

BRIEFING TO ELECTRICITY COMMISSION

Model Retail Contract Project Team

*A Working Group of the
MARIA Governance Board*

13 February 2004

Outline

- MRCPT Role
- Objectives and Policy
- Some Key Issues

Membership

- An independent Chair (Tony Baldwin)
- Four retailer representatives:
 - Mel Orange (*Meridian Energy*)
 - Steve Rawson (*Mighty River Power*)
 - Bill Boyd, then Ian Burgess (*Contact Energy*)
 - Scott Harnett (*TrustPower*)

Membership

- Three consumer representatives:
 - Josephine Bartley (*Ministry of Consumer Affairs*)
 - Paul Doocey (*Consumers' Institute*)
 - Peter Rutledge (*Grey Power*)
- A lines company representative:
 - Clive Bull (*Vector*)

MRCPT Role

- Formed in July 2003 by the MGB
- To implement Feb '02 GPS call for model retail contract (domestic consumers)

'02 GPS Features

- Transparency of charge components
- Frequency of billing
- Company-specific arrangements for dispute resolution

'02 GPS Features

- Consumer protection with respect to outages
- Prepayment meters to domestic consumers at reasonable cost
- Orderly transition for end users in the event of insolvency of a retailer

'03 GPS Changes

- Commission to establish *minimum* terms and conditions
- Same features as '02 GPS but:
 - Added bonds
 - Retailer insolvency + prepayment meters to be address more broadly
 - Commission to ensure access to complaints resolution

Responsibility

- Commission is to be responsible for establishing *minimum* retail contract
- Various process options available. Commission + MGB to address
- In meantime, MRCPT has continued, with encouragement from MED
- At least, provide a foundation for Commission

Policy Context

“The Government considers that competition between electricity retailers should, over time, help ensure that retailing costs are minimised, service quality is improved and downward pressure is placed on generation costs. Most consumers, especially in larger centres, have a choice of retailers, and the processes for consumers to change suppliers have steadily improved. However, the Government considers that retail competition is not as vigorous as it could be, and will look to the Electricity Commission to promote and facilitate retail competition...” **GSP, ‘03**

Retail Competition

Relies on:

- Effective threat of new retailer entry, and
- Effective threat of consumers switching

Barriers to New Entry

In place?

- Neutral access to lines *Yes*
- Availability of hedges to mitigate nodal price differentials *No*
- Availability of longer term wholesale electricity hedge contracts *Limited*
- Certainty in the regulatory environment *No*
- Demand from customers for competitive retail services, particularly in relation to price risk and reliability of supply. *Very limited*

Barriers to Switching

	<i><u>In place?</u></i>
• Real choice of retailers	<i>In some regions</i>
• Easy transfer of consumer data among retailers	<i>Yes</i>
• No inefficient restraints on consumers terminating their contract	<i>Not clear</i>
• Clear and timely disclosure to consumers of changes in prices and other key terms	<i>Yes, but current meters make price changes inflexible</i>

Barriers to Switching *(cont'd)*

- Active and high profile monitoring of retailers' performance, particularly by independent agents. *Limited*
- Demand from customers for competitive retail services, particularly in relation to price risk and reliability of supply. *Very limited*

Other Factors

- Newness of electricity as a product or service not provided or guaranteed Government
- Non-competitive (monopoly) tradition of the electricity industry as a whole
- Consumers' fragmentation, lack of expertise and poor information = potential for bargaining inequality

Other Factors *(cont'd)*

- Concerns of market power^[1] or a general distrust among many consumers of an electricity market
- Low awareness among consumers of reliability and pricing risks

^[1] Market power concerns arise from the relative inelasticity of consumer demand, periods of apparent market power in the wholesale market and limited retail competition (due to (i) an overall tightness of supply and demand and (ii) transmission constraints causing nodal pricing differentials). Given the difficulty of valuing hydro fuel (which depends on the probability of future inflows), it can be extremely difficult to determine whether a wholesale price is above its economically efficient (competitive) level.

Objectives

- *Clarity:* A clear, more understandable description of rights and obligations
- *Consistency:* A more consistent approach among retailers, particularly for 'boiler-plate' provisions
[Benefit of reducing consumers' transaction and search costs, therefore lowering (to some degree) a potential barrier to the threat of switching]
- *Fairness:* Striking a fair balance between the interests of retailers and consumers

Objectives *(cont'd)*

- *Education:* Better information on NZ's electricity system and price and quality risks consumers need to 'insure' against
- *Competition:* (Within the limits of the project) more diverse and competitive product offerings
- *Dispute resolution:* Promote quick, low cost and fair resolution of disputes
- *Innovation:* Not impeding innovation in retail market

MRCPT Process

- *First*, an overall policy framework, looking at retail sector in context of wider industry reforms, and a set of guiding principles
- *Second*, review all the existing electricity retail contracts and compare against ECC code of practice
- *Third*, distil core provisions into a 'Key Elements' paper, then review clause-by-clause
- *Fourth*, rework 'Key Elements' paper into draft Model Contract, then review clause-by-clause
- Also taken into account:
 - Model distribution contract developed by MGB project team earlier in 2003;
 - ECC code of practice; and
 - Model contracts developed in some States of Australia.

Scope

- For interposed residential consumers. 'Conveyance' model to follow
- Also covers some small businesses

Structure

- A standardised opening Foreword with:
 - Simple key information about the electricity system (particularly functional relationships between a retailer and other parties)
 - Summary of key promises by consumer and retailer
 - Some key issues and questions a consumer should consider before signing up with a retailer.

Structure *(cont'd)*

- Opening sections with likely points of service and price differentiation:
 - Retailer's 'welcome'
 - How to become a customer
 - Retailer's performance commitments
 - Retailer's prices and fees (in particular the minimum duration of a price)

Structure *(cont'd)*

- Remainder of model contract should be largely 'boiler-plate'
- Aim of structure is to:
 - Promote greater awareness among consumers about what to look for; and
 - Enable consumers to see, in the front section of alternative contracts, where and how they differ.

Other Issues

For oral briefing

- Price changes
- Bonds
- Prepayment meters
- Dispute resolution
- Liability
- Billing frequency

Next Steps

- Package to MGB in a week
- Put out for submissions from interested parties (*until mid-April*)
- MRCPT to consider submissions and finalise model for submission to Commission (*mid May*)

Key Questions

- Will MRCPT consultation process satisfy Commission's requirements?
- Does Commission wish to continue MRCPT process? If so, on what basis – to be discussed with MGB