

20 August 2013

Submissions  
c/- Electricity Authority  
PO Box 10041  
Wellington 6143

*by email: rag@ea.govt.nz*

**SUBMISSION ON IMPROVING TRANSPARENCY OF CONSUMER'S ELECTRICITY CHARGES**

- 1 Orion New Zealand Limited (**Orion**) welcomes the opportunity to comment on the "Improving transparency of consumer's electricity charges" issues and options paper (the **paper**) released by the Retail Advisory Group (RAG) in July 2013.

**Introduction**

- 2 Our submission is in two parts:
  - General comments on the paper, and
  - Responses to the paper's specific questions as an appendix.

**General comments on the paper**

- 3 We are unsure why this project has been deemed a high enough priority by the Authority to ask the RAG to investigate. In this vein, perhaps the most significant thing missing from the paper is a discussion of the significant historical context. This question has been much discussed and consulted on for many years, most recently by the Electricity Commission. We had thought that the Commission came to a sensible landing on the issue, with a suggestion that retailers advise the components of their prices at the time that they notify consumers of changes to them. However, while at least some retailers do indeed take this approach, we are not sure if this work was ever properly closed off by the Commission.

- 4 Now we are seeing the entire matter reopened, almost as if it had never been considered before. Nevertheless, the paper presents a good discussion of the issues, so we are prepared for one more 'groundhog day'.
- 5 The remainder of our comments are in our responses to the questions in the Appendix below.

**Concluding remarks**

- 6 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](mailto:bruce.rogers@oriongroup.co.nz).

Yours sincerely



Bruce Rogers  
**Pricing Manager**

## Appendix: Responses to specific questions

	Question	Response
1	Do you agree with the issues raised about the transparency of consumers' electricity charges?	<p>We agree that these issues have been raised. We note that a number of them have been discussed and consulted on over many years.</p> <p>We do not believe that the issues as stated are particularly closely related, either to each other or to the idea of 'transparency'.</p> <p>Of note in relation to this issue was the recent media discussion about whether retailers had passed-on the reduction in Vector's delivery charges following the Commerce Commission's downward reset of Vector's prices that came into effect on 1 April 2013. Absent from the discussion (that we saw) was a comparison of the various retailers' actual prices, which would have showed that, despite Pulse Utilities and Meridian Energy "passing on" the reductions, other retailers that did not remained the cheapest overall. This is exactly what we would expect to see in workably competitive markets: retailers do not automatically or mechanically respond to changes in input prices and / or competitor's prices. Rather their behaviour will be driven by their own pricing strategy and in particular by what any changes do to their price relative to other retailers. For example, a simple strategy of always being the cheapest retailer is not disturbed by another retailer reducing its prices but, despite that, remaining more expensive.</p>
2	If so, how widespread are these issues, and what is their effect? Please provide any evidence you may have to support your view on the size and nature of these problems?	<p>It is interesting the way the paper describes the issues, as each is linked to "some" consumers. We doubt that any of the "somes" is a significant number, and that most are in fact "very few".</p> <p>To take each issue in turn:</p> <ul style="list-style-type: none"> <li>• To the extent that it is useful to understand what is driving price changes in any fundamental sense, we do not believe there is anything useful that retailers can add by way of how they present price information. The paper correctly notes that the Fair Trading Act constrains what retailers can say about their price changes, but our observation is that this leads them, understandably, to making bland and general statements. The Authority has already published commentary on price trends and drivers, and we think this is a good way for</li> </ul>

	Question	Response
		<p>this issue to be addressed, as it is likely to be independent, well-informed, and low cost.</p> <ul style="list-style-type: none"> <li>• We do not understand the second issue about difficulty of checking invoices. We do not believe any retailer presents invoices in such a way that the chargeable quantities, prices and charges are not clearly set out. Checking in this sense might be that the arithmetic is correct, but we doubt that is a serious concern. The only components then are quantity and price. Quantities can certainly be incorrect (although we doubt it is common) but that is not related to the way price information is presented. It is simply not true that unbundling the prices (for example into “network” and “retail” components) makes it easier to check invoices, as it clearly increases the number of items to be checked. It may be that this issue reflects a misunderstanding of the contractual arrangements, with customers thinking that network charges are a “pass through”. While this is true for a small number of contracted “TOU” customers, for the vast majority of consumers the retailer’s prices are “bundled” offerings.</li> <li>• For customers wanting to reduce bills we submit: <ul style="list-style-type: none"> <li>• There is a plethora of information readily available in the area of energy savings, but again that relates to the quantity component of charges, so it is unclear what it has to do with transparency</li> <li>• What’s my number and other tools allow very ready comparison of retailer prices</li> <li>• It is perhaps less clear how well consumers understand the various pricing plans available to them</li> <li>• In any case it has nothing to do with transparency of charges</li> </ul> </li> <li>• As just noted, it is hard to see how it could be much easier to compare retailers, at least so far as costs are concerned. But again it is hard to see how transparency of charges fits in. The only sensible comparison is of total cost.</li> </ul>
3	Do you have any other concerns about the availability of information about consumers’ electricity	No.

	Question	Response
	charges?	
4	If you are a retailer or distributor, please provide a representative sample of your consumer invoices (where applicable) and a link to any consumer pricing information on your website. Please also provide a description and/or examples of any other relevant information that you make available to consumers.	<p>We are a distributor but we only invoice a few large consumers directly. We do not think this workstream is aimed at those sorts of customers.</p> <p>We do not consider that the pricing information on our website is intended for consumers, as we primarily charge retailers for the delivery service.</p> <p>However, a large amount of pricing information is available on our website:  <a href="http://www.oriongroup.co.nz/publications-and-disclosures/pricing.aspx">http://www.oriongroup.co.nz/publications-and-disclosures/pricing.aspx</a></p>
5	What other sources of information about consumers' electricity charges are you aware of?	The list in the paper appears comprehensive.
6	What are the perceived or actual differences of the electricity industry that may warrant consideration of making more transparent pricing information available to consumers?	<p>This section is something of a stretch, and doesn't clearly link the comments to the question of transparency. The retail electricity market may be quite young, but as we understand it switching rates are quite high by international standards, and price comparison and switching are low cost.</p> <p>We venture that it is much easier to compare electricity retailer offerings than it is to do such a comparison for most other commodities. We also note that a fundamental concept of economics is the use of price as a way to represent the many and varying attributes of a commodity in a single value. Consumers are fairly familiar with price with respect to many other commodities, and we do not consider the concept is any less reliable with electricity.</p> <p>We disagree that information on what drives consumption is hard to find, and we believe consumers, if they are so inclined, can easily work out what each additional unit of consumption costs – in most cases it is clearly stated</p>

	Question	Response
		<p>on the bill (although where the rates are unbundled it becomes more difficult because the consumer must add the components up). What is more, a number of retailers are offering information based systems that provide much more granular consumption information, estimates of the cost of consumption so far (in the billing period) and comparison with consumption at similar properties in the locality.</p> <p>Likewise we disagree that electricity is different to other commodities as regards knowing what you are going to pay. We venture to suggest that many consumers do not know exactly how much they have spent on food until they are at the counter, or how much they spent at the restaurant until they get the bill. The 'toll call' and 'calls to mobile phone' sections of a Telecom bill are a potential source of considerable surprise. Prepay electricity allows people to know how many dollars they've spent, but often does not tell them what they get for it, or how long the dollars will last. (Powershop is an exception, but is not a typical pre-pay arrangement.)</p> <p>Irrespective of these differences, the paper does not provide any link between them and greater transparency.</p>
7	Do you agree with the key questions to be addressed by this project? Do you consider there are any other key questions?	Yes, and no.
8	<p>What information do consumers need to:</p> <p>a. check they have been invoiced correctly?</p> <p>b. understand what is driving price changes?</p>	<p>Leaving aside quantities, and assuming that the billing arithmetic is correct, the only thing that can be 'wrong' is the price. And wrong can only mean not what the customer expected or agreed to. We do not see how transparency is relevant.</p> <p>This is quite a complex area, and we doubt that many consumers are equipped to understand this based on information made available by their retailer or other participants. The Authority and other government agencies (for example, MBIE) strike us as best placed to provide high quality analysis and commentary in this area. Moreover, a monthly invoice in particular seems like an odd place to put such information.</p>

	Question	Response
	<p>c. determine what they can do to reduce their bills?</p> <p>d. make effective choices about their retailer?</p>	<p>Consumers need to know how to manage their consumption, how to access the lowest cost retailer, and what the best pricing plan is for them. We consider that the first two aspects are more than adequately taken care of by readily available information. We are less sure about how a customer finds out about whether they are on the best pricing plan for them. It may be worth asking retailers what they do in this space. We note that some retailers are offering new pricing plans based on analysis of consumption data from smart meters.</p> <p>Aside from price information, consumers may want to know about service dimensions of retailers. We note that this information is also readily available, including, at a high level (as a customer satisfaction rating), on Powerswitch.</p>
9	From what sources can consumers already obtain some, or all, of this information?	Retailers, government agencies, consumer groups, EECA, WMN/Powerswitch, word of mouth.
10	Are there any gaps between the information consumers require, and the information that is already available?	<p>Given the topic of the paper, perhaps the question to be asked is: "Would transparency help in any of these areas?"</p> <p>The only area where we are unsure of the quality of information available is how consumers get to understand and choose from the available pricing plans. We know that some retailers make more granular (eg half hourly) data available to consumers, but we do not know how much assistance retailers provide consumers in understanding this data.</p> <p>However, we do not see this is anything to do with transparency of charges.</p>
11	When do consumers need information about their electricity charges?	It depends on the purpose. We note that most of the information is readily available all of the time, however, we would be very surprised if many consumers analysed any of the information identified in Q8 regularly. It is much more likely to be an 'every now and again' thing.
12	What is (are) the most useful communication channel(s) for	The internet is probably the most useful.

	Question	Response
	delivering the required information?	
13	If the Authority intervenes, should the costs be socialised across all consumers or recovered only from those consumers who want this service?	<p>We are not sure what the service is.</p> <p>To the extent it is analysis of the drivers of price changes in a general sense, we think such analysis should be freely available. In other words the cost should be socialised.</p> <p>To the extent it is about specific analysis of retail price components, where this is not already available, it should be at the consumers cost, and the Authority should not be the provider.</p> <p>To the extent it is about comparing prices, it is already socialised via WMN/Powerswitch.</p> <p>To the extent it is about energy savings information, we believe this is socialised, for example via EECA.</p>
14	How much are consumers prepared to pay for such information?	We suspect very little, but we do not think much should be paid for. Where it is paid for, the Authority should not be the provider.
15	Do you consider the 'do nothing' option is viable? Please provide your reasons, including the costs and benefits of this option.	Absolutely. No evidence has been produced that there is a material problem requiring intervention, and in any case much of the information alluded to is already readily available at low cost, particularly since transparency is not the answer to any of the questions posed.
16	Do you consider the Authority should take a more active role in educating consumers and/or providing enhanced comparison tools? Please provide your reasons including the costs and benefits of	<p>Education in a general sense, yes, although not by duplication of what organisations like EECA or MBIE do. It is probably more about the nature and structure of the industry, and cost drivers (and cost regulation) in various links in the supply chain.</p> <p>We doubt there are any significant groups of customers whose needs are not largely met by the existing comparison tools. There may be less information regarding choice of pricing plan, but we suspect if consumers ask, some sort of response will be forthcoming. If this is in fact a material issue, an appropriate initial response</p>

	<b>Question</b>	<b>Response</b>
	this option.	might be to advise consumers to ask the question.
17	Do you consider retailers should be required to provide additional pricing information? Please provide your reasons, including the costs and benefits of this option. If retailers are required to provide additional pricing information, should this apply to all products? Or should a retailer and consumer be able to agree to a pricing arrangement that is not subject to mandatory disclosure (such as a fixed-term contract whereby the retailer absorbs any increases in network charges for a number of years)?	<p>The Authority would first have to establish that insufficient information is available.</p> <p>As noted above we do not think it is sensible to expect (and certainly not to require) retailers to provide anything other than generic reasons for price changes.</p> <p>It should go without saying that retailers and consumers should be able to agree to special terms that are not disclosed.</p> <p>We see considerable risk to industry innovation if attributes such as product names are standardised. Moreover, the Authority's ill-fated foray into distribution pricing standardisation via the "standard tariff codes" should give it considerable pause.</p> <p>Powerswitch already deals perfectly adequately with GST and discounts.</p>
18	If retailers are required to provide additional pricing information, what form should this take?	Retailers should not be required to provide additional pricing information. In any case better / more detailed quantity information may well be more valuable, and as noted is already being provided by some retailers.
19	Should pricing disclosures also include recent history of prices, for example, trends over the past 12-18 months?	We think such trends are more than adequately captured in publically available information.

	<b>Question</b>	<b>Response</b>
20	Do you consider retailers should be required to provide consistent representation of prices, for example, via a template?	No.
21	Do you consider retailers should be required to disclose the component parts of electricity charges on consumers' bills? Please provide your reasons, including the costs and benefits of this option.	<p>Absolutely not. This will not help with any of the potential issues identified above, even if they are accepted as important. (See answer to question 8).</p> <p>Some retailers already do this, and some do not. Some retailers do not even produce "bills" in the normal sense, and most pre-pay consumers do not get bills.</p> <p>To our knowledge, no evidence has been produced that there is a material problem here.</p>
22	If so, should it be required across all products, or should consumers be able to opt in (or alternatively, opt out)?	If it is sufficiently important for consumers, they can choose a retailer that unbundles components on invoices. Whether such a retailer offers this as an opt-in/opt out will be a matter for the retailer.
23	What is your view on the option to require retailers to offer to disclose the components of electricity charges as a paid service?	We suspect most retailers would be happy to disclose this information (for example on websites) for free provided it is not on invoices. This was as we recall the compromise recommended by (or at least preferred by) the Electricity Commission in its last consultation on this in 2009/2010. We note this workstream was not completed by the Commission, and this meant it was effectively handed over to the Authority.