

23 October 2018

Miriam R Dean CNZM QC
Chair
Expert Advisory Panel
Electricity Price Review
By e-mail: energymarkets@mbie.govt.nz

Dear Miriam,

Joint submission from independent retailers– delivering real competition for Kiwis

Electric Kiwi, Flick Electric, Pulse Energy and Vocus ('independent retailers') appreciated the invitation to meet with the Advisory Panel and look forward to ongoing constructive engagement as the Pricing Review progresses.

This letter is in response to your request for industry to work on joint solutions to the issues identified in the First Report of the Electricity Price Review or that we have common concerns about.

We outline below a suite of electricity reforms that have our collective support. There are two primary elements to our reform proposals:

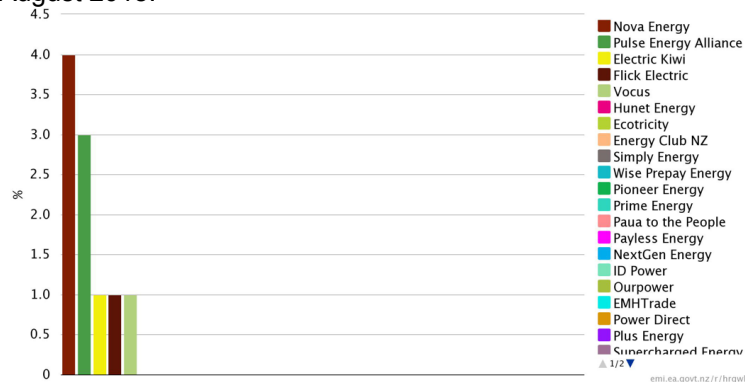
- (i) the need for action on electricity distribution pricing reform; and
- (ii) our recommendations to address those electricity market problems that are predominantly caused by the large, vertically-integrated, incumbent retailers.

We have put forward our recommendations to ensure a level playing field and a genuinely competitive electricity retail market as this is of course in the best interests of consumers. Each of the independent retailers named above have each also provided individual submissions.

Independent retailers are the main retailers outside of the incumbents

Collectively, we represent nearly 150,000 retail customers. This corresponds to 58% of the electricity retail market outside the 5 largest incumbents, or 86% of the market supplied by entrant retailers only.¹

The following diagram shows the market shares of retailers other than the 5 largest incumbents, as at 31 August 2018.²



¹ Nova and, previously, King Country Energy are small incumbent retailers.

²

Recommended reforms for the electricity retail market

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Network pricing reform	
<i>Little progress has been made on distribution pricing reform</i>	<ol style="list-style-type: none"> 1. Require networks to offer time-of-use or peak/off peak pricing options. This would allow consumers that are price sensitive to shift discretionary consumption to lower priced periods. 2. Set and then ensure compliance with, a fixed deadline for distribution pricing reform.
Empowering consumers	
<i>Lack of consumer voice</i>	<ol style="list-style-type: none"> 3. Re-prioritise Electricity Authority funding for a 'Consumer Champion' who has a deep understanding of industry economics and can advocate for consumers and engage with consumer groups.
<i>It is difficult for consumers to access the benefits of the competitive market</i>	<ol style="list-style-type: none"> 4. Ensure all tariffs are advertised in a clear and transparent way – for example, inclusive of GST. 5. Enhance Powerswitch so it is less confusing and more accurate. It should be based on actual usage data and tariff information. This could be enabled by a centralised data model.
Wholesale market power	
<i>There is a high degree of market power in the wholesale electricity market, particularly in dry-years and when supply conditions are tight</i>	<ol style="list-style-type: none"> 6. Prevent further market concentration of generation. 7. Increase scrutiny of trading conduct in the spot, reserves and contract market. These markets require more stringent and more timely oversight and enforcement to retain (or regain?) confidence in the market. It may be appropriate for the Commerce Commission to take on this responsibility. <p>See also the recommendations below on vertical-separation.</p>
Retail market competition	
<i>There is a two-tier retail market, which results in 'loyal' consumers missing out on the benefits of retail competition and in fact, subsidising those</i>	<ol style="list-style-type: none"> 8. Prohibit saves and winbacks, and the use of consumer data once customers have decided to leave. Currently this provides an opportunity for price discrimination and inhibits competition. By way of contrast, in the telecommunications market where outgoing retailers do not engage in save or

ISSUE	SOLUTIONS
<i>who switch</i>	<p>winback activity has meant above the line price competition, proactive retention based on price, and a socialising of the benefits of competition.</p> <p>The Expert Advisory Panel should not rely on the Electricity Authority to resolve the two-tier retail market/saves and winbacks issue.</p>
<i>The quality of retail competition varies across New Zealand</i>	<p>9. Investigate the extent to which barriers to competition are causing regional variation in the level of retail competition across New Zealand.</p> <p>10. Prohibit the TECT tying dividend entitlement to being a Trustpower customer/replace with entitlement based on geographic location.</p> <p>See also the recommendations below on smart metering and data access.</p>
Vertical-integration	
<i>Vertically-integrated incumbent retailers have incentives and ability to restrict competition in downstream (retail) markets</i>	<p>11. Full vertical separation of wholesale and retail services. If full vertical separation is not adopted, then as a minimum corporate separation with arm's length rules and financial disclosure requirements should be adopted. This should include (non-discrimination) equal wholesale access obligations.</p>
Access to data	
<i>Data access is a key enabler of competition</i>	<p>12. Adopt a centralised data model and market reconciliation similar to the NEM in Australia. This would be a centralised source of data for Network Companies and Retailers and would eliminate the need for market and network reconciliation.</p> <p>13. Ensure the smart meter roll- out reaches all consumers.</p> <p>14. Address issues with Meter Equipment Provider performance and data quality: We recommend standardised metering contracts be introduced. These standardised contracts should:</p> <ul style="list-style-type: none"> a. Facilitate economic displacement in the best interests of end-consumers; b. Include minimum service delivery levels for both legacy and smart meter data with clawbacks for non-delivery; and c. Be subject to regular review to ensure relevance as new technology and business models emerge and the metering landscape changes.

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Assisting low-income and vulnerable consumers	
<i>The electricity market could do better at delivering affordable outcomes for beneficiaries and low-income households</i>	15. HNZ/MSD could utilise their scale and bargaining power, by running tender(s) for supply of beneficiaries and low-income consumers.
<i>“Prompt Payment Discounts” are misleading and hide excessive late payment fees</i>	16. Mandate ‘Prompt payment discounts’ are called what they are - late payment fees. 17. Adopt the ACCC recommendation to require late payment fees are reflective of the cost of credit and not punitive.

Concluding remarks

We want to see distribution businesses adopt tariff reform which supports innovative retail tariff offerings and want a more competitive electricity market.

It is independent retailers that will drive better competitive outcomes for consumers. Our interests are closely aligned to the interests of consumers.

The previous Government inquiry resulted in significant competition improvements, but there is still a long way for the electricity market to go to transform from an oligopoly, dominated by 5-large incumbents, to a fully competitive market.

Absent substantive reforms, including structural measures, the electricity market will continue to be blighted by the problems the ACCC identified in the Australian electricity market.

Yours sincerely,

			
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