Electricity Price Review submission

including consumer concerns about retailers' power pricing.

Entrust
Majority shareholder of Vector

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Table of Contents

Executive summary 2
What Auckland consumers have to say about electricity retail issues 3
The EAP has not fully met the requirements of the terms of reference 4
The big-5 incumbent retailers are to blame for residential price increases 5
Sweet-heart deals with Tiwai Smelter are keeping prices artificially high 6
Stronger wholesale and retail competition needed to make electricity more affordable ... 8
Saves & Winbacks is making the two-tier retail market problem worse 11
Late payment penalties disadvantage vulnerable Kiwis unable to pay on time 14
Prepayment arrangements exploit vulnerable consumers 18
There are questions about compliance with the Vulnerable Consumer Guidelines and the objectives of the Guidelines 19
Concluding remarks and recommendations 20
Appendix 1: Price increases over the last 18-years largely driven by retail (energy) 22
Appendix 2: Manipulation of pricing data can make it look like lines are to blame 27
Appendix 3: The electricity retail and generation markets are highly "concentrated" 30
Appendix 4: Retail competition improvements driven by the last inquiry reforms 32
Appendix 5: Mercury's claims about the big-5 retail profit margins aren't credible 35

Executive summary

- *Consumers need a voice in the review:* Entrust commissioned UMR to survey Auckland consumers about electricity retail issues.[1] Some of the results should be of concern to the Electricity Advisory Panel (EAP). For example, less than half (39%) of consumers find it easy to compare electricity retailers' prices, and four out of ten consumers worry something will go wrong if they switch.

- *Electricity is becoming increasingly less affordable for Kiwis:* New Zealand has been dropping in the Organisation for Economic Co-operation and Development (OECD) price rankings over the last two decades.

- *Affordability problems are driven by the energy (retail) component of power bills*.[2]

- *Sweetheart deals with Tiwai are being used to artificially prop up wholesale prices*: Entrust has laid a complaint with the Commerce Commission for breach of sections 27 and 30 of the Commerce Act.[3] The EAP should consider the impact on affordability if competitor retailers had access to the Tiwai Smelter contract prices for supply to residential consumers.

- *The Electricity Authority's transmission pricing methodology (TPM) proposals would make electricity less affordable*, by gifting substantial wealth transfers from consumers to South Island generators.

- *There is evidence of excessive profits in both electricity retail and generation:* A recent University of Auckland study found electricity generators made $5.4 billion in excess profits between 2010 and 2016. Electricity Authority data indicated residential consumers have also been overcharged $2.3 billion, since 2010, due to the price gap between the two-tiers in the retail market. More recent EAP evidence is that the over-charging rate is substantially higher than this.[4]

- *Retail and generation remain oligopolistic and highly concentrated*.[5] The big-5 gentailers consisting of Contact, Genesis, Mercury, Meridian and Trustpower still have around 90% market share.

- *New entrant retailers are making slow progress compared to other sectors.*[6] It has taken small and entrant electricity retailers 20-years to reach just 11% market share.

- *A two-tier retail market has emerged,* resulting in large numbers of consumers missing out on the benefits of competition. Despite the level of "exploitive" price discrimination, the UMR survey found large numbers of Auckland consumers do not realise they are being over-charged, with 34% thinking there is no real differences between the electricity retailers and the prices they charge.

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[1] UMR, Consumer research on electricity usage and supply issues, October 2018.
[2] Refer to Appendices 1 and 2 for evidence of the trends in the individual components of price increases. Appendix 2 highlights how pricing data has been manipulated to make it look like lines companies are to blame for price increases.
[3] https://www.entrustnz.co.nz/news/media-releases/entrust-calls-on-commerce-commission-to-investigate-potential-restrictive-trade-practices-and-collusion-by-electricity-generators/
[4] Expert Advisory Panel, INITIAL ANALYSIS OF RETAIL BILLING DATA, 15 October 2016.
[5] Appendix 3 provides evidence the electricity retail and generation markets are "concentrated" (weakly competitive).
[6] Appendix 4 provides evidence improvements in competition reflect a continuation of trends from the late 2000s and the last Government electricity inquiry reforms.

- *Consumers are being misled by Prompt Payment Discounts:* They are nothing more than a penalty for late payment. The EAP illustrates well how low-income consumers who struggle to pay their bills on time are disadvantaged.

- *Consumers on prepay meters are likely to be particularly vulnerable to exploitation:* Many consumers aren't on prepay by choice and are more likely to be in fuel poverty.

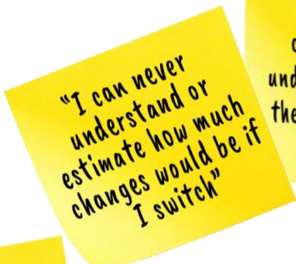
- *Disconnections are still a problem:* Entrust questions whether it should be acceptable for vulnerable households to be without power if they can't afford to pay in advance.

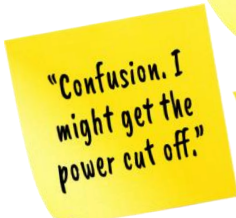
What Auckland consumers have to say about electricity retail issues

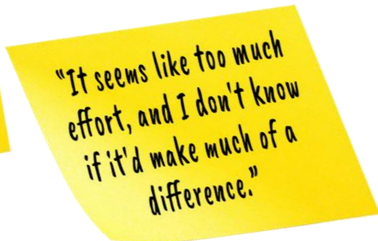
Entrust agrees consumers "are the heart of the sector and the reason why it exists"[7] and "The consumer's point of view and voice on the sector's direction [should be] key features of this review".[8] Consumer voices are the most important, but often the least heard.

Entrust commissioned UMR to survey Auckland consumers about electricity retailing issues, to ensure consumer voices are heard through the EAP process. The survey findings help substantiate some of the EAP concerns about retailing such as that "Retailers don't make it easy to compare prices and contracts".[9]

What our beneficiaries and Auckland consumers are telling us is:







- There is moderately low level of engagement in the electricity market and consumers find the retail market confusing.

- Less than half (39%) of consumers find it easy to compare prices charged by different electricity retailers.

- Four out of ten consumers worry something will go wrong if they switch retailers.

- Many (23%) consumers that have never switched have a perception switching retailers is difficult.

- After reading a factual explanation about electricity retailers' Prompt Payment Discounts, close to half (48%) described them as a late payment penalty, while 38% described them as a discount. Typical comments included that the practice is "Dishonest and unethical" and "gives the impression of trying to trick customers".

- Reliable service, cheap price, simple to understand prices and good customer service are priorities for consumers.

- Half of all respondents had experienced one or more very high-power bill (29%), an unexpected price increase (17%), poor customer service (14%), and/or a problem with direct debit and billing (7%).

[7] Electricity Advisory Panel, Electricity Price Review, First report for discussion, 30 August 2018, page 4.
[8] Electricity Advisory Panel, Electricity Price Review, First report for discussion, 30 August 2018, page 15.
[9] Electricity Advisory Panel, Electricity Price Review, First report for discussion, 30 August 2018, page 5.

The EAP has not fully met the requirements of the terms of reference

The terms of reference (TOR) for the Electricity Price Review is clear it includes review of aspects of the TPM, not just review of process:

> "Relevant perspectives on fairness and equity include: … Whether the costs of providing electricity services are or should be socialised or spread … across regions …."
>
> "The review will consider: … The regional distributional aspects of transmission pricing".

The EAP consultation paper does not address these elements of the TOR. There is no evaluation of the merits of a national postage stamp (current socialisation of costs) versus regionalised cost allocation options. These elements of the TOR reflect NZ First Policy on the need for a full inquiry into high retail prices, and for the TPM to "socialise transmission grid costs across New Zealand".

The EAP can't bypass clear instruction from the TOR by asserting "It is not our role to arbitrate" and "It is the Authority's job to develop TPM Guidelines".[10] Limiting the review to consideration of the process issues doesn't meet the Government's clear directions.

The EAP has had no such qualms with distribution pricing, even though the Electricity Authority is also reviewing distribution pricing methodologies. The EAP statements that distribution pricing should include peak-usage pricing, and reallocate costs in favour of residential consumers, have the same implications for the Electricity Authority's distribution pricing principles, as expressing views about whether transmission costs should continue to be socialised would have for the TPM Guidelines.

The TOR requires the EAP to 'step in the shoes' of the Electricity Authority and review various matters within the Authority's jurisdiction, including matters the Authority is presently reviewing. This includes the TPM, distribution pricing, two-tier retail market (and the related Saves and Winbacks), generator market conduct, and competition issues in general. The TOR provides guidance that the level of detail appropriate for the review excludes "mak[ing] findings or recommendations about matters of technical regulatory detail …".

The purpose of the review is to consider these matters from a, broader, consumer welfare and affordability perspective rather than the narrow "efficiency" perspective the Electricity Authority has chosen to adopt.[11]

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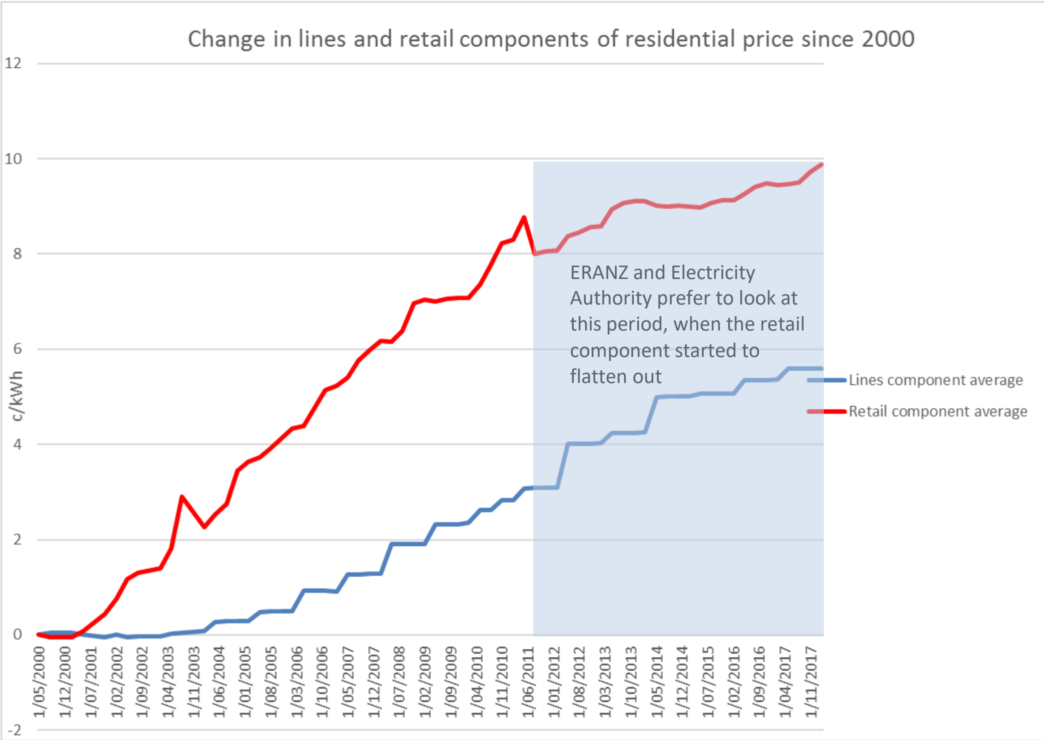
[10] Electricity Advisory Panel, Electricity Price Review, First report for discussion, 30 August 2018, page 50.

[11] Entrust does not agree with the way the Electricity Authority has chosen to interpret its statutory objective. It has resulted in perverse outcomes where the Electricity Authority has made proposals, such as consumers paying for the HVDC, which would result in higher prices and make consumers worse off.

The big-5 incumbent retailers are to blame for residential price increases

Entrust agrees "generation and retailing related charges went up a lot for households".[12] This is by far the biggest driver for residential prices increases over the last two decades.[13,14]

The graph below demonstrates increases in the energy (retail) component of residential prices has risen substantially more than the lines component since 2000.



The Electricity Retailers' Association (ERANZ) and Electricity Authority have selectively looked at 2011 onwards to try and blame lines companies for slight increases over this period, which puts retail in the best possible light. The Electricity Authority's Briefing to the Incoming Minister (BIM) 2017, for example, claimed: "Over the last seven years, most of the price increase has come from increases in transmission and distribution costs …".

It should be recognised the Commerce Commission has allowed price increases for some lines companies and required decreases for others. The selective choice of time doesn't work if you look at Auckland. The increases the Commerce Commission has allowed Vector since 2010 is for inflation:

- the change in the distribution component of residential prices in the Auckland network from 7.47c/kWh in 2011 to 7.83c/kWh in 2018 was negligable; while

- the distribution component DROPPED from 8.34 to 7.83c/kWh in 2018 on the Northern network.[15]

[12] Electricity Advisory Panel, Electricity Price Review, First report for discussion, 30 August 2018, page 5.
[13] https://www.mbie.govt.nz/info-services/sectors-industries/energy/energy-data-modelling/statistics/prices
[14] Refer to Appendices 1 and 2 for evidence of the trends in the individual components of price increases. Appendix 2 highlights how pricing data has been manipulated to make it look like lines companies are to blame for price increases.
[15] https://www.mbie.govt.nz/info-services/sectors-industries/energy/energy-data-modelling/statistics/prices

Sweet-heart deals with Tiwai Smelter are keeping prices artificially high

The incumbent suppliers' arrangements with Tiwai Smelter artificially keep prices up for all other consumers in New Zealand. The size of Tiwai Smelter's electricity consumption means this has a substantial impact on electricity affordability.

For the avoidance of doubt, we are not commenting on the merit of whether or not Tiwai should continue to operate. (Other organisations such as Treasury have commented on this.) What we would like is surety its arrangements don't reflect cartel type arrangements and don't include subsidies. The public information MBIE has provided on its impact on wholesale electricity prices makes it worth looking at in any review into electricity affordability.

Entrust has laid a complaint with the Commerce Commission over potential breaches of the Restricted Trade Practices in Part 2 of the Commerce Act; specifically, the prohibitions on entering into arrangements that lessen competition (s 27), including cartel type arrangements (s 30). We have requested the Commerce Commission open an investigation into Contact, Genesis, Mercury and Meridian's arrangements to supply Tiwai Aluminium Smelter with artificially low-cost electricity at the expense of consumers across the country.[16]

According to Meridian chief executive Neal Barclay the contract with Tiwai was underwritten by Meridian and supported by contracts with Contact Energy, Genesis Energy and Mercury.[17] The Meridian CEO made it clear Meridian won't "take one for the team".[18]

The parties have made statements which suggest they have entered into below-market rates for electricity.

Contact's chief executive, Dennis Barnes, confirmed the price his company was paid by Tiwai Smelter is lower than it could have gotten elsewhere.[19]

Contact advised that "supply to Tiwai impacted Generation EBITDAF" by $9 million in the last financial year.[20]

The rationale Contact provided for the arrangements "is the market-wide effect of the smelter staying".[21] This is code that if Tiwai Smelter exited spot prices would drop significantly with a reported 14% over supply. Meridian and Contact could be hardest hit because it would result in a substantial imbalance between demand and supply for electricity in the South Island.

Entrust is also concerned the confidential price offered to Tiwai Smelter could be below cost.

The EAP consultation paper (figure 14) suggests wholesale contract prices, and the long-run marginal cost of generation (cost of the building new generation plants), is just

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[16] https://www.entrustnz.co.nz/news/media-releases/entrust-calls-on-commerce-commission-to-investigate-potential-restrictive-trade-practices-and-collusion-by-electricity-generators/
[17] https://www.odt.co.nz/regions/southland/extra-power-smelter-tiwai-deal
[18] https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=10826619
[19] https://www.radionz.co.nz/news/national/350329/contact-energy-to-sell-its-electricity-to-tiwai-point
[20] Contact, 2018 Interim Results Presentation, Six months ended 31 December 2017, 12 February 2018, page 23.
[21] https://www.radionz.co.nz/news/national/350329/contact-energy-to-sell-its-electricity-to-tiwai-point

under 9c/kWh. While we haven't considered the veracity of these cost calculations, they are well above the Tiwai price which is widely understood to be around 5.5c/kWh.

Al Yates's speaking on behalf of independent retailers Electric Kiwi, Ecotricity, Pioneer Energy, Pulse Energy, Simply Energy and Vocus Group commented: "A competitor who is willing to sell below wholesale prices is acting anti-competitively and will ultimately ruin the integrity of the wholesale market when demand for forward contracts also reduces".[22]

We believe such arrangements seek to maintain the overall wholesale price of electricity to the detriment of New Zealand consumers. This is corporate welfare at its most cynical. Tiwai Smelter gets a sweetheart deal to keep spot prices high.

The first Retail Pricing Enquiry report identified that households are paying nearly 80% more for power than in 1990 and vulnerable customers are the ones most impacted. Yet this report did not mention anywhere the issue of the Tiwai smelter and the sweetheart deal that is effectively ripping off New Zealanders.

Meridian has been clear that it "… worked with the industry to put a compelling offer to NZAS. The transaction had a number of positive effects: a large user like NZAS could cause a period of disruption in the market if it left ..."[23] Meridian has acknowledged if Tiwai closed or, significantly reduced its electricity consumption, "the impact on Meridian may be severe". Meridian explains "This is because such a closure or reduction is likely to result, in the near term, in a reduction in Meridian's revenue, largely caused by a reduction in electricity prices (both wholesale and retail)".[24]

The CEO of Meridian noted that if the Smelter closed it would leave a huge "overhang" in the local electricity market, where demand growth has stalled now for five straight years, and would result in Manapouri with "It's 5,000 Gigawatt hours of New Zealand's most efficient plant, with the HVDC unleashed (with the new Cook Strait cable in place). There are some constraints in Southland, but those can be resolved".[25]

Analysis from MBIE backs Meridian's comments that there would be a material impact on wholesale energy prices were Tiwai to exit the market. MBIE estimate there would be a 9.2% reduction in average wholesale electricity prices in the long-term across a range of different scenarios.[26]

This analysis has been further supported by independent analysis from Scientia[27] which indicates, if Tiwai Smelter were to exit New Zealand, increased competition would result in an initial 25% reduction in load-weighted average spot prices (LWAP) with a 19% reduction in North Island and a greater (48%) reduction in the South Island.

Using the calculated reductions in wholesale energy prices and estimated increases in transmission costs (with Tiwai Smelter no longer contributing to transmission costs) the annual net impact to consumers in Auckland and Invercargill was estimated at -$69m

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[22] http://www.energynews.co.nz/news-story/hedges/36760/small-retailers-seek-rethink-fpvv-review
[23] Meridian, INTEGRATED REPORT: 2018, page 12.
[24] Meridian, Annual Report for the year ended 30 June 2015, page 32. Meridian made essentially the same comments in its 2016 Annual Report.
[25] https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=10826619
[26] This is based on MBIE analysis for its Electricity, Demand and Generation Scenarios (EDGS) and advice given to Treasury on the impact of a Tiwai exit on wholesale prices.
[27] Scientia Consulting, Impact of New Zealand Aluminium Smelter Exit on Wholesale Electricity Prices, 19 March 2018.

and -$6m respectively with an estimated annual price reduction of $51 (in Auckland) and $182 (in Invercargill) for residential consumers.[28]

Not only are residential customers missing out on cheaper, more affordable electricity, but businesses from Invercargill, to South Auckland, to Kaitaia could be benefiting from more competitive, lower cost, electricity. This would promote job growth and lower cost goods and services in all sectors and across all regions of the country.

Consumers and businesses all over New Zealand should be benefiting from low cost generation, not just Tiwai.

Stronger wholesale and retail competition needed to make electricity more affordable

A well-functioning and competitive electricity market is needed to make electricity more affordable for Kiwis, and to put New Zealand businesses on a stronger footing. This will require step changes in regulatory and industry settings.

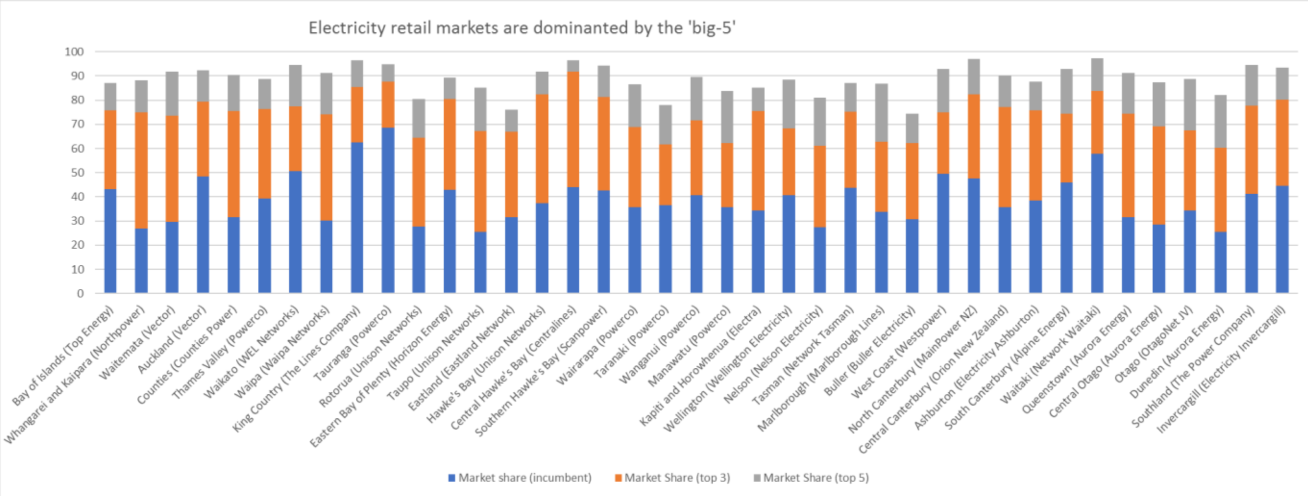
Entrust shares the EAP concerns "about generators' ability to exercise market power when supply is tight", "the effects of companies with both generation and retailing arms ('vertical integration')" and "Competition … hasn't benefited all consumers".[29]

The electricity market is strongly oligopolistic and dominated by the 'big-5'. Both the retail and generation markets are concentrated:

- 72% of regional electricity retail markets in New Zealand exceed the Commerce Commission's threshold for market concentration with the three largest retailers having more than 70% market share.[30]
- The most concentrated (least competitive) regional electricity retail markets in New Zealand are Tauranga (HHI[31] = 4,740) and King Country (HHI = 4,542).[32]
- The generation market is concentrated (Commerce Commission definition) or highly concentrated (UK definition), depending on which definitions you use, with HHI = 2,208.[33]

The high level of market concentration in the electricity retail market can also be seen looking at market shares on a network by network basis. The big-5 make up more than 80 or 90% of market share in most regions.[34,35]

[28] The estimated impact per residential consumer due to calculated wholesale price impact only is -$73 in Auckland and -$207 in Invercargill.
[29] Electricity Advisory Panel, Electricity Price Review, First report for discussion, 30 August 2018, page 5.
[30] Applying UK tests (see Appendix 3), 74.3% of electricity retail markets in New Zealand are highly concentrated, and 25.6% concentrated.
[31] Note: Herfindahl-Hirschman Index (HHI) = 0 is fully competitive. HHI = 10,000 is zero competition.
[32] As at 31 August 2018: https://www.emi.ea.govt.nz/Retail/Reports/IK41HT?_si=tg|market-structure,v|3
[33] Applying UK tests (see Appendix 3), the generation market is highly concentrated.
[34] https://www.emi.ea.govt.nz/Retail/Reports/IE31BN?RegionType=NWK_REPORTING_REGION&Show=CR3&_si=tg|market-structure,v|3
[35] Appendix 3 provides evidence the electricity retail and generation markets are "concentrated" (weakly competitive).



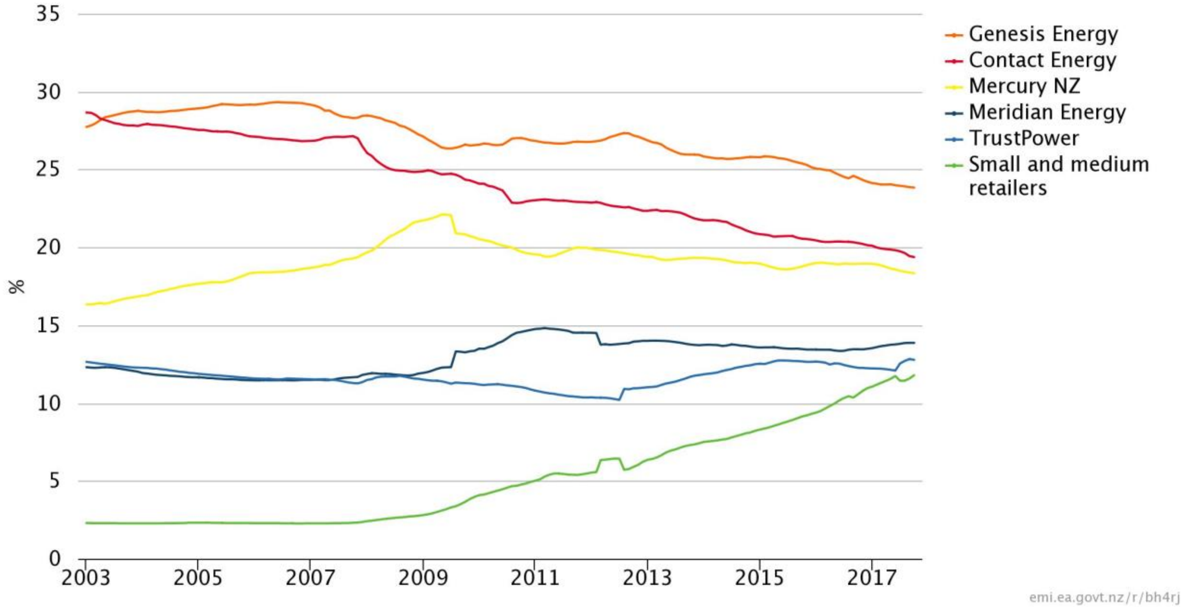
The improvements in competition, the EAP has noted,[36] have been modest and slow. Small retailers are making little or slow headway.

Small and new entrant retailers have only gained about 1% market share per annum since the Electricity Authority was established in November 2010:[37] 2degrees, in contrast, reached 24% within 4 years of entering of entering the cellular market.[38]

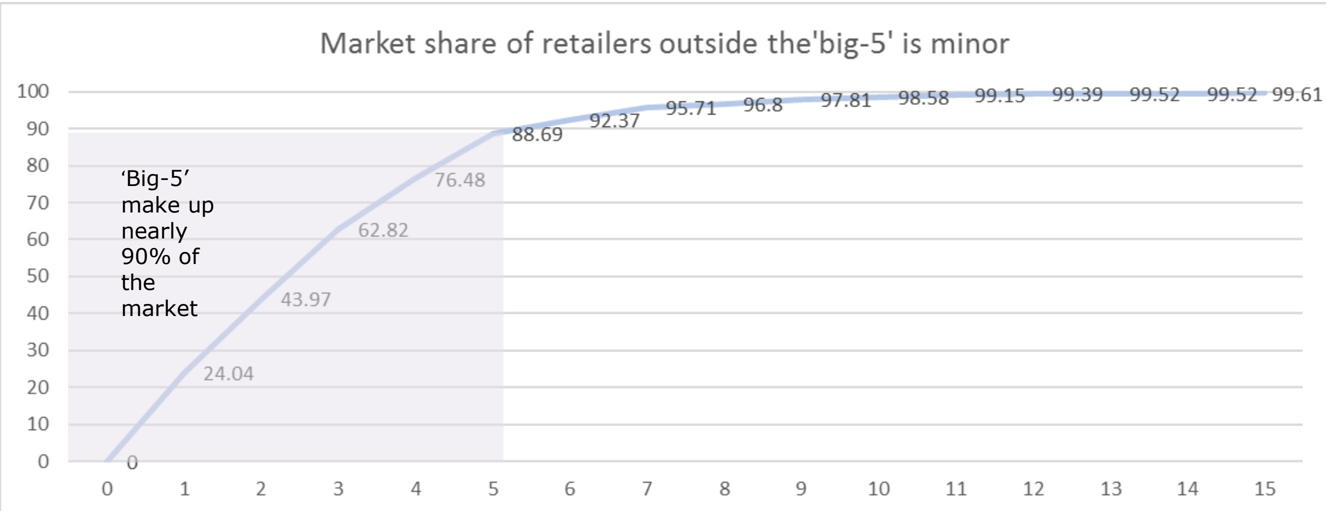
Market share	**November 2010**	**September 2018**
Genesis Energy	26.54%	23.86%
Contact Energy	24.3%	19.45%
Mercury	20.72%	18.39%
Meridian Energy	13.33%	13.88%
TrustPower	11.27%	12.84%
The 'big-5' electricity retailers	96.16%	88.42%
Small retailers	3.84%	11.58%

[36] Electricity Advisory Panel, Electricity Price Review, First report for discussion, 30 August 2018, page 5.
[37] https://www.emi.ea.govt.nz/Retail/Reports/R_MST_C%3FGrouping=T5&_si=tg%7Cmarket-structure,v%7C3
[38] Commerce Commission, ANNUAL TELECOMMUNICATIONS MONITORING REPORT 2016, May 2017, figure 14.

The modest improvements are simply a continuation of a trend that emerged around 2009 when the last electricity inquiry was undertaken.[39,40]



The large number of retailers, and retail brands, which has been trumpeted by some parties as evidence of competition working, mask the reality that outside the big-5, the biggest retailers are Nova with a market share of 3.70% and Pulse with 3.50%.[41,42] Only four small retailers have more than 1% market share.[43] Most small retailers have less than 1000 customers and many less than 100.



39 https://www.emi.ea.govt.nz/Retail/Reports/R_MST_C?RegionType=NZ&Grouping=T5&Percent=Y&_rsdr=ALL&_si=v|3

40 Appendix 4 provides evidence improvements in competition reflect a continuation of trends from the late 2000s and the last Government electricity inquiry reforms.

41 https://www.emi.ea.govt.nz/Retail/Reports/R_MSS_C?_si=v|3

42 https://www.emi.ea.govt.nz/Retail/Reports/R_MST_C?Grouping=T5&seriesFilter=&_si=tg|market-structure,_dr_Grouping|None,v|4

43 This reflects Nova's incumbency in Eastern Bay of Plenty (Horizon Energy) rather than successful competitive activity. The largest new entrant retailer is Pulse with 3.50% market share, following by Electric Kiwi (1.33%) and Flick Electricity (1.09%) and Electric Kiwi (1.15%).

Saves & winbacks is making the two-tier retail market problem worse

Entrust agrees with the EAP "A two-tier retail market appears to be developing: those who actively shop around enjoy the benefits of competition, and those who don't pay higher prices".[44] This is supported by evidence provided in submissions by Entrust and entrant retailers to the Electricity Authority on Saves & Winbacks.[45]

We have used the term "market partitioning" to describe the problem but market partitioning and a two-tier market are the same thing.

The big-5 retailers have been engaging in what the OECD has labelled "exploitive discrimination",[46] with lower prices only offered to consumers at risk of switching supplier. Entrust shares the view of the entrant retailers that aggressive retention (saves and winbacks) is a key enabler of the two-tier retail market problem. The EAP won't be able to resolve the two-tier problem without resolving saves and winbacks.

The EAP's observation that "The average gap between the cheapest retailer's price and the incumbent retailer's price has increased by about 50 per cent since 2002, after accounting for inflation"[47] appears to understate the increase in the gap, as the EAP only looked at the period 2002 – 2014.[48]

Electricity Authority data suggests for 2017 alone the gap jumped by 28% for New Zealand, and 33% for Auckland.[49]

Recent information released by the EAP indicates the Electricity Authority information substantially understates the level of over-charging. The Electricity Authority data indicated the level of overcharging was $207 in 2017. The EAP information indicates $240-$280 would be more accurate, but still understates the level of overcharging.[50]

Based on the Electricity Authority data we had estimated the accumulative loyalty tax, paid by Kiwi families and households, since 2010, to be $2.3 billion (see the diagram on the next page).

It is now clear this substantially understates the level of undercharging that has been going on. We would welcome the EAP providing further clarity on the changes in the level of overcharging, and the accumulative impact on pricing.

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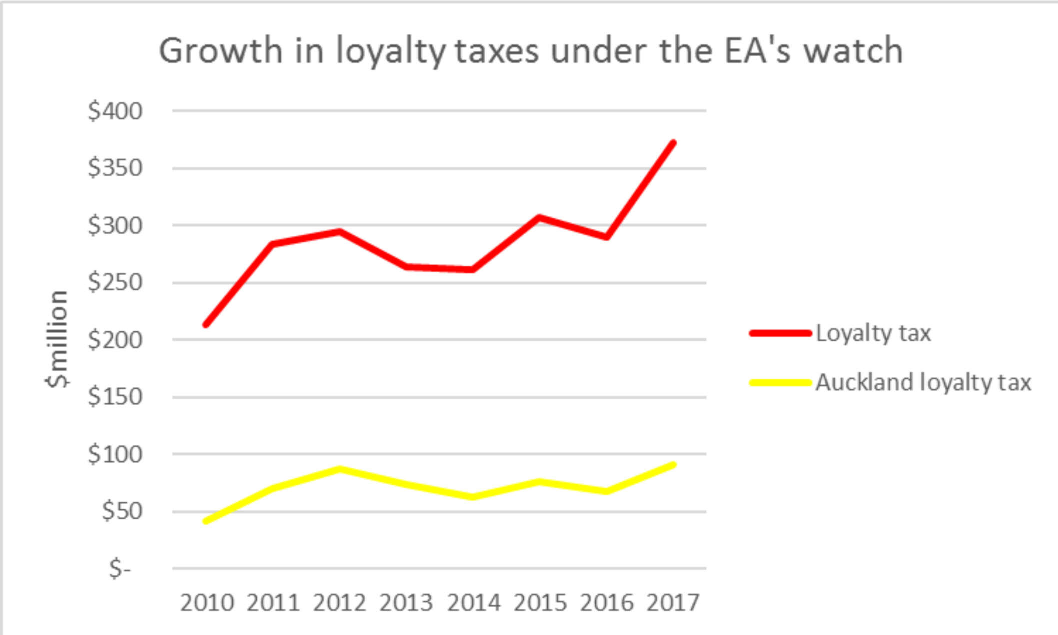
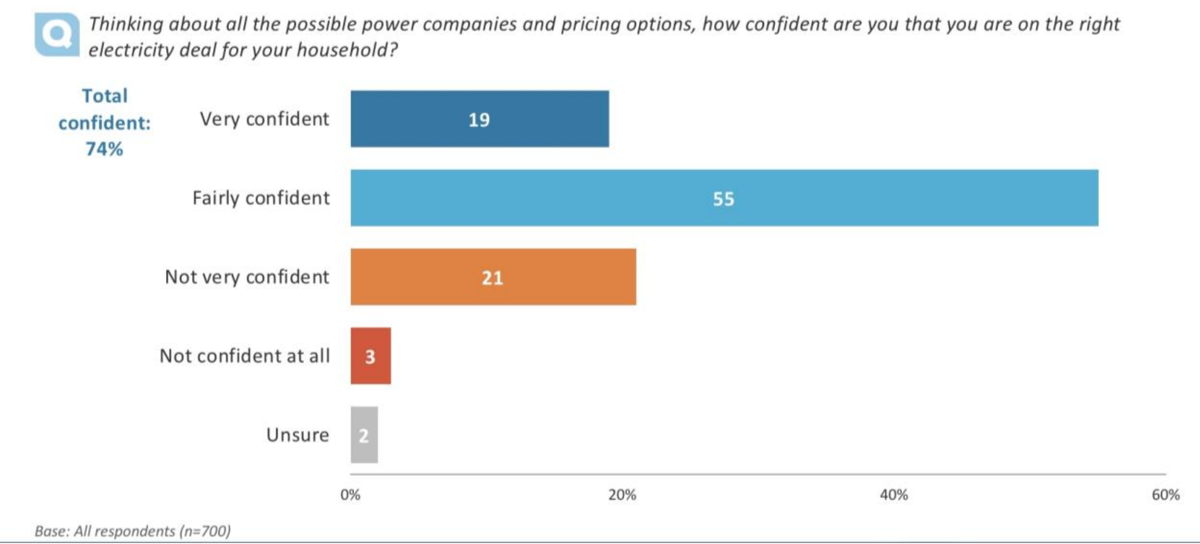
[44] Electricity Advisory Panel, Electricity Price Review, First report for discussion, 30 August 2018, page 4.
[45] Refer to Entrust and entrant retailer submissions on Saves & Winbacks: https://www.ea.govt.nz/development/work-programme/consumer-choice-competition/saves-and-win-backs/consultation/#c17576
[46] OECD, PRICE DISCRIMINATION, Background note by the Secretariat, 29-30 November 2016.
[47] Electricity Advisory Panel, Electricity Price Review, First report for discussion, 30 August 2018, page 4.
[48] Electricity Advisory Panel, Electricity Price Review, First report for discussion, 30 August 2018, figure 16.
[49] Mercury has attempted to challenge the size of the loyalty tax by disclosing the retail profit figures for 2017 of Contact, Genesis, Mercury, Meridian and Trustpower. Appendix 5 provides our response to Mercury's retail profit claims.
[50] Expert Advisory Panel, INITIAL ANALYSIS OF RETAIL BILLING DATA, 15 October 2016.



Source: EMI residential savings league table [understates the size of the loyalty tax]

The size of the "loyalty tax" could reach new heights if competitive pressures aren't strong enough for the big-5 retailers to have to pass network price reductions on to consumers, at the next price reset in 2020. Pass-through rates should be investigated.[51] The Commerce Commission investigated pass-through for telecommunications and found network price reductions weren't all passed on to consumers.

Despite the fact large numbers of loyal customers are being overcharged and not on the right or best deal, the perception of most our beneficiaries, and other Auckland consumers, is that they are on the right deal for their household. 74% of consumers were confident they are on the right deal.

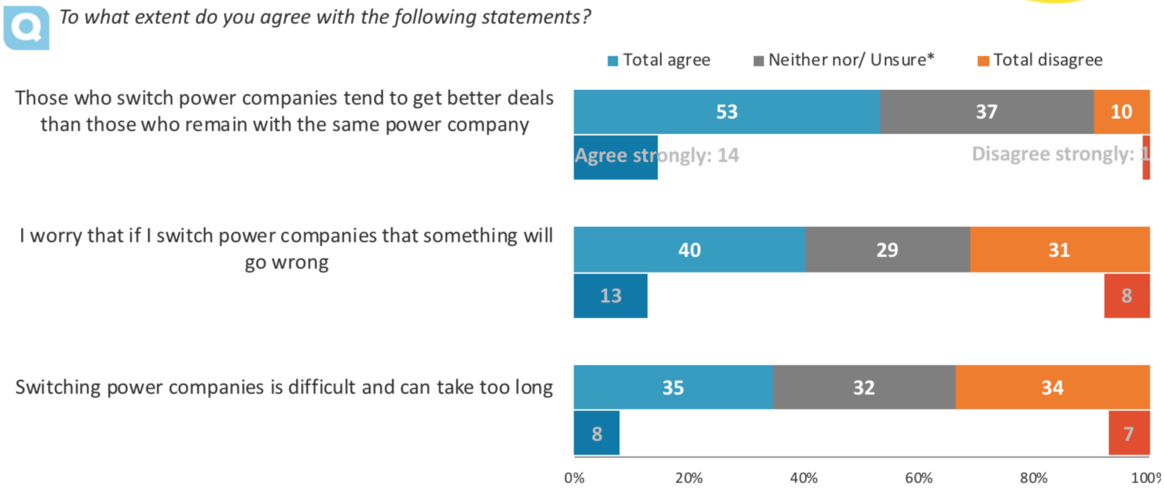


[51] Entrust, Response to the EAP Open Letter, Entrust welcomes the Expert Advisory Panel's Review of Electricity Prices, 11 May 2018.

27% of consumers thought it was difficult to compare prices (versus 39% who didn't).

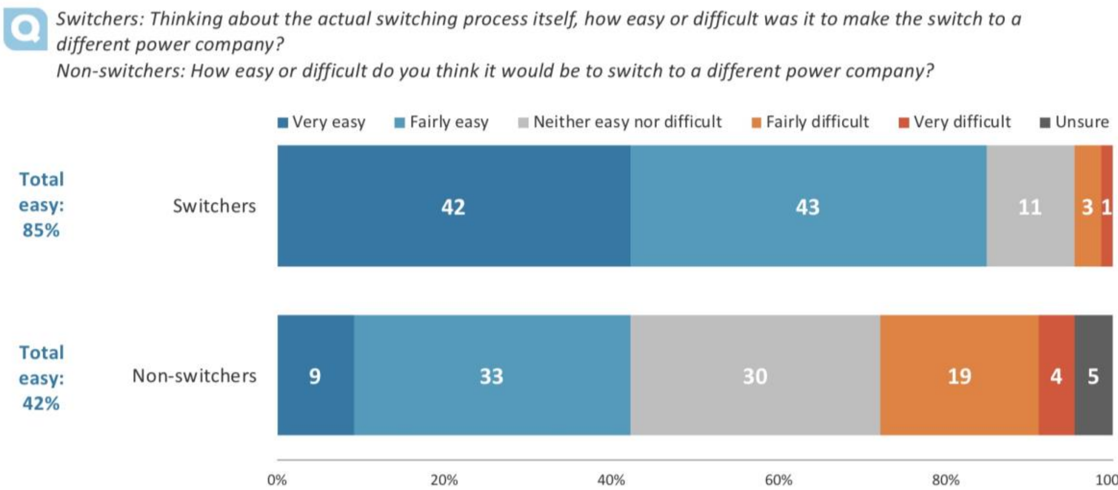
40% of consumers worried something would go wrong if they switched, which was higher amongst those that have never switched (46%).

Just over 35% thought switching electricity retailers is difficult and can take too long (41% of consumers who had never switched).



*Percentage of unsure <5%; Base: All respondents (n=700)

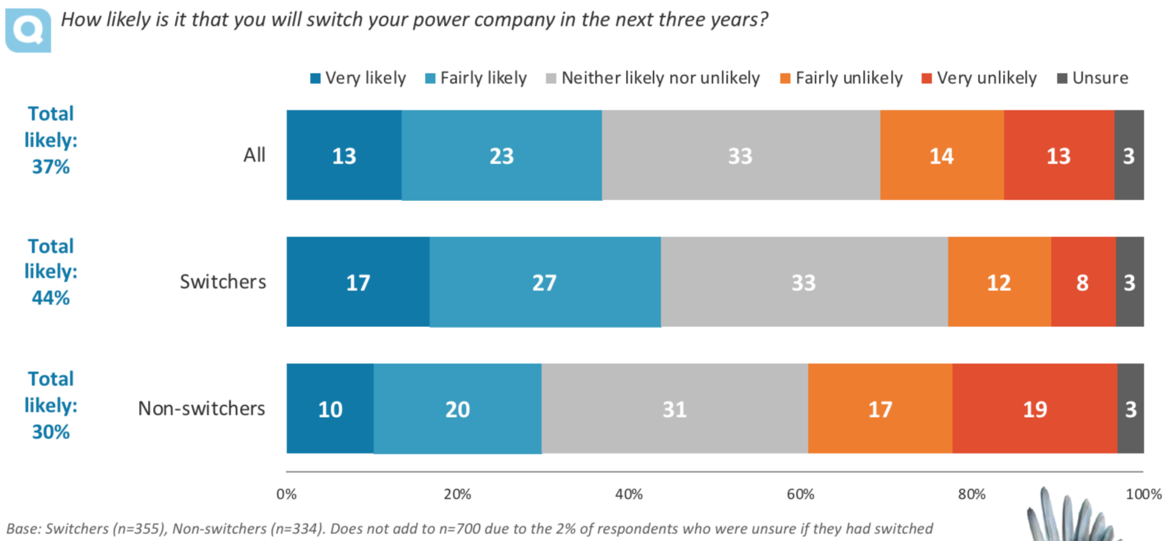
There is a clear gap in the experience of those that have switched and the expectations of those that haven't. The majority of those that switched (71%) did not encounter a problem, and 85% found the switching process easy. Among those that had not switched only 42% thought it would be easy, versus 23% thought it would be difficult.[52]



Base: Switchers (n=355), Non-switchers (n=334). Does not add to n=700 due to the 2% of respondents who were unsure if they had switched

[52] UMR, Consumer research on electricity usage and supply issues, October 2018

The UMR survey found that consumers that haven’t switched are less likely to switch in the future, than those that have switched.



What the UMR survey results highlight is consumers who remain loyal to the big-5 retailers don’t know the true extent to which they are being overcharged, or that they would be better off switching supplier. The information gap helps keep consumers who haven’t switched loyal to their retailer. The incumbent retailers will be well aware of this and will have much more segmented data than we have obtained through the UMR survey. They will be well aware of the magnitude to which they can exploit their most loyal customers.

Late payment penalties disadvantage vulnerable Kiwis unable to pay on time

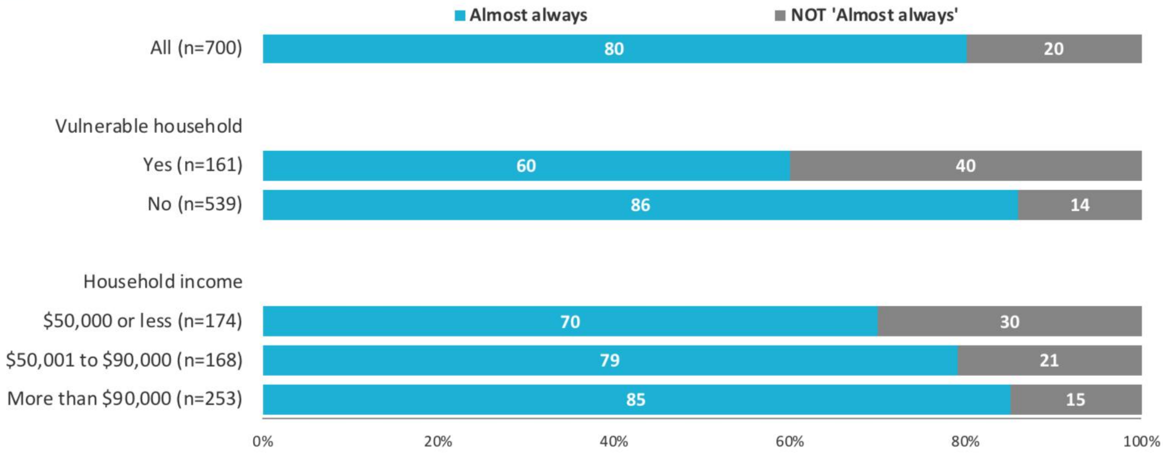
So-called Prompt Payment Discounts hurt consumers.
Consumers who pay their bills but, for whatever reason, can’t pay on time are incurring high late payment penalties.

Entrust agrees with the EAP “low-income consumers miss out more often on prompt payment discounts”.[53] The UMR survey found that while the majority of respondents (80%) declared that they almost always pay their electricity bill on time, those less likely to pay on time are households with:

- dependent children (72%);
- an income of $50k or less (70%);
- five or more members (67%); and
- vulnerable households (60%).[54]

[53] Electricity Advisory Panel, Electricity Price Review, First report for discussion, 30 August 2018, page 4.
[54] UMR, Consumer research on electricity usage and supply issues, October 2018

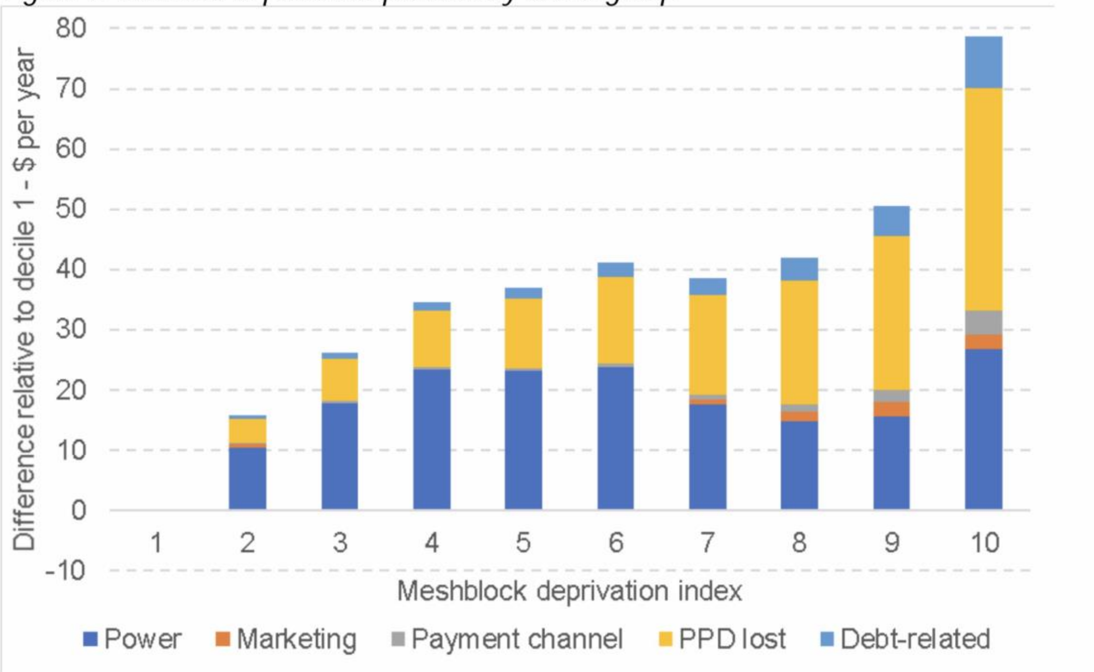
How often do you pay your electricity bill on time in order to receive the prompt payment discount?



Base: All respondents (n=700)

The EAP has now produced similar evidence that low income households are being disadvantaged by Prompt Payment Discounts, with the affect being they raise prices for consumers in the most economically deprived areas by around $50/year on average, with 5% of the most deprived consumers paying an additional $250/year due to lost prompt payment discounts.[55]

Figure 2: Variation in price components by decile group[11]



Meridian admitted the big-5's pricing practices are "unfair to customers who struggle to pay their energy bills", and they needed a "kick in the pants".[56] While we applaud Meridian for coming clean on exploiting consumers by $5 million last year, through high late payment penalties, we challenge all the incumbent retailers to do the same and to

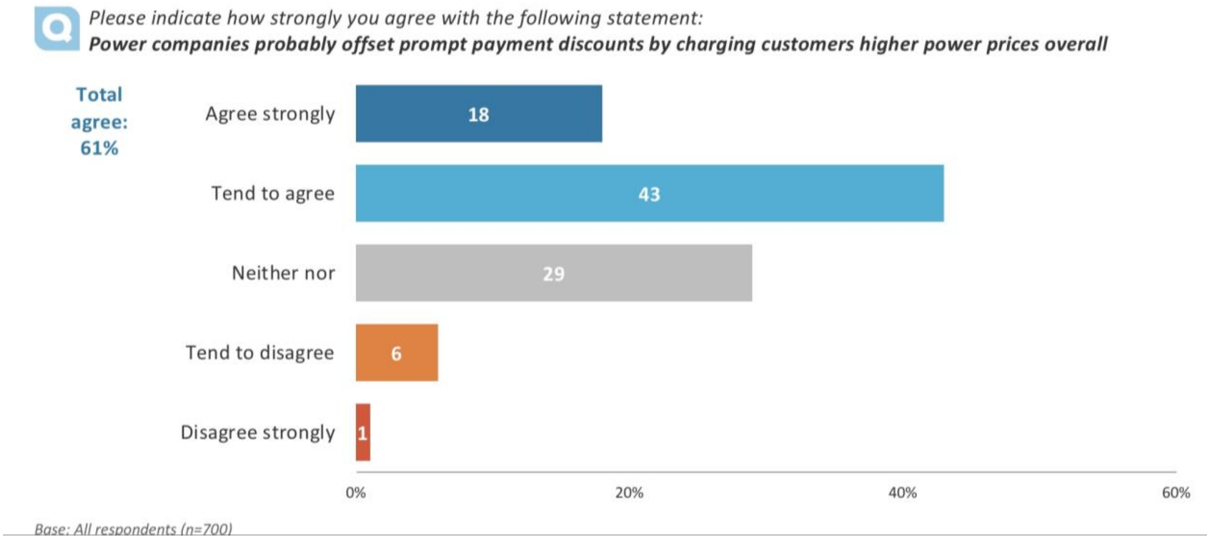
[55] Expert Advisory Panel, INITIAL ANALYSIS OF RETAIL BILLING DATA, 15 October 2016.
[56] Meridian, media release, Meridian to replace unfair prompt payment discounts with guaranteed discount for all customers, 14 September 2018: https://www.meridianenergy.co.nz/news-and-events/meridian-to-replace-unfair-prompt-payment-discounts-with-guaranteed-discount-for-all-customers

pay the money back to consumers. According to Meridian "If all retailers followed our lead customers would be better off to the tune of $40 million annually".[57]

Meridian has been upfront that the Prompt Payment Discounts "are not discounts in the genuine retail sense. They are penalties charged for late payment of bills, and they hurt those who genuinely struggled to pay for their energy the most", and that this is one of the industry's "dirty secrets".[58]

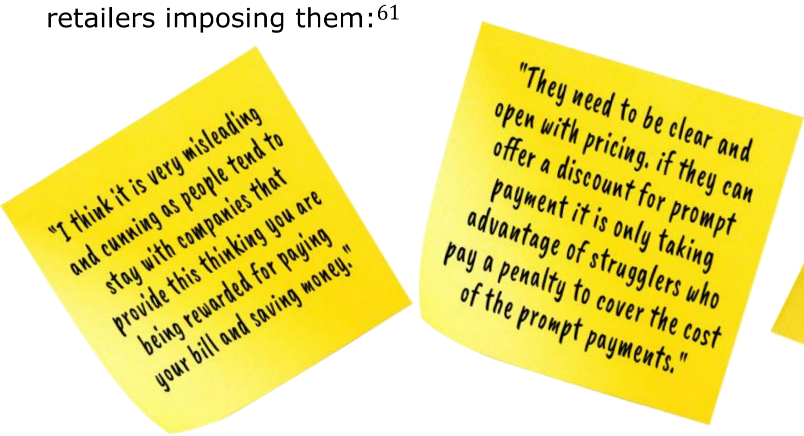
Many of the responses to Meridian's Prompt Payment announcement highlights how consumers have been misled into thinking they are getting a good deal if they pay on time.[59] Some consumers think they are going to lose out after it is removed. They are not.

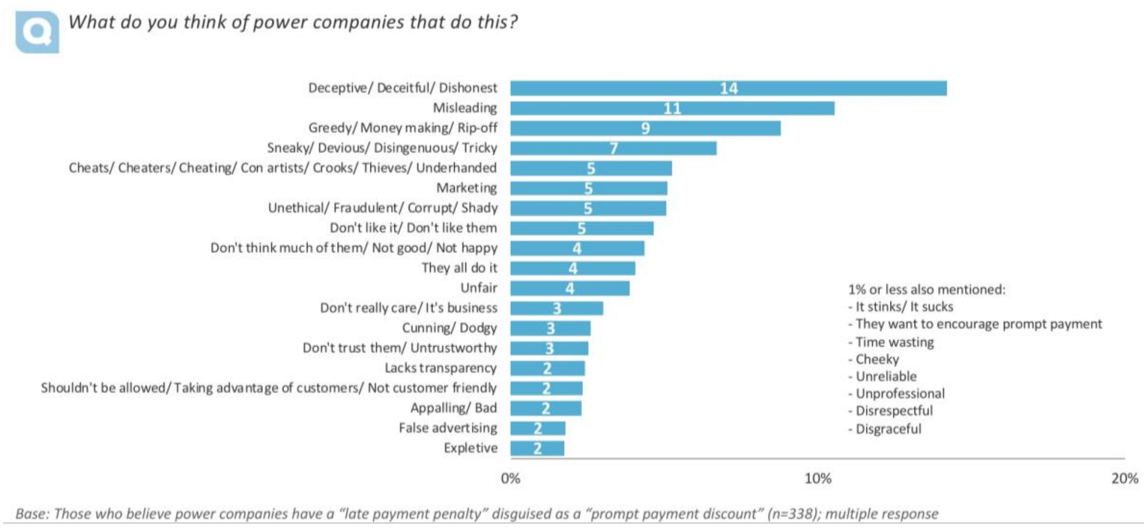
The UMR 2018 survey of Auckland consumers found 61% thought electricity retailers probably offset Prompt Payment Discounts by charging customers higher prices overall.[60]



[57] Grant Bradley, NZ Herald, Mercury and Genesis Energy take swipe at Meridian Energy's pricing stance, 8 October 2018: https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=12139036
[58] Grant Bradley, NZ Herald, Mercury and Genesis Energy take swipe at Meridian Energy's pricing stance, 8 October 2018: https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=12139036
[59] Based on comments on Meridian's Facebook page.
[60] UMR, Consumer research on electricity usage and supply issues, October 2018

When it was explained how the Prompt Payment Discounts are calculated, 48% thought they were late payment penalties, and only 38% still thought they were genuine discounts. The consumers that considered the discounts to be late payment penalties had the following views about the retailers imposing them:[61]





According to Mercury, the level of the late payment penalties compensates for the costs of having to chase payment: "When we look at what the cost is of dealing with people who don't pay on time, and then having to follow through various credit processes, and ultimately sometimes things getting written off as bad debt, that's actually a relatively equivalent trade off".[62]

If this is the case, there would be no reason to object to New Zealand adopting the Australian Competition and Consumer Commission (ACCC) recommendation: "Conditional discounts should be no higher than the reasonable savings that a retailer expects that it will make if a consumer satisfies the conditions attached to the discount. Retailers should bear the onus of substantiating that the conditional discount is reasonable".[63]

[61] UMR, Consumer research on electricity usage and supply issues, October 2018
[62] Jenny Ruth, NBR, Mercury says most customer get prompt payment discounts, 22 Aug 2018.
[63] ACCC, Restoring electricity affordability and Australia's competitive advantage Retail Electricity Pricing Inquiry—Final Report, June 2018, Recommendation 33.

Prepayment arrangements exploit vulnerable consumers

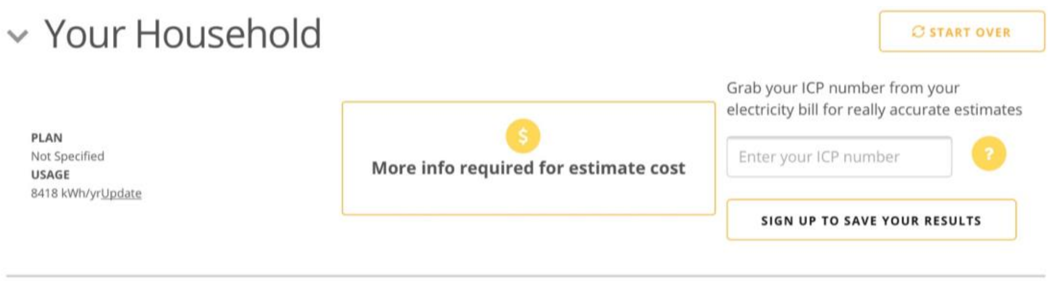
Entrust agrees with the EAP that it should consider the "lack of competitive prices for some consumers on pre-pay meters, which often come with extra costs (fees for installation, inspections, topping up and closing accounts)".[64]

We agree with the sentiment prepay arrangements are a "rort" and "a tax on the poor that can't be justified".[65]

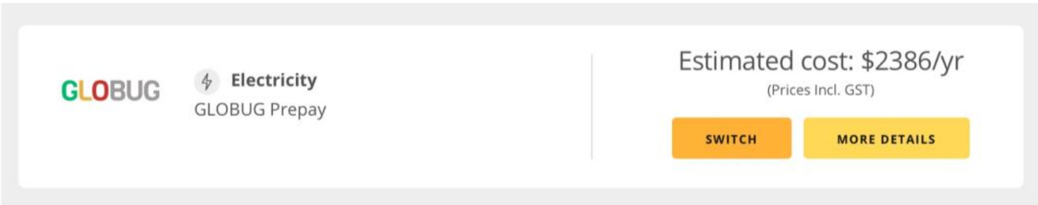
Entrust is concerned Kiwi households who get into debt are being forced into higher cost prepay metering arrangements.[66] The very consumers who are struggling, and have the most difficulty paying their bills, are being charged the most.

Entrust considers it completely unacceptable for any retailer to stop their customers from changing supplier or to force them into prepayment rates and arrangements. This was something Consumer NZ warned would happen with Globug, but Mercury gave "an assurance that it has no plans to foist the payment option on customers who don't have poor credit histories".[67] Mercury's assurances ring hollow now.

Consumer NZ looked into the problems with pre-payment metering arrangements in 2015, and found "Despite recent price drops, some households on prepay plans are still paying hundreds of dollars more for power than post-pay customers".[68] The EAP has now estimated pre-pay consumers on average pay approximately $40/year more than comparable consumers, primarily due to additional fees.[69] The EAP estimate omits price differentials based on uncompetitive pre-pay rates, as highlighted by the fact Mercury's Globug is one of the most expensive options on Consumer's Powerswitch website, as illustrated by the following residential price comparison for Auckland:



[64] Electricity Advisory Panel, Electricity Price Review, First report for discussion, 30 August 2018, page 28.
[65] Patrick Smellie, Electricity review a smoking pop-gun, 13 September 2018: https://www.stuff.co.nz/business/107023448/Electricity-review-a-smoking-pop-gun
[66] Susan Edmunds, More protection needed for prepay power customers: Consumer NZ, 7 June 2018: https://www.stuff.co.nz/business/104524807/more-protection-needed-for-prepay-power-customers-consumer-nz
[67] Tom Pullar-Strecker, Pre-pay power plans 'unfair', 19 March 2012: http://www.stuff.co.nz/business/industries/6595787/Pre-pay-power-plans-unfair
[68] https://www.consumer.org.nz/articles/prepay-electricity
[69] Expert Advisory Panel, INITIAL ANALYSIS OF RETAIL BILLING DATA, 15 October 2016.



We would like to see investigation of the extent to which consumers on prepay meters are made vulnerable because they may not be on prepay by choice, they are more likely to be in fuel poverty and unable to pay for adequate home heating, and they can't use power if they haven't paid for it.

The EAP should also look into introducing retailer or last resort arrangements, so people with bad credit records can't be turned away by every retailer. Other countries have retailer of last resort arrangements, so should New Zealand.

There are questions about compliance with the Vulnerable Consumer Guidelines and the objectives of the Guidelines

It is unclear how well requirements that consumers who get into debt switch to prepay arrangements, with higher pricing and fees, comply with the Vulnerable Consumer Guidelines.

The Vulnerable Consumer Guidelines require "Where a domestic consumer is having difficulty meeting his or her payments, and it is clear to the retailer that the domestic consumer is not on the best tariff for his or her consumption, the retailer should advise the domestic consumer of all appropriate tariff options available, and assist the domestic consumer to move to the domestic consumer's desired tariff" [emphasis added].[70]

On top of the higher prices, and extra costs, if you owe Mercury money another 25% is added to your power bill.[71] We are unsure this level of debt repayment premiums, added to already high pre-pay tariffs, accords with the requirement "Retailers should offer arrangements to recover debt … that … minimises hardship for the domestic consumer".[72] What "minimises hardship" is left entirely to the retailer to determine.

Consumers shouldn't be forced to go without power because their retailer forces them onto prepay or they can't afford to top up their credit.

[70] Electricity Authority, Guideline on arrangements to assist vulnerable consumers, 1 November 2010, paragraph 15.
[71] https://www.stuff.co.nz/business/104524807/more-protection-needed-for-prepay-power-customers-consumer-nz
[72] Electricity Authority, Guideline on arrangements to assist vulnerable consumers, 1 November 2010, paragraph 17.

Disconnection of a vulnerable consumer for non-payment is supposed to be an act of last resort for retailers where vulnerable consumers are acting in good faith,[73] but self-disconnection can happen whenever a vulnerable consumer can't afford to top up their credit. This completely bypasses the disconnection process in the Vulnerable Consumer Guidelines.

We question whether it should be deemed acceptable for vulnerable households to be without power if they can't afford to pay for it in advance. The fact their retailer may not have physically disconnected them seems somewhat moot.

The Vulnerable and Medically Dependent Consumer Guidelines are well overdue for review. They were weak and poorly drafted, and haven't been reviewed since the Electricity Authority was established. There are questions about the extent they have been complied with. We suspect the Electricity Authority considers issues of consumer protection and social responsibility sit outside its, narrow, pure efficiency interpretation of its objective.

Concluding remarks and recommendations

Entrust is a strong supporter of the Electricity Price Review.

We endorse the objective of delivering efficient, fair and equitable prices to end-consumers, and recognition of the importance of sustainability and new technology.

The focus of Entrust's comments are unabashedly beneficiary and consumer focussed. Entrust wants electricity to be supplied in an efficient and affordable way to all consumers, including the over 331,000 households and businesses in Auckland, Manukau and parts of Papakura and eastern Franklin that are beneficiaries of Entrust.

We are proud to be playing our part to help consumers. Entrust beneficiaries have benefited from a $350 dividend payment, plus an extra $30 from Vector to all Aucklanders this year. Entrust considers that lines companies should either pay Loss Rental Rebates directly to consumers, as Vector is now doing, or use the rebates to reduce line charges. These are the most effective ways of ensuring the benefits of the rebates go to consumers and aren't captured by retailers.

Entrust is committed to helping ensure a robust review which will deliver substantial and lasting benefits to consumers. The review needs to be strongly evidence-based.

Entrust has focussed on ensuring our submissions are supported by evidence. This is one of the reasons why we commissioned the UMR consumer survey. Consumers are the most important voice, but the least likely to be heard.

We applaud that the Panel's consultation paper appears to have helped convince Meridian to remove late payment penalties. Meridian says it will save its most vulnerable consumers $5 million per annum. The review has already paid for itself and it has only just begun.

The review provides a timely opportunity to deal with competition and consumer exploitation issues which remain unresolved. We want to see stronger and more rigorous competition in the wholesale and retail markets, and the electricity sector more generally.

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[73] Electricity Authority, Guideline on arrangements to assist vulnerable consumers, 1 November 2010, paragraph 10(d).

A good outcome for the review would be ensuring regulatory arrangements provide for open competition, where everyone, be they electricity generators and retailers, lines companies and other alternative market entrants, able to embrace and use new technologies to offer consumers greater choice and drive prices down. It is important regulation and policy do not obstruct the sector's natural evolution and ability to innovate and embrace new technology.

Recommendations to make electricity more affordable

Objective	Change to regulatory settings
Ensuring consumers benefit from Loss Rental Rebates:	• Amend Part 4 of the Commerce Act to require lines companies to either use Loss Rental Rebates (LRR) to offset their allowed revenues, or to pass-through the LRR directly to end-consumers.
Creating a competitive and level-playing field	• Vertical-separation of the big-5 incumbent retailers or introduction of arm's length rules. • Cap on any generator owning more than, say, 15% of New Zealand generation capacity. • Put an end to sweetheart deals and subsidies to Tiwai Smelter.
Eliminating the two-tier retail market	• Ban near-term winbacks. • Ban use of information from the switching process for any other purpose than facilitating the switch.
Protecting low income and vulnerable consumers	• Ban "Prompt Payment Discounts" and/or limit "conditional discounts" to the reasonable savings a retailer can demonstrate it will make if a consumer satisfies the conditions attached to the discount. • Prohibit retailers from stopping bad debtors switching retailer. • Review the Vulnerable and Medically Dependent Consumer Guidelines. • Introduce Retailer of Last Resort arrangements.
Improving market transparency	• Financial separation of the big-5 incumbent retailers' retail and generation businesses (if vertical-separation requirements aren't adopted). • Introduce new market monitoring requirements, including the level of pass-through of network price reductions by electricity retailers; and the price gap between each of the incumbent retailers' standard and best retail tariffs for residential consumers. • Mandate Post Implementation Reviews for any Code changes, including quantified estimates of both long-term pricing and efficiency benefits.

For further information:
Helen Keir, Chief Operating Officer, Entrust
Phone: 09 929 4567

Kind Regards

Karen Sherry
Chair Regulation & Strategy sub-committee

Appendix 1: Price increases over the last 18-years largely driven by retail (energy)

Summary

- Retail (energy) has been responsible for the bulk of increases since 2000.
- Distribution has had smaller percentage increases than both transmission and retail.
- The Electricity Authority and ERANZ blame lines companies for price increases, by selectively looking at prices from 2011.
- Even looking at prices from 2011 isn't enough to blame Vector for the price increases:
  - ➢ the change in the distribution component of residential prices in the Auckland network from 7.47c/kWh in 2011 to 7.83c/kWh in 2018 was negligable; while
  - ➢ they DROPPED from 8.34 to 7.83c/kWh in 2018 on the Northern network.

The Electricity Authority and ERANZ have falsely blamed lines companies for price increases[74]

The Electricity Authority and ERANZ have both selectively looked at price changes since 2011 which allows them to blame lines companies for slight price increases.

The Electricity Authority's Briefing to the Incoming Minister (BIM) 2017 claimed:

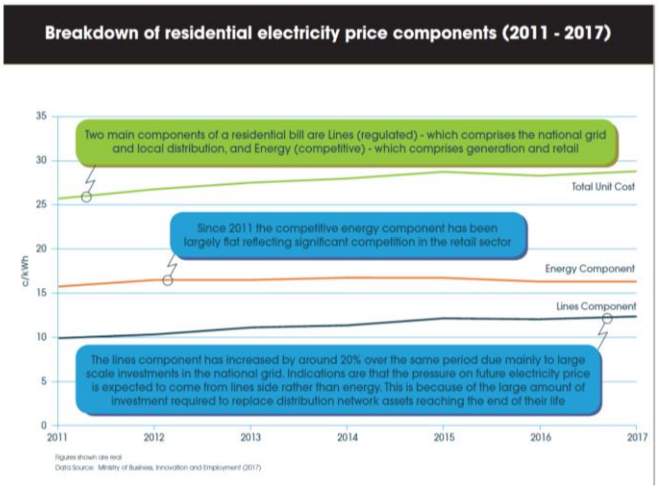
> *"Over the last seven years, <u>most of the price increase has come from increases in transmission and distribution costs</u>—collectively known as lines charges. The lines component covers the costs of transmission and distribution services, which are currently monopoly services and so are regulated by the Commerce Commission."*

The Electricity Authority's 2016 BIM similarly claimed:

> *"<u>The competitive part of the market (the energy component) has contributed very little to real total price changes since March 2011</u>. Most of the increase … has come from increases in transmission and distribution costs—collectively known as lines charges. Lines charges are regulated by the Commerce Commission."*

ERANZ has said the same thing:

> "MBIE data shows that <u>the lines (distribution and transmission) component of the electricity cost has been increasing at a higher rate than the competitive parts of the sector</u> (retail and energy). Analysis indicates price pressure is building due to EDBs need to replace and maintain an aging fleet of network assets. <u>This trend will continue</u>."



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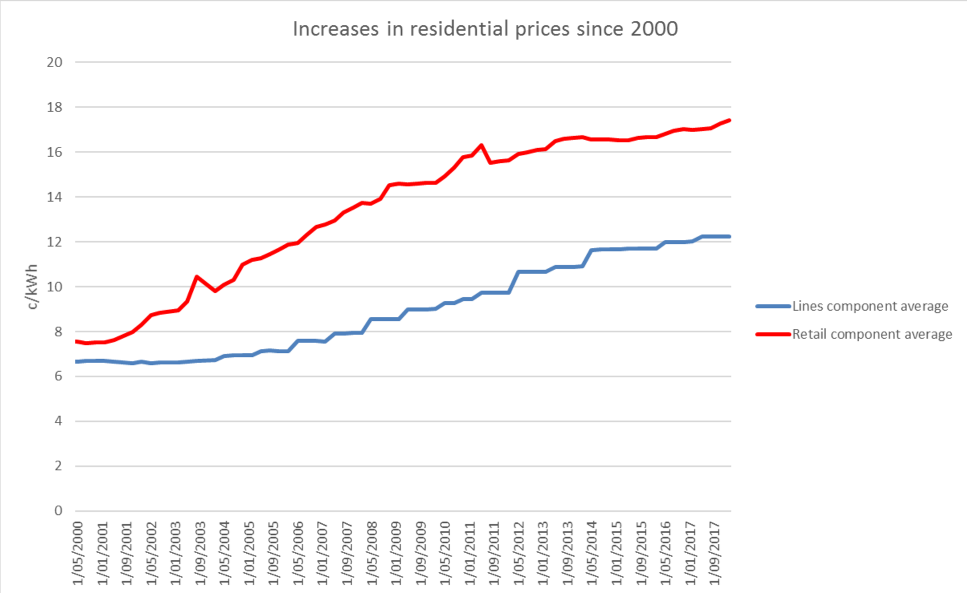
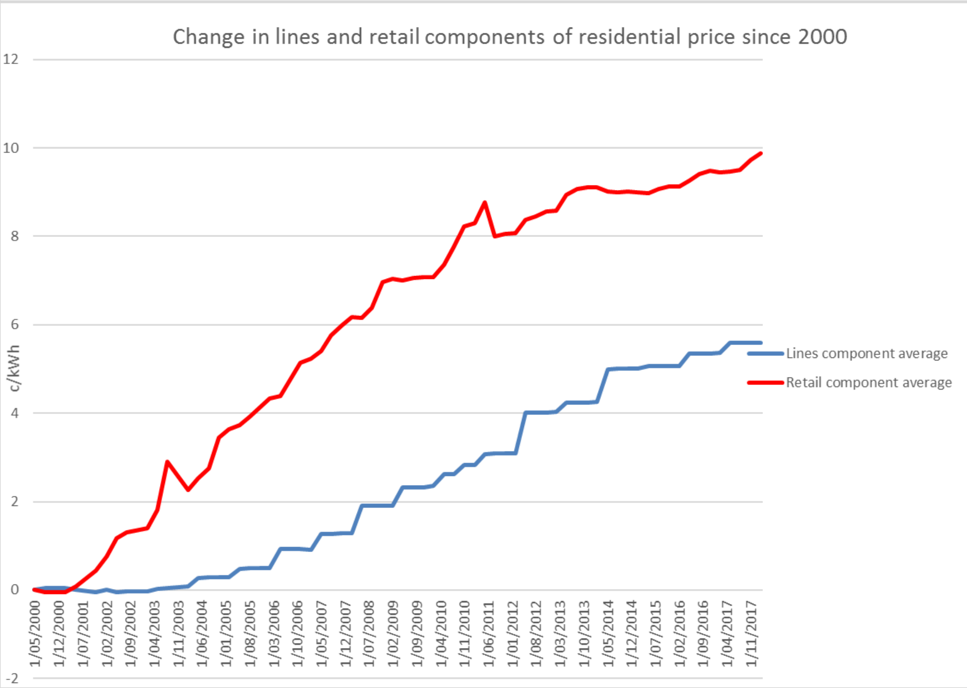
[74] See also Appendix 2: How the pricing data has been manipulated to make it look like lines companies are to blame for price increases.

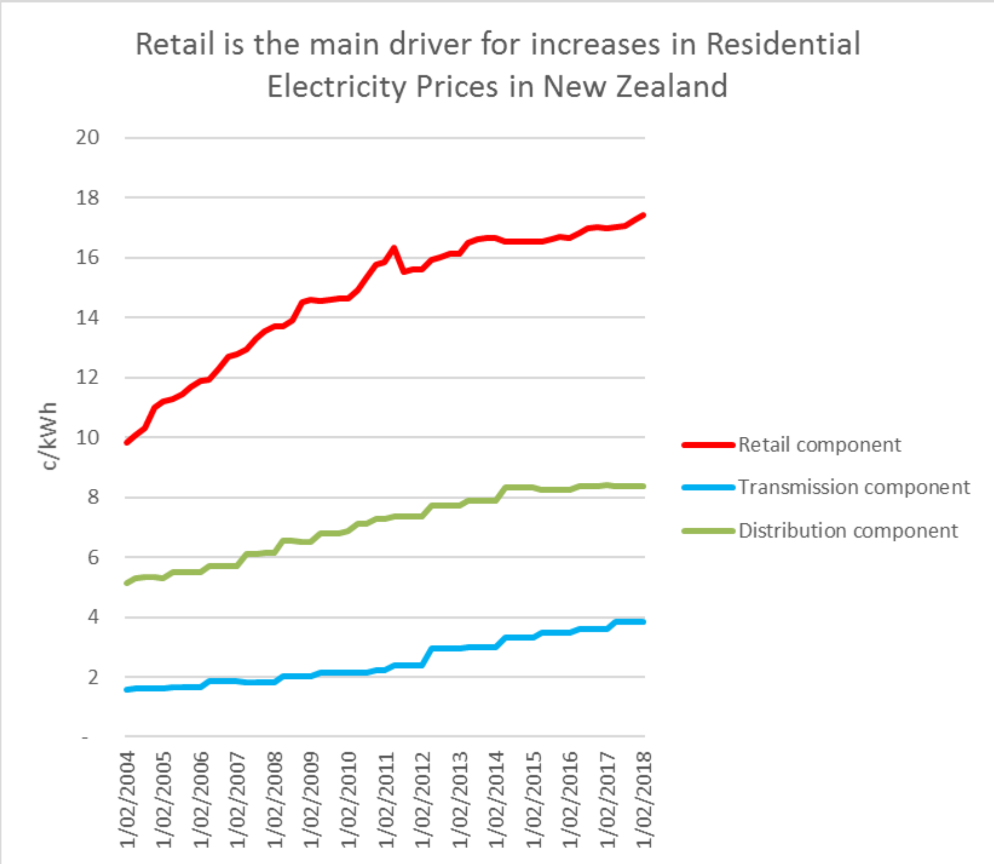
Retail is the main cause of price increases over the last two decades

The reality is very different. The retail component of residential electricity prices has climbed at a faster rate than the lines component over the last two decades.



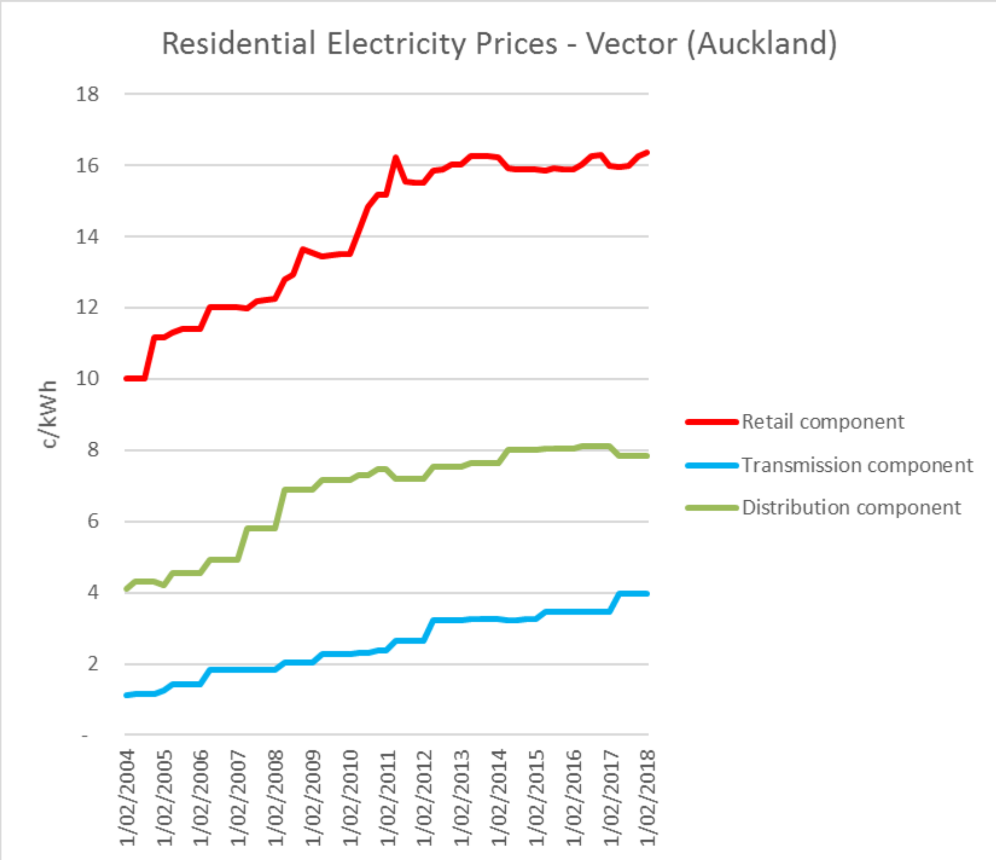


The distribution component of residential electricity prices has increased at a slower rate than both transmission and retail.



Vector's distribution charge growth is slower than retail

It should be recognised the Commerce Commission has allowed price increases for some lines companies and required decreases for others. The only increases the Commerce Commission has allowed Vector since 2010 is for inflation.



Residential Electricity Prices - Vector (Auckland)
c/kWh
18
16
14
12
10
8
6
4
2
-
1/02/2004
1/02/2005
1/02/2006
1/02/2007
1/02/2008
1/02/2009
1/02/2010
1/02/2011
1/02/2012
1/02/2013
1/02/2014
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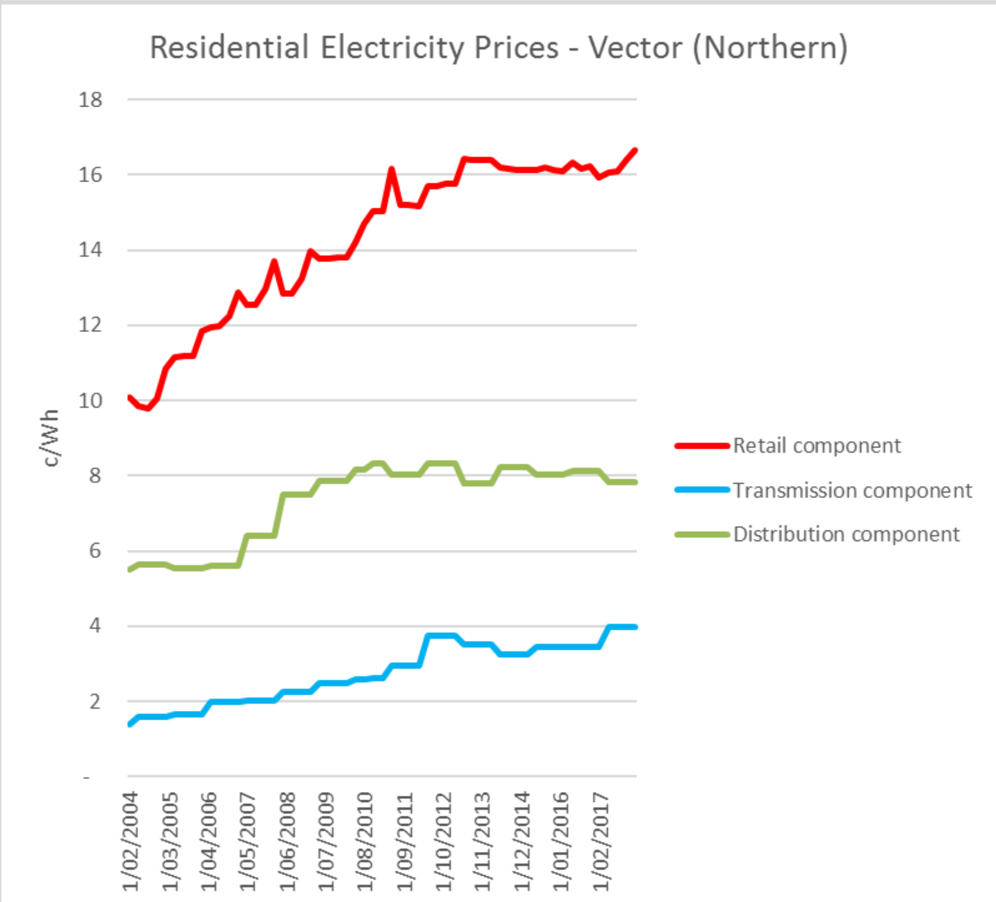
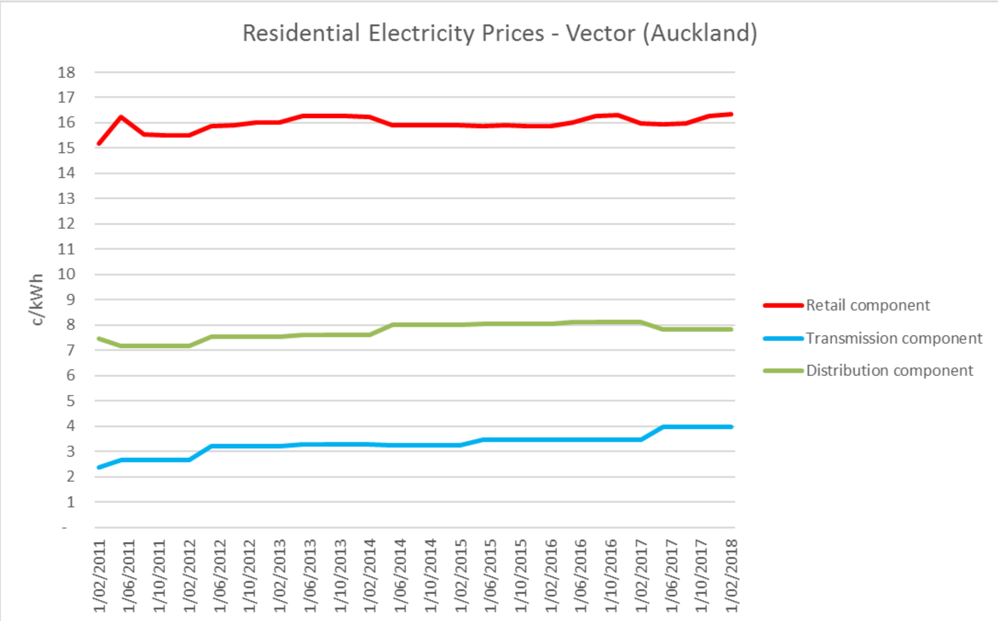
1/02/2016
1/02/2017
1/02/2018
Retail component
Transmission component
Distribution component

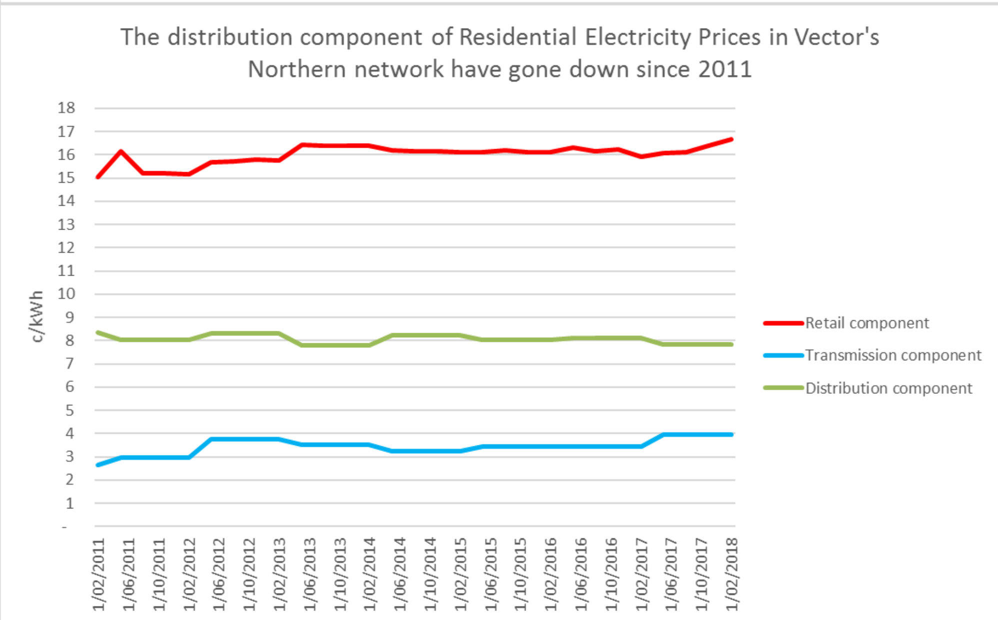


Residential Electricity Prices - Vector (Northern)
c/Wh
18
16
14
12
10
8
6
4
2
-
1/02/2004
1/03/2005
1/04/2006
1/05/2007
1/06/2008
1/07/2009
1/08/2010
1/09/2011
1/10/2012
1/11/2013
1/12/2014
1/01/2016
1/02/2017
Retail component
Transmission component
Distribution component

Vector’s distribution charges cannot be blamed for retail price increases in the period from 2011. Applying the Electricity Authority and ERANZ’ selective use of 2011 onwards:

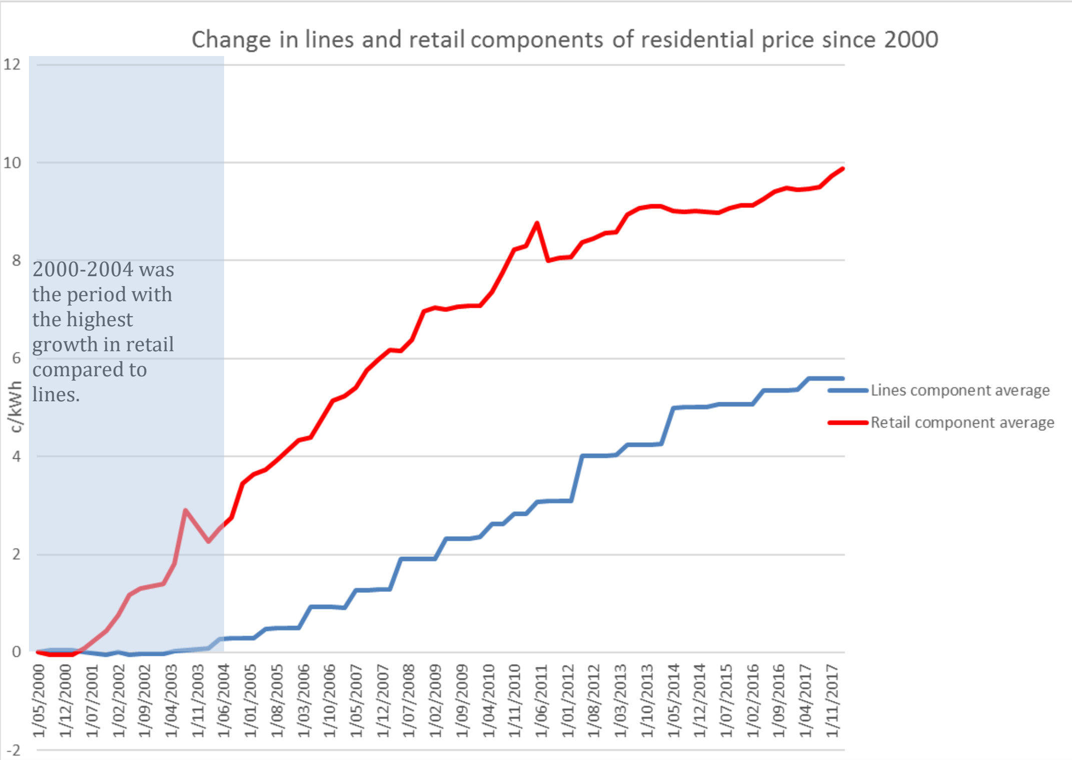
- The distribution component of residential electricity prices in Auckland has changed from 7.47c/kWh in 2011 to 7.83c/kWh in 2018 (due to tariff rebalancing).
- The distribution component in the Northern Network DROPPED from 8.34c/kWh in 2011 to 7.83c/kWh in 2018.





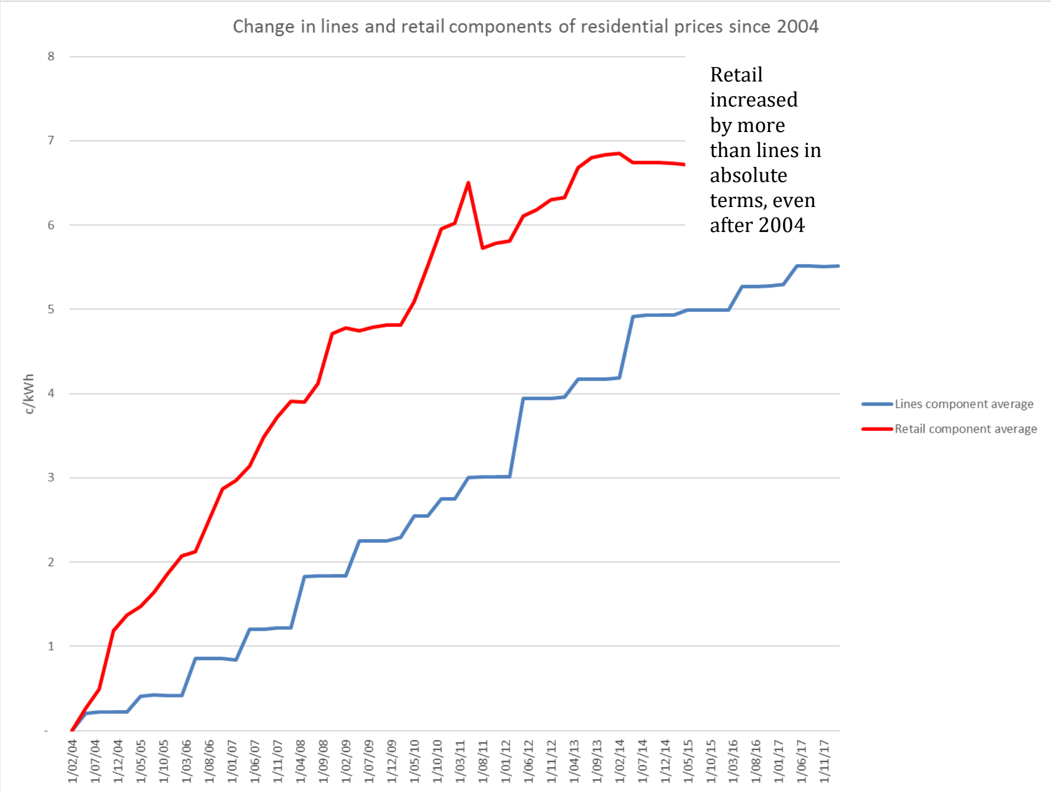
Appendix 2: Manipulation of pricing data can make it look like lines are to blame

The majority of the increase in residential prices over the last decade has been from the retail (energy) component.

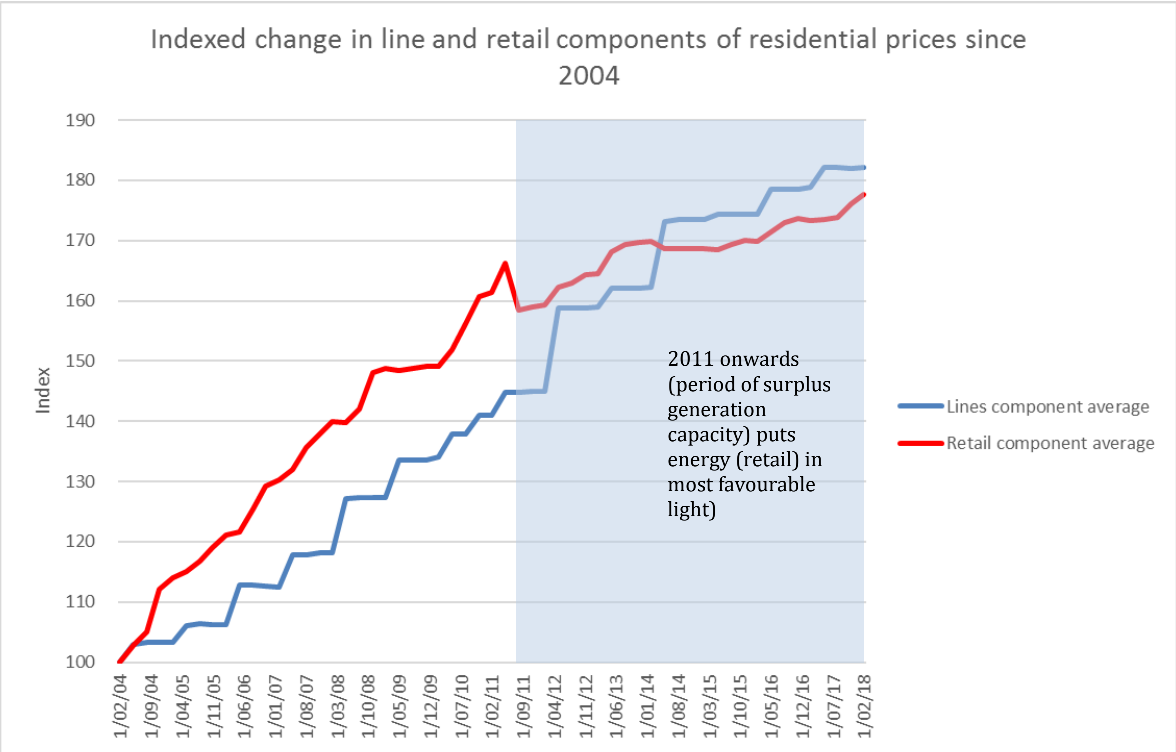


This information can be manipulated in two easy steps to make it look like lines are the biggest contributor to residential price increases.

Step 1 is to remove the period 2000-2004. Lines prices were flat over this time, while retail prices rose substantially. This narrows the gap.

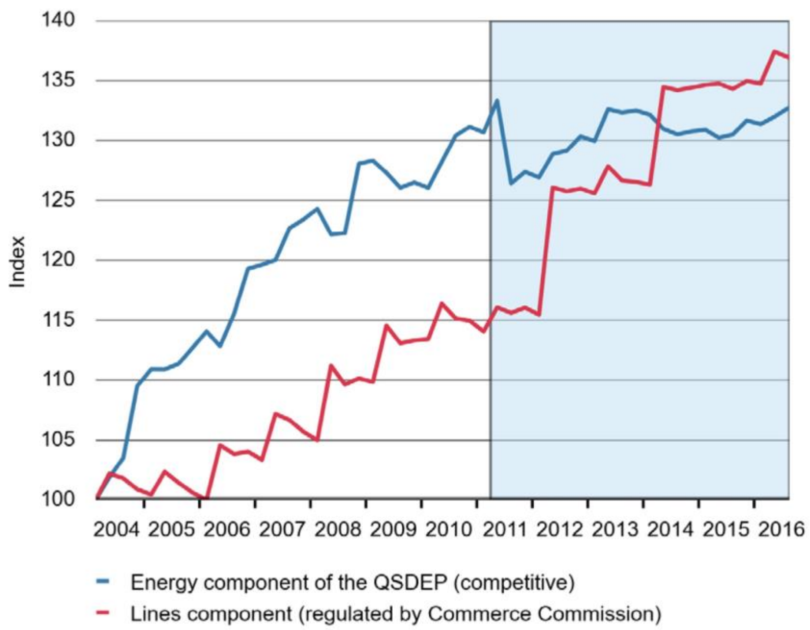


Step 2 is to index the prices. This means that a change in price from $1 to $2 looks exactly the same as a change from 10 cents to 20 cents. This helps make the bigger components of the residential bill (the retail component) seem smaller.



The **final step** the Electricity Authority then took was to inflation adjust the prices to produce the following diagram which it used in its 2016 BIM.

Figure 6 **The energy and lines component of the QSDEP indexed (real)**



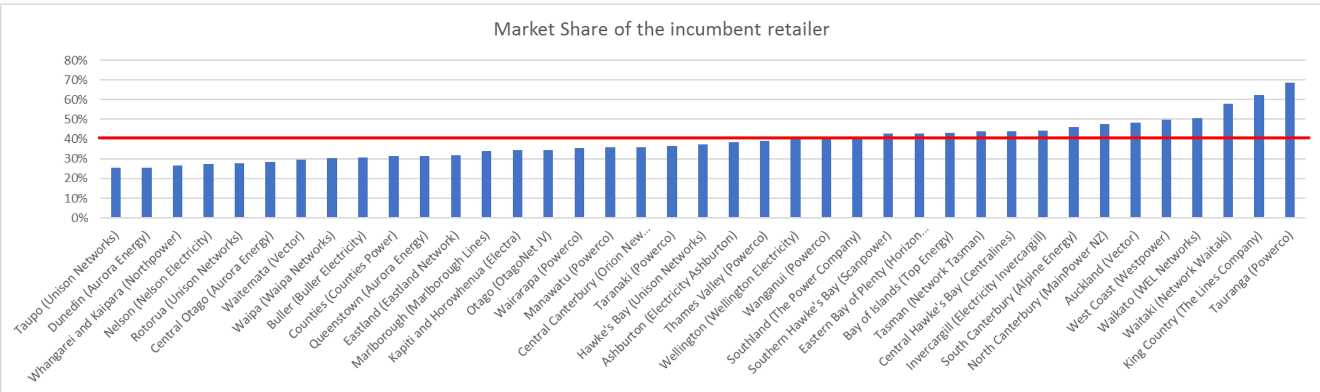
Source: MBIE

Appendix 3: The electricity retail and generation markets are highly "concentrated"

Summary

- 72% of regional electricity retail markets in New Zealand are concentrated, based on the Commerce Commission definition.
- Applying UK tests, 74.3% of the regional electricity retail markets in New Zealand are highly concentrated, and 25.6% concentrated.
- The most concentrated (least competitive) regional electricity retail markets in New Zealand are Tauranga (HHI[75] = 4,740) and King Country (HHI = 4,542).[76]
- The generation market is concentrated (Commerce Commission definition) or highly concentrated (UK definition), depending on which definitions you use, with HHI = 2,208.

Commerce Commission definition of "concentrated market"	Electricity retail and generation market concentration levels
The Commerce Commission defines a "concentrated market" as a market where the three firms have a total of 70% or more of the relevant market. Under the Commerce Commission's "safe harbour" provisions mergers are permissible where: • The merged entity would have 40% or less of the relevant market, unless there is a concentrated market. • In a concentrated market, the merged entity must have no more than 20% of the market.	• 72% of regional electricity retail markets are "concentrated" i.e. the three largest retailers' market share exceeds 70%.[77] • The market share of the largest retailer exceeds 40% in 44% of regional electricity retail markets (failing the "safe harbour" requirement.[78] • The generation market is concentrated: The market share of the largest three generators is 72%.[79]



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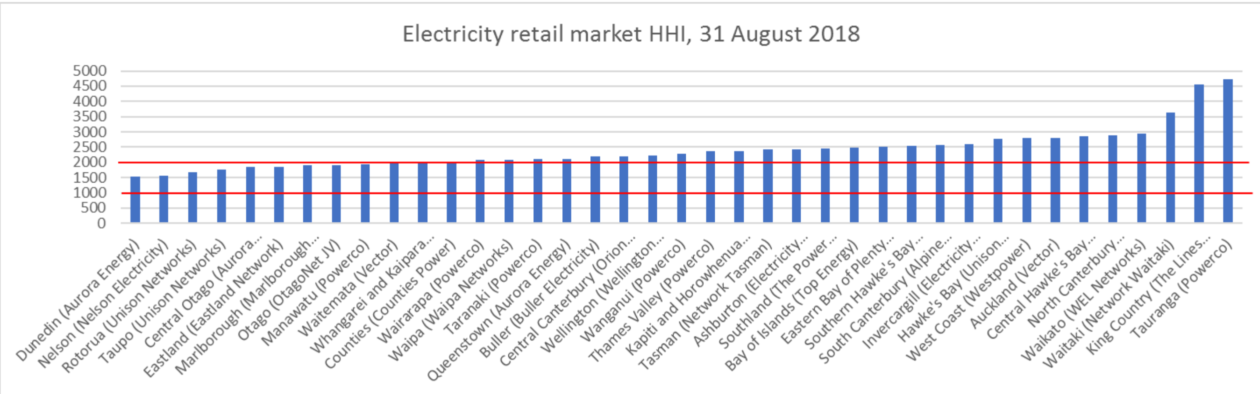
[75] Note: Herfindahl-Hirschman Index (HHI) = 0 is fully competitive. HHI = 10,000 is zero competition.
[76] As at 31 August 2018: https://www.emi.ea.govt.nz/Retail/Reports/IK41HT?_si=tg|market-structure,v|3
[77] Retail market defined by network reporting area, based on 2017 data: https://www.emi.ea.govt.nz/Retail/Reports/IE31BN?RegionType=NWK_REPORTING_REGION&Show=CR3&_si=tg|market-structure,v|3
[78] Retail market defined by network reporting area, based on 2017 data: https://www.emi.ea.govt.nz/Retail/Reports/IE31BN?RegionType=NWK_REPORTING_REGION&Show=CR1&_si=tg|market-structure,v|3
[79] As at 2016. Source: http://www.mbie.govt.nz/info-services/sectors-industries/energy/energy-data-modelling/publications/energy-in-new-zealand/documents-images/energy-in-nz-2017.pdf

UK Competition and Markets Authority definition of "concentrated market"	Electricity retail and generation market concentration levels
HHI above 2000 = highly concentrated	74.3% of regional electricity retail markets highly concentrated.[80] The national generation market is highly concentrated (HHI = 2,208).[81]
HHI between 1000 and 2000 = concentrated	25.6% of regional electricity retail markets are concentrated.
HHI below 1000 = unconcentrated	No regional electricity retail market is unconcentrated.



[80] As at 31 August 2018, defined by network reporting areas: https://www.emi.ea.govt.nz/Retail/Reports/R_HHI_C?RegionType=NWK_REPORTING_REGION_DIST&_si=tg|market-structure,v|3

[81] As at 2016. Calculated by treating all small generators as a single generator. Source: http://www.mbie.govt.nz/info-services/sectors-industries/energy/energy-data-modelling/publications/energy-in-new-zealand/documents-images/energy-in-nz-2017.pdf

Appendix 4: Retail competition improvements driven by the last inquiry reforms

Summary

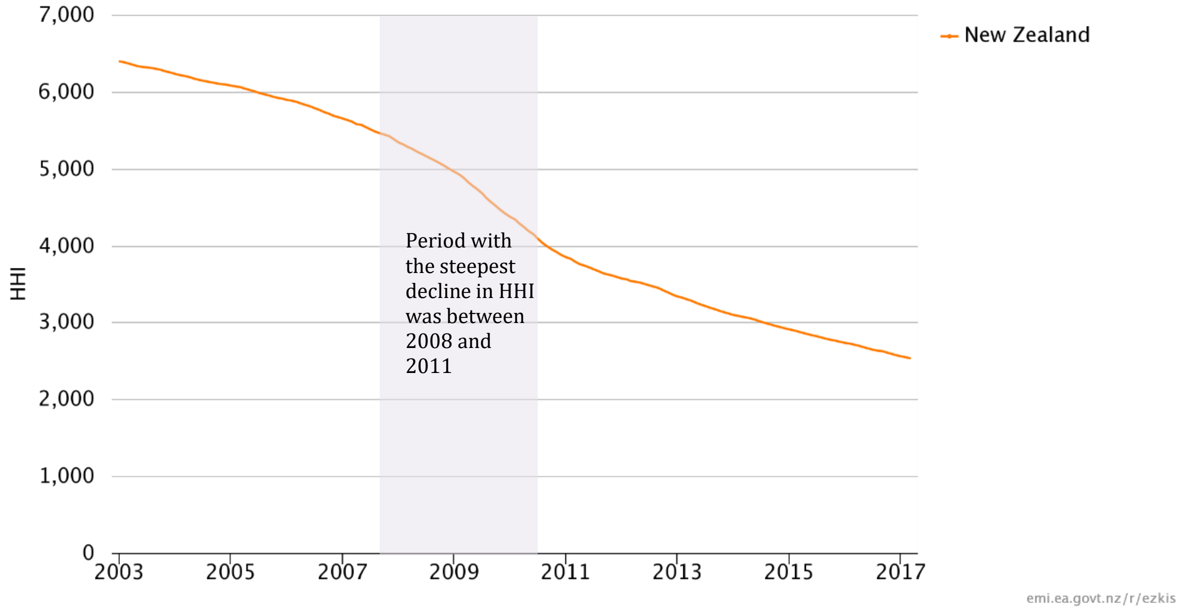
- The improvements in retail competition since 2010 largely reflect a continuation of trends for retail competition to slowly but gradually improve that started in the 2000s and with the last Government electricity inquiry reforms.
- The biggest shake-ups to retail competition happened around 2009. This was most likely driven by the Electricity Inquiry reforms including the physical and virtual asset swaps.
- New entrant retailers started to gain market share from 2009 onwards, after a lengthy period where their market share remained stagnant.

The biggest improvements to retail competition happened around 2009

Even if the Electricity Authority did nothing to promote competition there would still have been improvements in measures such as HHI, market concentration and the number of retailers.

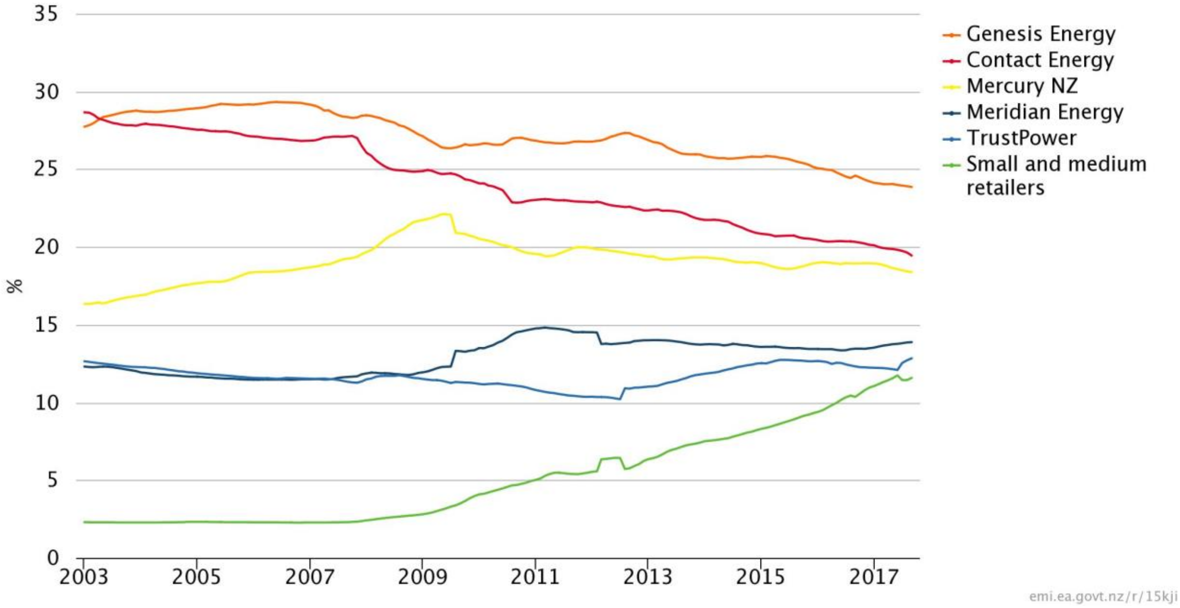
It is far from clear Electricity Authority regulation has had any discernible impact on the level of competition. While it can be difficult to link particular improvements in competition to particular policy initiatives and decisions, it appears much of the modest improvements we can observe today are parts of trends that predated the Electricity Authority.

It looks like there was a step-change in the retail market around 2009; likely driven by the Electricity Commission and previous Ministerial Inquiry into the Electricity Industry. The improvement in the HHI for the electricity retail market was most pronounced around the 2008/09 to 2010/11 period, before slowing down after that. This coincided with the Ministerial Review of the Electricity Industry reforms.



The small retailers started to gain market share from about 2009 onwards. At around 2009 Meridian was the only incumbent retailer that gained market share (increases in the North Island more than offsetting losses in the South Island). Up until then, for example, Mercury was making steady gains in market share, which then halted and reversed.

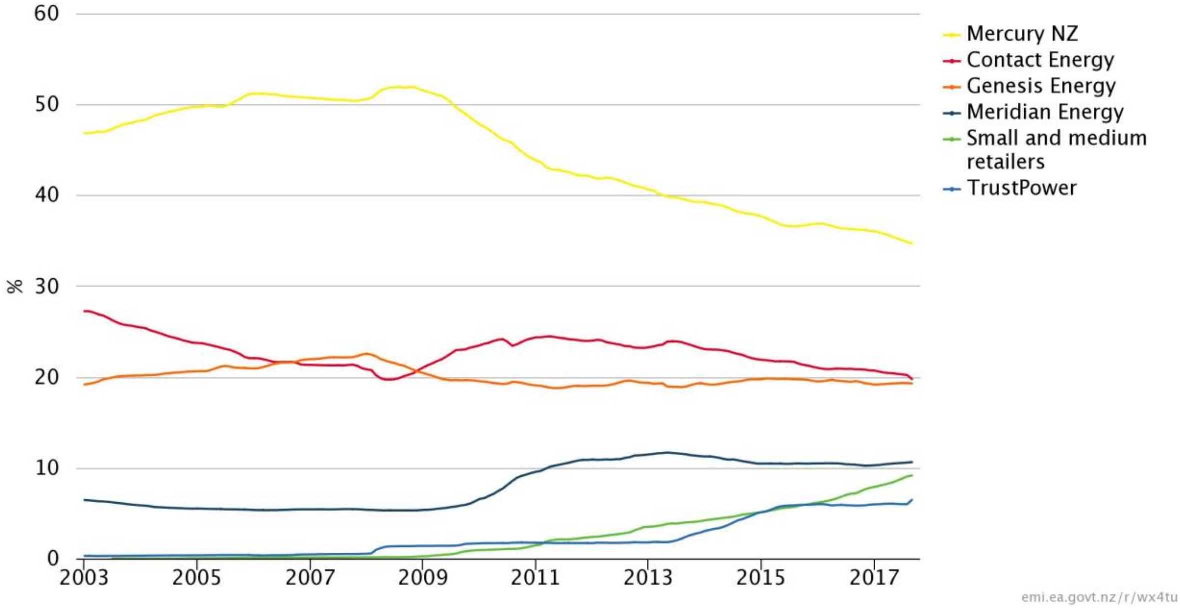
The big-5 v small retailers change in market share (New Zealand)[82]



The Ministerial Inquiry asset swaps were successful in improving competition

The impact of the physical and virtual asset swaps can be seen by observing changes in market share in the different parts of the country; particularly in the South Island where the physical asset swap between Meridian and Genesis occurred.

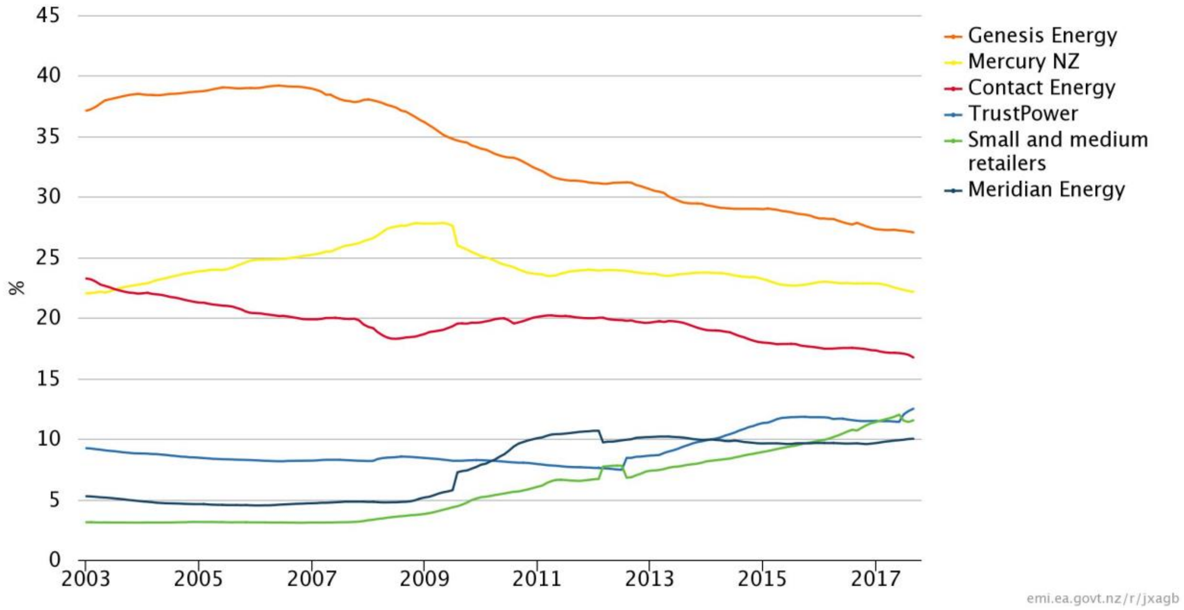
The drop-in market share of Mercury from 2009 in the Upper North Island (see diagram below) reversed the pre-existing trend for Mercury's total market share for the country to increase.[83]



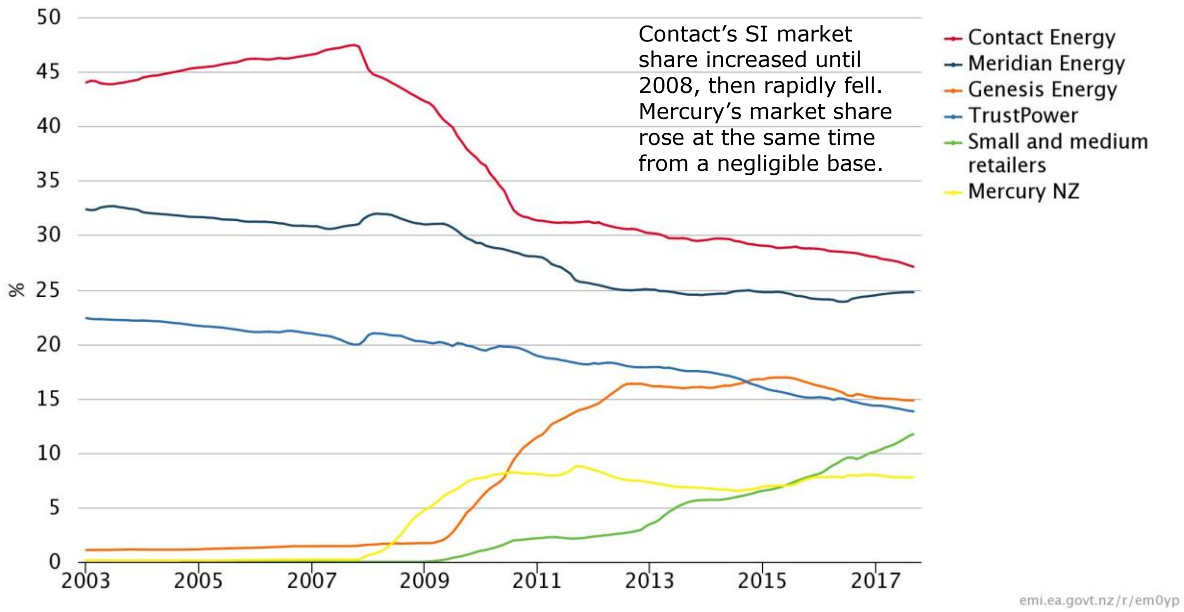
82 https://www.emi.ea.govt.nz/Retail/Reports/R_MST_C?Grouping=T5&Percent=Y&RegionType=NZ&seriesFilter=&_si=v|3

83 https://www.emi.ea.govt.nz/Retail/Reports/R_MST_C?Grouping=T5&Percent=Y&RegionType=ZONE&seriesFilter=&_si=v|3

Meridian's increase in market share in the North Island, while its market share in the South Island declined. The diagram below shows that Meridian's market share in the North Island was flat until around 2009 when it made gains over the 2009-12 period before flattening out again.[84]



This trend was mirrored in the South Island where Meridian's market share remained flat until declined around 2009, before flattening out after 2012. At the same time Genesis (in particular) and Mercury made substantial gains in market share in the South Island.[85]



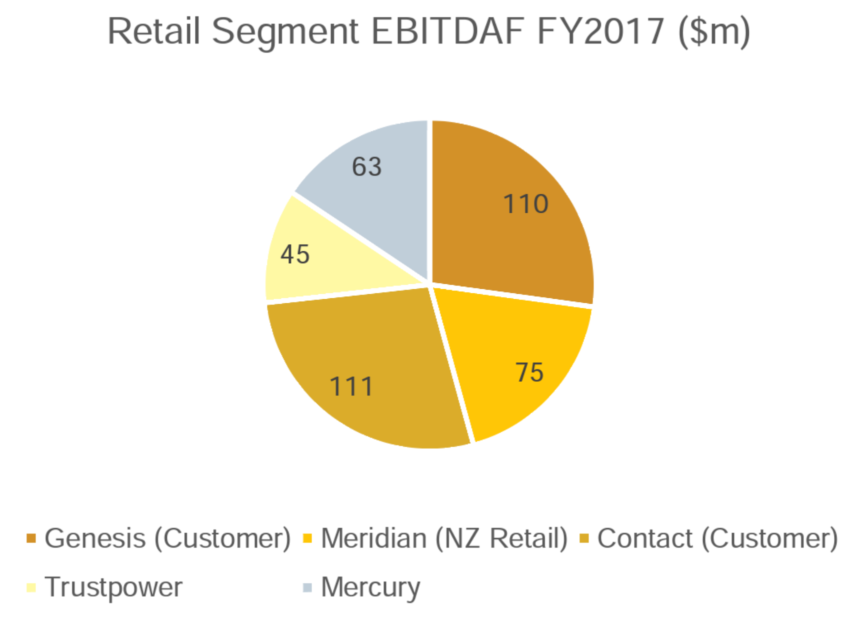
84 https://www.emi.ea.govt.nz/Retail/Reports/R_MST_C?Grouping=T5&Percent=Y&RegionType=ISLAND_1&seriesFilter=&_si=v|3

85 https://www.emi.ea.govt.nz/Retail/Reports/R_MST_C?Grouping=T5&Percent=Y&RegionType=ISLAND_1&seriesFilter=&RegionCode=S&_si=v|3

Appendix 5: Mercury's claims about the big-5 retail profit margins aren't credible

At the same time the big-5 retailers were announcing record profits, Mercury claimed each of their respective retail businesses were making low profits.[86] According to figures Mercury provided only 12% of their Earnings Before Interest, Tax, Depreciation, Amortisation and Fair value adjustments (EBITDAF) is from retail.

Mercury's claims about the big-5 retailers profit levels raise more questions than it answers.



We have not been able to find any financial reporting disclosures by Mercury in relation to its retail business EBITDAF.

The ACCC report into electricity affordability suggests Mercury's figures simply reflect the way costs are being allocated "which suggests that wholesale profit is currently prioritised over retail competitiveness".[87] The ACCC raised a number of concerns about the accounting practices and cost allocation, including related party transactions, of the large vertically-integrated retailers in Australia.

The ACCC also explained retail business profitability could be masked or suppressed through subsidies: "Incumbents are able to make very attractive offers to retain customers, effectively through cross-subsidies paid by their inactive customer cohort".[88]

Both these strategies would suppress the purported retail business profit.

The comments from David Goadby, founder of energyclubnz, are worth noting: "The 'majority-owned' Crown retailers have delivered increased ebitdaf profitability in the last

[86] https://www.ea.govt.nz/dmsdocument/23933-mercury
[87] ACCC, Restoring electricity affordability and Australia's competitive advantage Retail Electricity Pricing Inquiry—Final Report, June 2018, page 39.
[88] ACCC, Restoring electricity affordability and Australia's competitive advantage Retail Electricity Pricing Inquiry—Final Report, June 2018, page xi.

year of $72.5 million. The Electricity Authority has recently announced that the total savings available in New Zealand has increased in 2017 by $80.9m. It doesn't take a mathematician to work out that money is being transferred from the pockets of hard-working families to the shareholders of the big gentailers. In our opinion this just isn't right and why all households should switch in protest against their current retailers".[89]

For further information, contact:
Helen Keir, Chief Operating Officer, Entrust
Phone: 09 929 4567

Kind Regards

Karen Sherry
Chair Regulation & Strategy sub-committee

[89] Susan Edmunds, Stuff, Review finds two-tier power market developing, 11 September 2018: https://www.stuff.co.nz/business/106986384/review-finds-twotier-power-market-developing