplete data about retail costs and prices?	<p>Possibly, but context is important.</p> <p>We believe the paper is confused in terms of problem definitions. For example, for the purposes of a consumer making a choice of different retailer's offerings, the most important aspect is the total amount they will pay. The paper presents no evidence that the current tools, in particular Powerswitch, but also the Authority's own WMN tool, present materially misleading information to consumers. In fact the paper does not even mention Powerswitch.</p> <p>In terms of costs, and the relationship with prices, we would have thought that the Authority already has a good handle on this, and has produced what we consider to be good summaries of recent trends, but in any case, it is not obvious how more detailed retail pricing information will help it understand costs better. The Authority might be seeking to better understand retail margins, but we consider that more generic modelling (of the sort it has already done) supported by financial reporting is a better way of understanding that than looking at prices.</p> <p>The paper notes, and it is probably true, that there are price offers available to some customers that are not available to all, and that "published" prices might in some cases be higher than prices that at least some consumers have access to. We do not see why this is important from a regulatory perspective, as it is what we frequently see in workably competitive markets. However, if the Authority is serious about capturing all of this activity, its database will be very complex, and that is assuming retailers are willing to share the relevant information. (And if they are not willing, further regulation would be required.)</p> <p>As we have previously submitted, we are not sure how much information consumers have readily available to them about the various pricing plans available to them from any given retailer, but as such options usually involve behaviour changes, and often metering or wiring changes, we think that this is better left for informed discussion between the retailer and the consumer.</p>
2	Do you agree that the consequences of incomplete data include inefficient decisions and reduced confidence in retail competition?	<p>We do not understand in what sense "efficiency" is being used here, but we are sure that the decisions being referred to are very different for the different entities.</p> <p>For example, we agree that the MBIE quarterly surveys are not fit for purpose around choosing a retailer going forward. But retailer choice is not their purpose. For recording overall trends and movements in retail prices and some key components, the surveys appear to be perfectly reasonable, and the paper presents no information to contradict this view.</p> <p>The existing tools for consumer price comparison are Powerswitch and the related WMN. As noted above, these are either not (Powerswitch) or hardly discussed in the paper.</p> <p>Regarding confidence, the paper does not show how this will be enhanced by more detailed retail pricing information. Our own view is that any lack of confidence is probably more down to an environment where prices are rising despite increasing competition, and so we are in the always difficult</p>

		territory of explaining that prices are lower than they otherwise would have been. While conceptually this is not a contradiction, and the Authority itself has published quite a bit of material that seems to explain price movements well, consumer perception is a very different beast, and one that will not obviously be assuaged by ever more detailed data.
3	Do you agree that there is incomplete information about retail tariffs?	<p>This is not very different to question 1 above, although it is more focused on consumers than on wider stakeholders. Likewise our concerns are not very different.</p> <p>The paper does not explain how more data helps. For example, if a consumer goes to Powerswitch with just one recent electricity bill in hand she can find a comparison across all retailers for <i>her</i> electricity plan using <i>her</i> household's consumption. Or she might just do the calculation based on entering the various Powerswitch parameters around household size and heating etc. How inaccurate is the result? The paper implies that it is quite inaccurate, but provides no supporting evidence.</p> <p>Powerswitch may not contain all possible offers, although again the paper has no quantification of how much is missing, but we suspect that the sorts of offers excluded are either campaign specific (as noted for "door-knocking") which may not be widely available so publication via a third-party could be misleading, or in the form of a one-off cash inducement for a 'save', (again as the paper notes). The paper seems to disapprove of such activity, but it looks to us like the sort of thing that happens in competitive retailing: targeted 'specials' and targeted customer rewards.</p> <p>In terms of the concerns in para 2.2.7 of the paper:</p> <ul style="list-style-type: none"> (a) lacks quantification (b) is unclear as to what the costs and risks are, or how more data will reduce these (c) does not explain how more complete data will improve trust.
4	Do you agree that there is incomplete information about consumption data?	<p>The consumption data used for billing is complete, (assuming the bill is correct) although there may be small transaction costs in readying it for analysis (at the most the cost of looking up quantities and manually entering the information from 12 monthly bills). But as noted above, how bad is a one-bill comparison?</p> <p>If this refers to the interval data available from some metering, but not used for billing, then there is a question about whether this is a separate service. Care must also be taken in interpreting this information: a consumer's current interval data profile will reflect the pricing plan they are currently on. It does not follow that it can be used to establish a "better" pricing plan, as other plans may require behaviour change (for example heating hot water only at night) to be beneficial: in other words the behaviour change will change the profile. Depending on the plan chosen, there may be some costs involved as well (for example the cost of new wiring).</p> <p>Consumers contemplating a plan change need to consult a retailer to ensure they understand the choices. This is not an unusual activity in workable competitive markets. (We haven't looked, but it might be that Powerswitch has some generic information about the range of plans available, which is a</p>

		good starting point.)
5	Do you agree that these issues inhibit effective decision-making by consumers?	<i>Materially</i> inhibit, no. How many consumers are making wrong decisions (which is not the same thing as a decision that turns out in hindsight to have been wrong) using the existing tools? What are the consequences of a “wrong” decision? The paper does not tell us.
6	Do you agree that the perception of the electricity retail market as competitive is important for the efficient operation of the electricity industry?	It is important for the efficient <i>regulation</i> of the industry. We do not think it is important for the efficient operation. The way the regulators react to the perceptions may have efficiency impacts.
7	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.	<p>We can understand why an environment of seemingly continuous (if intellectually understandable) retail price increases might, in consumers’ minds, override the somewhat less obvious reality of increasing retail competition. But if the energy cost is given and significant components of total cost are regulated, competition is really only about retail margin, which is a relatively small proportion of the total. It is entirely possible that retail margins can be squeezed yet retail prices increase overall.</p> <p>It might be that with flat demand taking the pressure off energy prices, an end to Transpower's major investment programme, and a lower interest rate environment for the next distributor price reset (2015) overall upward cost pressures are relieved, and competition goes hand in hand with lower prices, at least for a few years.</p>
8	Do you agree with the objectives of part 1?	We are not sure that Parts 1 and 2 are sufficiently distinct to discuss separately. Plans, tariffs and prices are effectively all the same thing. Costs might be worthy of separate consideration.
9	What comments do you have on the Authority’s preliminary thinking on how to achieve the objectives of part 1?	<p>It could be clarified. Paras 3.2.5 to 3.2.10 contain a mixture of ideas, conflating prices, costs, charges (to both consumers by retailers and retailers by distributors) and consumption.</p> <p>This proposal looks ambitious even in the context where the data structure was well understood. However, in the context where the Authority has already demonstrated, via the standard distributor tariff codes project, that there is a high risk of failure with such projects. Even if it succeeded we think it will be at very high cost, certainly into the hundreds of thousands of dollars.</p>
10	Are there alternative approaches that you would like the Authority to consider in part 1?	<p>The Authority already carries out analysis and modelling of industry prices and costs. In doing so it seems to have access to a considerable amount of information. However, there are in our view, much lower cost alternatives to the building of the sort of data set contemplated in Part 1. Alternatives that would in our view have a much better chance of solving the problem, include:</p> <ul style="list-style-type: none"> • review existing retailer information disclosures (including financial disclosures) • consider new information disclosures to address material gaps in the above.
11	Do you agree with the objectives of part 2?	The paper has not established there are any material problems with the existing tools available to consumers via Powerswitch and WMN (for residential consumers) and

		consultants (for larger customers). Powerswitch is not even mentioned in the paper.
12	What comments do you have on the Authority's preliminary thinking on how to achieve the objectives of part 2?	The thinking could be developed further. The main rationale seems to be that Powerswitch does not contain all offers. Our view is that not all offers are intended to be widely available, and making them appear to be available only leads to potential confusion which will hardly help with customer perception.
13	Are there alternative approaches that you would like the Authority to consider in part 2?	The Authority must establish what is materially wrong with Powerswitch. And if there is anything materially wrong, the obvious first avenue is to seek to have Powerswitch improved, rather than duplicate its functionality.
14	Do you agree with the objectives of part 3?	In the sense that consumers should have ready (timely, low cost) access to consumption data, yes. However, the paper does not establish whether this is currently a problem for most or even some consumers, and nor does it identify material problems with using partial data (eg a recent bill) for the key purpose of comparing retailer offers.
15	What comments do you have on the Authority's preliminary thinking on how to achieve the objectives of part 3?	See response to question 14. It is unclear if what is meant by consumption data is what (typically) is used for billing, or more granular (say half-hourly) data available from some metering even though it is not used for billing. If it is the latter, then there may well be contractual (and indeed technical) issues accessing this data, but more importantly, profiles reflect past behaviour, so great care needs to be taken in using them to choose amongst other plans which by definition imply or require behaviour change.
16	Are there alternative approaches that you would like the Authority to consider in part 3?	It's not really an alternative approach, but the Authority should first establish if there is a material problem, and precisely what it is.
17	Do you have any comments on the approach to project presented here?	The paper breaks the discussion into three parts, but these don't seem to be reflected in the approach. Is the same solution being contemplated for each part? Even if the problems are as stated, there is no reason to believe they have the same solution.
18	Do you have any suggestions for topics or particular questions you would like addressed at industry workshops regarding this project?	Establishing, with evidence, the nature and scope of the problems would be useful.
19	Would you be interested in providing sample data to the Authority to assist us with developing detailed options?	We do not believe we have any data that is relevant to this project.