



MAJOR ELECTRICITY USERS' GROUP

9 January 2011

Lisa Du Fall
Electricity Authority
By email to submissions@ea.govt.nz

Dear Lisa

Consultation paper – Customer Compensation Scheme - Mandatory Default Arrangement

1. This is a submission by the Major Electricity Users' Group on the Electricity Authority consultation paper "Customer compensation scheme – mandatory default arrangements" dated 14th December 2010¹. The consultation paper has a narrow scope. Two changes to the Electricity Commission proposal of September 2010 are proposed. Responses by MEUG to the narrow scope of the paper are set out in the table in paragraph 6. Those responses need to be read in the context of the broader comments below.
2. In our submission of 10th September 2010 we concluded "*the risks of implementing the proposal in the consultation paper are too high and more work is needed*". Most of the other twelve submitters also did not support the proposal. The EC published a summary of the submissions in October but did not make any responses to the points raised. Many of the points raised by other submitters were the same as ours. For example:
 - Contact Energy submitted (p4) "*Retailers who can provide evidence of appropriate risk management shouldn't be required to pay compensation (and effectively subsidise those that don't), and hence the customised compensation scheme principles should provide for this to occur.*"
 - Powershop submitted "*Powershop is not convinced the Customer Compensation Scheme proposed is the best option for consumers given clear policy objectives to increase competition in the retail market, and maintain downward pressure on prices. We're of the opinion that it will increase retail prices and deter new entrants from entering the retail market.*"
3. Both of the above issues were raised by MEUG. No reasoning has been provided by the EC or the authority as to why these issues might be viewed differently. There were also some new issues by submitters. For example Transpower in response to Q22 in the

¹ Refer <http://www.ea.govt.nz/our-work/consultations/priority-projects/ccs-mandatory-default/>

September 2010 proposal asking “do you agree with the methodology, inputs, assumptions and conclusions reached in the CBA?” submitted:

“We note that Appendix 3 has largely been lifted from the Commission paper “An integrated cost-benefit analysis of the Market Development Programme”, September 2010, which indicates that the results should not be quoted, are for illustration only, and may change. This paper is largely qualitative, drawing on results from unspecified analysis. The analysis needs to be documented and included before this question can be answered. This analysis needs to demonstrate the influence a compensation scheme is likely to have on a retailer’s risk management strategies.”

4. As a result of reading the submissions of other parties and the lack of response to issues raised our objection to the proposal as a whole has been reinforced.
5. Subject to the caveat in the paragraph above, responses from MEUG to the questions in the paper follow:

Question No.	Response
<p>Q1. Do you agree that Option B should be preferred over Option A?</p>	<p>Agree. But it may not be the best option because not all feasible options have been adequately considered. For example MEUG agrees shifting from an Authority-centric approach (Option A) to a customer-centric approach (Option B) will be welfare enhancing. Why stop there? There are other more customer-centric approaches that could be considered such as:</p> <ul style="list-style-type: none"> • Requiring retailers to be explicit as to whether they will, and how, in a public conservation campaign compensate consumers for savings. Publication would be mandatory but retailers would be free to make offers (or not) on how they will manage a public conservation campaign. • Allowing consumers to make choices accordingly including selecting retailers with offers that might not have any explicit compensation though the trade off would be lower prices under normal conditions. This would be a truly customer-centric approach. • To assist consumers make trade-offs between different retail offerings the Authority would publish comparative analysis. <p>This approach would allow better innovation by retailers to take into account regional differences, emerging or decreasing risks, and new opportunities to develop new offers using smart meters. In comparison the proposal requires many arbitrary regulatory decisions that will stymie innovation and require further refinements as unintended incentives or gaps in the intervention arise.</p> <p>For example in 5 years time our reliance on hydro-generation will be less, competition is likely to be more rigorous and therefore the risk of net retailers calling for</p>

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	<p>public conservation campaigns ahead of when needed will be much less. The above proposal by MEUG would automatically adjust to changing factors whereas the Code will have to be constantly revised to be relevant and not distortionary.</p> <p>One feature we consider when interventions are proposed is what will be the exit strategy? That is, what external factor will eventually allow the intervention to be removed? In the proposal by MEUG above the exit strategy for requiring mandated disclosure and Authority analysis will be once the market becomes self-regulating. That will be more obvious and occur quicker with a more customer-centric approach than the heavier handed approach proposed by EC and adopted by the Authority.</p>
Q2. If not, why not?	Not applicable.
Q3. What other contingencies or questions might arise in considering the detail around Option B that the Authority should address?	Rather than drafting black-type Code to cover all contingencies (and we have doubts that will be possible leading inevitably to "refinements" to the code being required in the future) we suggest the more customer-centric proposal as outlined in response to Q1 would be a better option.
Q4. Do you agree that the proposed additional exclusion from the qualifying criteria for the customer compensation scheme is warranted?	<p>A mechanism is needed but the proposal is too clumsy.</p> <p>A better solution would be to give consumers choice and let them decide, ie the more customer-centric proposal outlined in response to Q1 above.</p>
Q5. If not, why not?	See response above.
Q6. If so, are the proposed Code amendments suitable and what additional conditions do you consider desirable and/or necessary should the additional exclusion be adopted?	Not applicable.

6. This submission is not confidential.

Yours sincerely



Ralph Matthes
Executive Director