

9(2)(a)

21 October 2018

Electricity Price Review
Secretariat, Ministry of Business, Innovation and Employment
Wellington
energymarkets@mbie.govt.nz

Dear Sir

Re: Energy Price Review and the Tauranga Problem

The Tauranga electricity market has unique circumstances that are reducing competition, the consequence being high electricity prices and erosion of a valuable community asset (Tauranga Energy Consumer Trust)

I have read the position papers provided by the review team but I believe that the unique Tauranga market conditions have not been addressed by the review team. I believe that the Tauranga electricity market structure is reducing competition and costing Tauranga consumers in excess of \$30M every year.

The following report is based on research in June 2018 provided to TECT Trustees. The facts have not been challenged but details may have changed since June 2018.

1 History

In 1993 as part of the restructuring of the electricity industry the Tauranga Electric Power Board was restructured to become Trustpower. In recognition of the community ownership of the Board, shares were issued to local residents and a trust (Tauranga Energy Consumer Trust aka TECT) was established to hold a significant parcel of Trustpower shares for the ongoing benefit of local consumers.

A feature of the structure of TECT was the requirement to only distribute benefits to Trustpower customers. Where similar arrangements were made elsewhere the lines companies were involved and benefits could be distributed to all electricity consumers in the local region.

Initially all Tauranga customers would have become Trustpower customers and received benefits from TECT distributions. As new providers have entered the Tauranga marketplace they have found that customers have become aware of the TECT distributions that are only payable to Trustpower consumers.

An attempt by TECT Trustees to change the structure of TECT from a Consumer Trust linked to Trustpower to a Community Trust linked to all residents of the greater Tauranga community had to be abandoned following an extensive and ugly campaign led by Trustpower. There is nothing illegal going on, Trustpower is acting as it should to get the best for its shareholders and TECT is constrained by a Trust Deed that poses real difficulties in returning real value to TECT consumers.

2 Tauranga is a unique marketplace

The Tauranga electricity market is strongly concentrated with Trustpower holding a dominant position, around 68% currently. This is perhaps not surprising given the long standing loyalty for a local company with a significant employment base in the region.

When the level of competition as measured by the HHI (Herfindahl-Hirschman Index) is considered the Tauranga electricity market is the least competitive in New Zealand. The Tauranga HHI would be described as highly concentrated, the NZ total as moderately concentrated).

It has been Government policy to encourage competition to keep electricity prices down, the policy has been working, the HHI for NZ has been steadily reducing indicating increasing competition. Tauranga HHI has been reducing at a slower rate and since 2012 Tauranga has had dubious honour of having the highest HHI in NZ.

HHI Tauranga electricity market (31 May 2018) : 4822

HHI New Zealand electricity market (31 May 2018): 2491

(source EMI Electricity Authority online report HHI Trends)

3 Consequences of the highly concentrated marketplace

The Government campaign to promote increasing competition in the electricity marketplace has relied on making it simple for customers to check out their own electricity price options and making switching electricity providers a simple process. The online **Whats my number** and **Consumer Powerswitch** are simple to use and give an indication of possible savings. We should all use these tools. It was Consumer Powerswitch that several years ago alerted me to the fact that Whakatane Trustpower prices were hundreds of dollars a year less than Tauranga Trustpower prices.

The Electricity Authority via EMI has made available a report that checks the effectiveness of this programme. (EMI Residential Savings report)

For 2017 the report indicates that of all NZ network regions the Tauranga consumers have the highest potential savings if they switched electricity provider or to put it another way, we have been the least likely to change providers and are overpaying the most because of this.

North Island average potential savings per customer : \$195.57

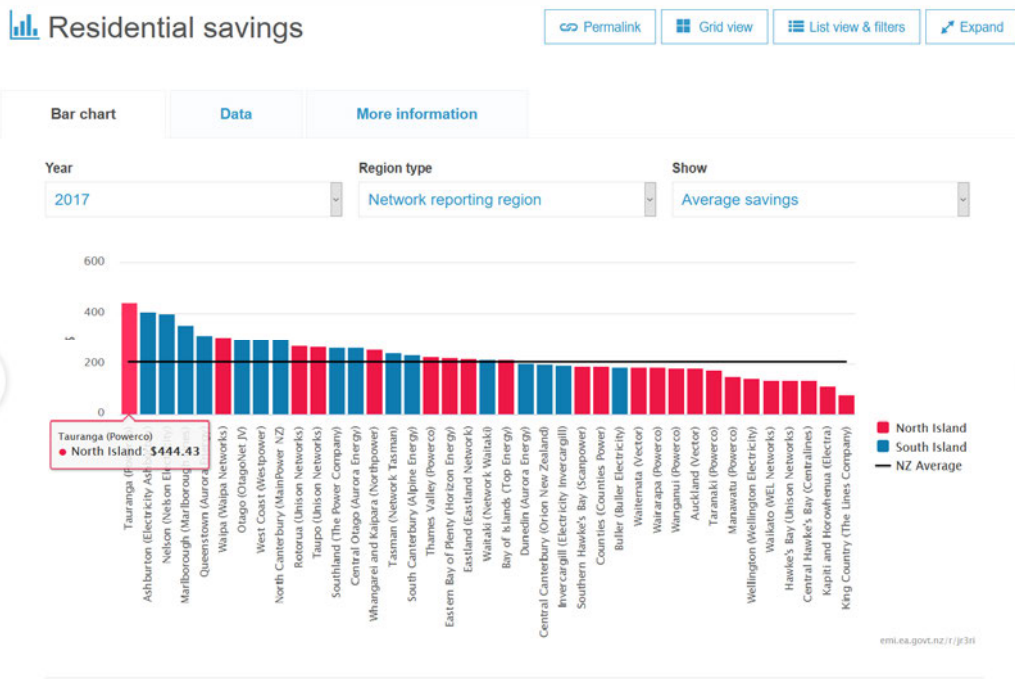
South Island average potential savings per customer : \$242.18

Tauranga potential savings per customer :\$444.43

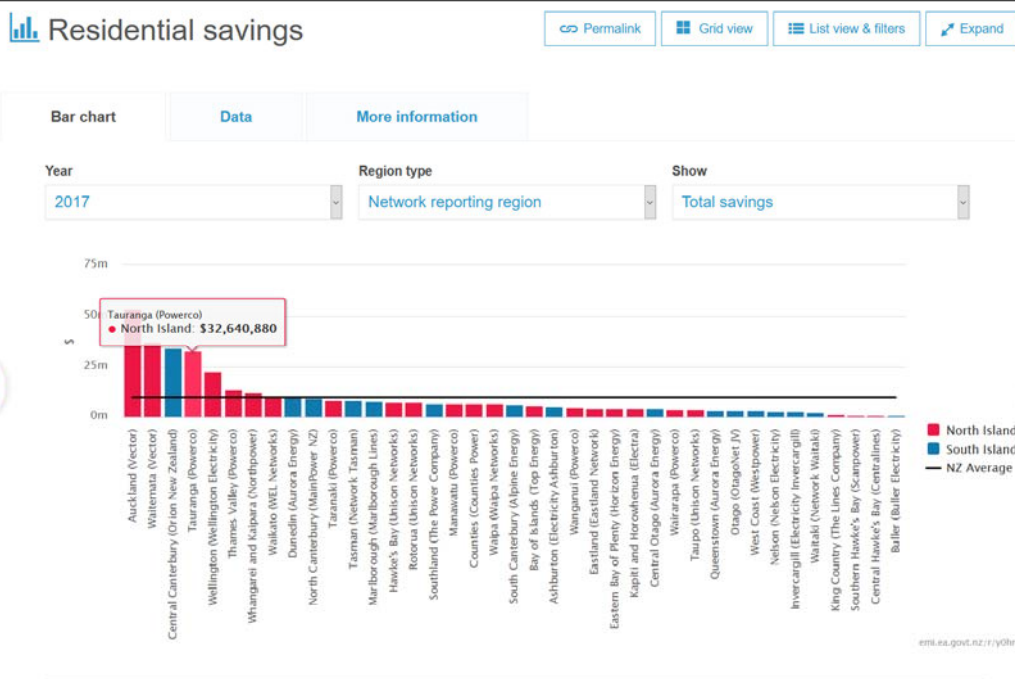
Tauranga total potential savings :\$32,640,880

(The TECT cheque is not part of this calculation. Tauranga consumers will include the smaller numbers not with Trustpower and already paying less, ie for Trustpower customers the potential savings will be more than \$444.43)

Potential Savings per customer per year



Total potential savings by region



4 Switching League Table

From the EMI Switching League Table Report the rate of switching providers in NZ is between 3.2% and 13%. Tauranga is currently at 3.4% which puts us at position 38 of 39. We are among the most reluctant to switch providers.

5 Electricity Prices in North Island Main Centres

The Consumer Powerswitch has a menu option on the home page "Trends and Stats" This section defaults to Auckland and all electricity providers. I have examined the graphs for Auckland, Auckland North/West, Hamilton, Tauranga and Wellington. The data for each section is adjusted to provide the annual consumption for a typical medium sized household in that region, ie the number of kWh/year is more for Hamilton and Wellington (7972) than Tauranga and two Auckland regions (7576). It can be seen that Globug has recently emerged as a very expensive provider in all the regions. Globug is a prepay provider and has come in for much criticism for the high charges

I have mostly concentrated on the 'Big 5' providers ie Mercury, Trustpower, Meridian, Genesis and Contact

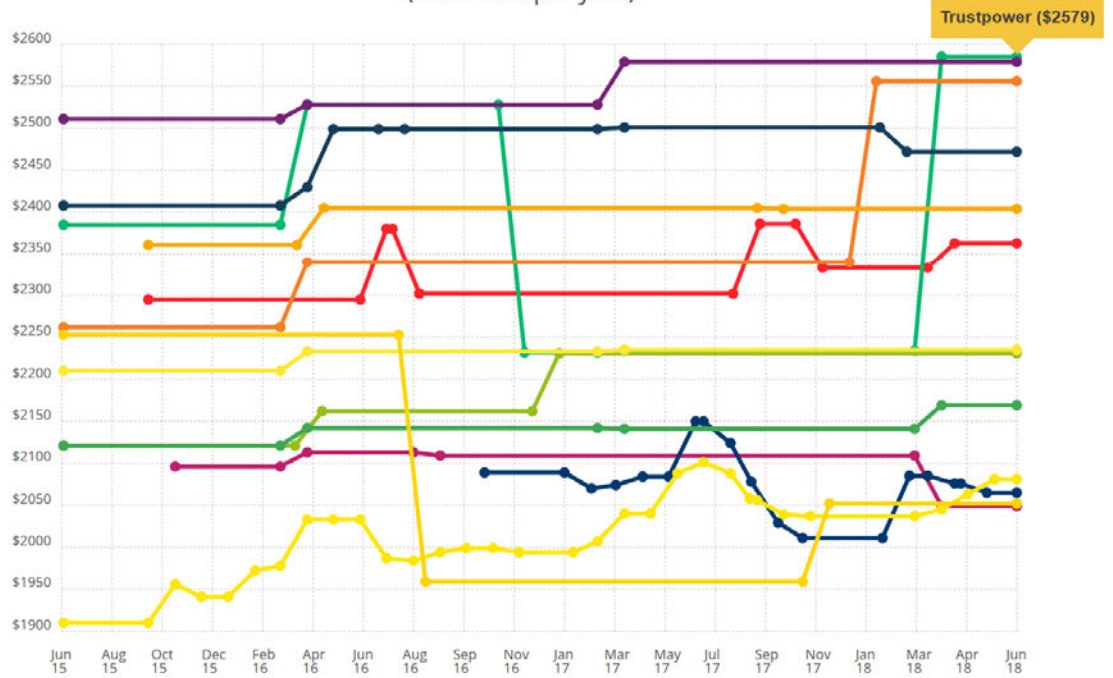
from Consumer Powerswitch website

- Prices are for the most common electricity plan type in the area, for a household of 3-4 people, using electric water-heating, electric cooking, and a mix of electric and other space-heating.
- Prices are for the standard pricing plan of this type from each retailer, except for the lower part of the South Island where low user plans are used.
- Prices include prompt and electronic payment discounts and don't include short term special offers.
- We don't include pricing for retailers that only supply electricity to people who also have gas from the same company.
- Prices displayed are for electricity only.

Tauranga showing all providers (Consumer Powerswitch)

View price trends in

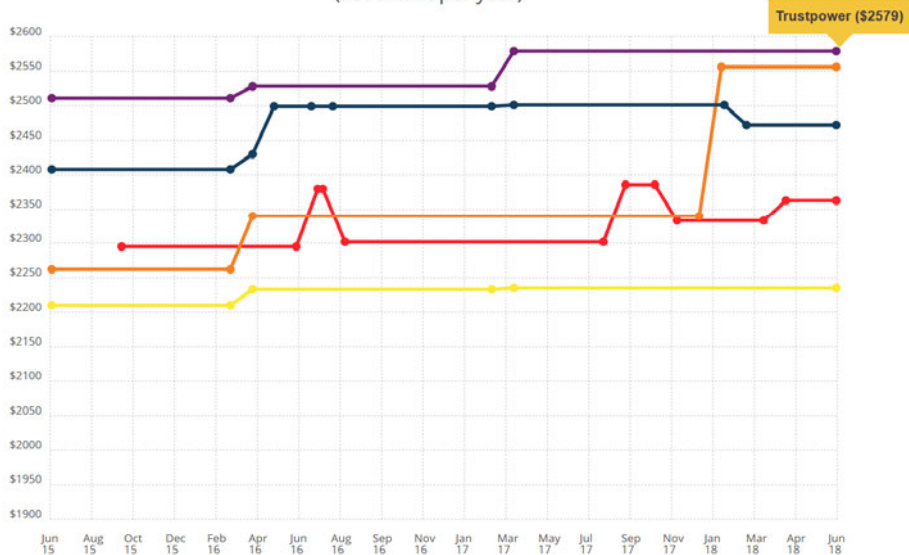
Based on an average annual consumption for a medium sized household (7576 kWh per year)



North Island Main Centres Big5 providers only

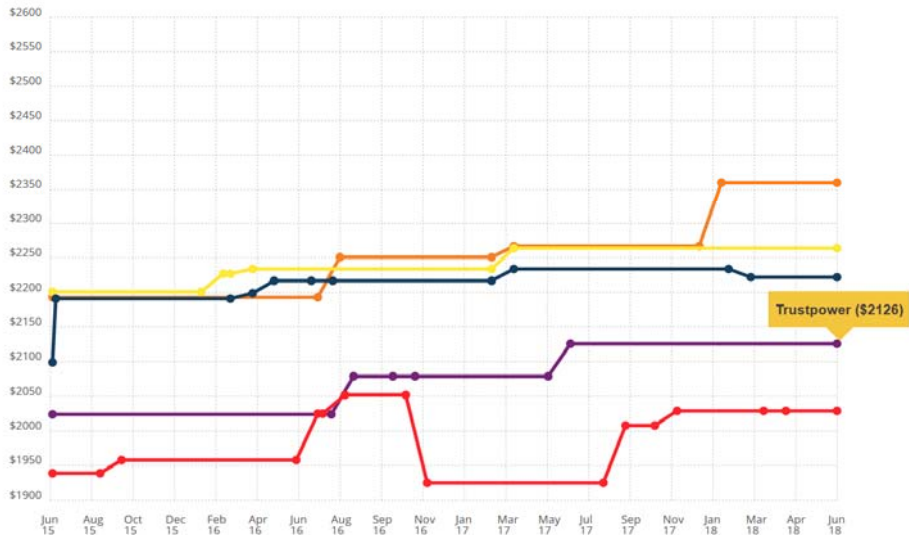
View price trends in

Based on an average annual consumption for a medium sized household
(7576 kWh per year)



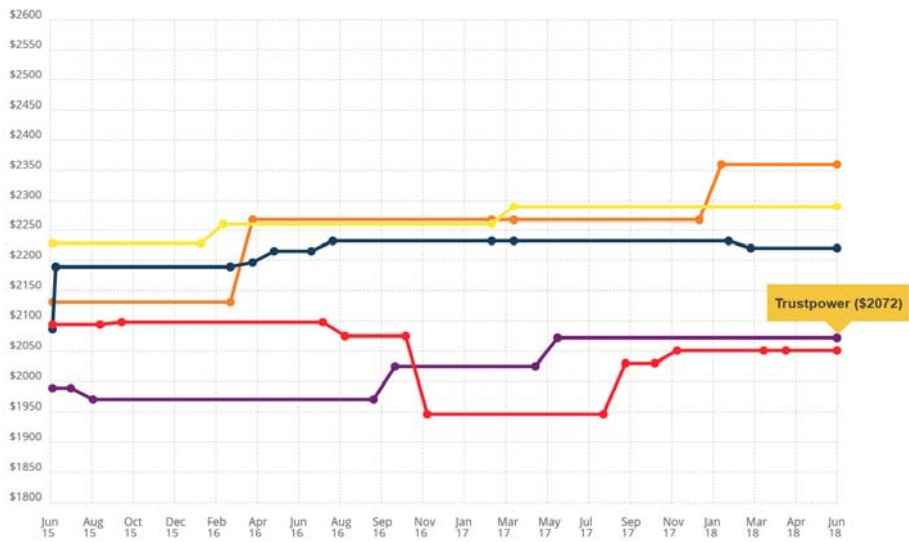
View price trends in

Based on an average annual consumption for a medium sized household
(7576 kWh per year)



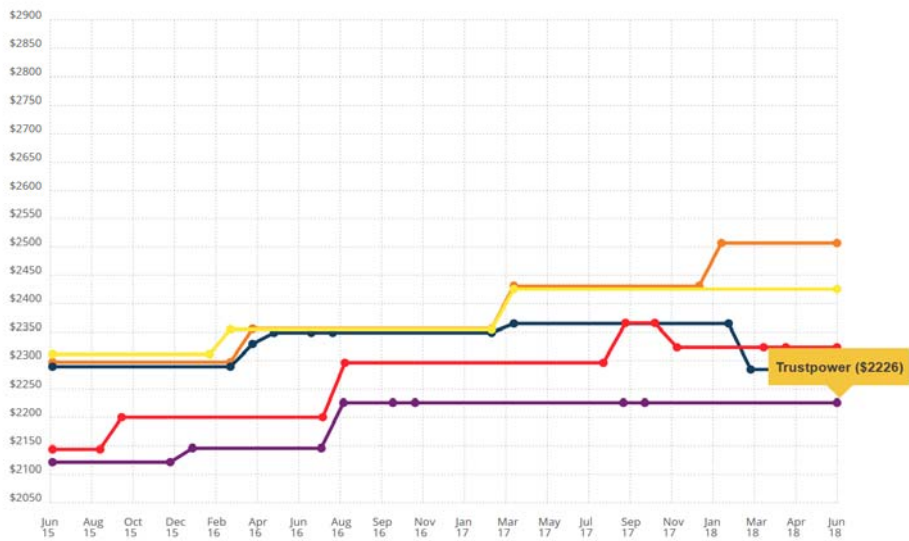
View price trends in **Auckland North/West**

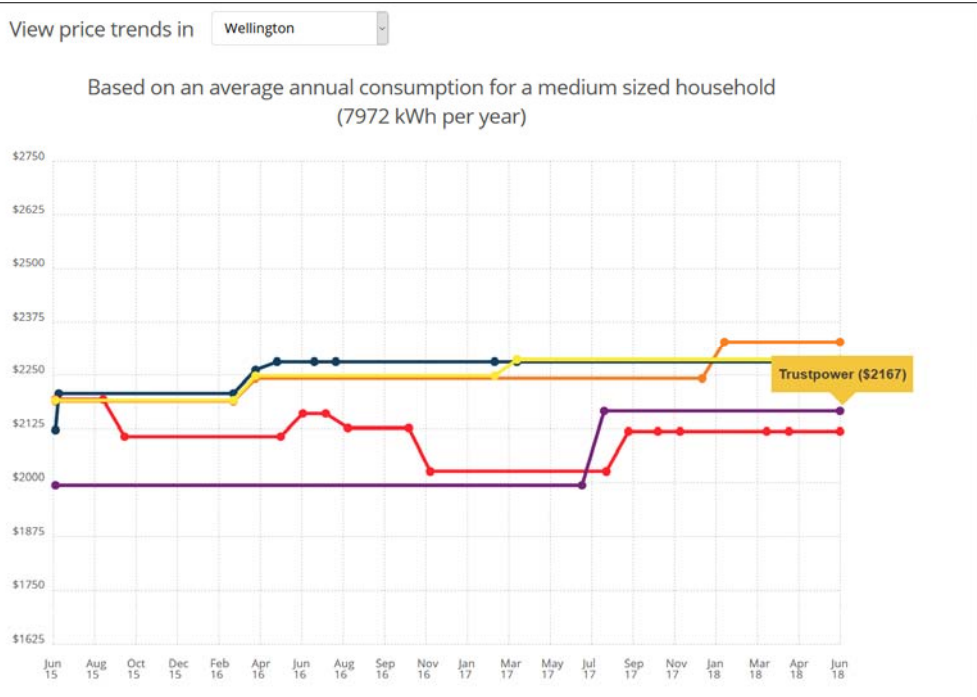
Based on an average annual consumption for a medium sized household
(7576 kWh per year)



View price trends in **Hamilton**

Based on an average annual consumption for a medium sized household
(7972 kWh per year)





6 Observations from Consumer Powerswitch Graphs

(note smaller providers are not shown for clarity...check online for full graphs)

consumer powerswitch 25Jun2018	Auckland	Auck Nth West	Hamilton	Tauranga	Wellington
kWh/year	7576	7576	7972	7576	7972
Trustpower kwh	\$ 2,126	\$ 2,072	\$ 2,226	\$ 2,579	\$ 2,167
Meridian	\$ 2,222	\$ 2,220	\$ 2,284	\$ 2,472	\$ 2,281
Genesis	\$ 2,360	\$ 2,360	\$ 2,507	\$ 2,556	\$ 2,329
Contact	\$ 2,029	\$ 2,051	\$ 2,323	\$ 2,363	\$ 2,119
Mercury	\$ 2,264	\$ 2,290	\$ 2,426	\$ 2,235	\$ 2,286

Cost per kWh calculated from above table

cost per kWhr as at June2018	Auckland	Auck Nth West	Hamilton	Tauranga	Wellington
Trustpower	\$0.2806	\$0.2735	\$0.2792	\$0.3404	\$0.2718
Meridian	\$0.2933	\$0.2930	\$0.2865	\$0.3263	\$0.2861
Genesis	\$0.3115	\$0.3115	\$0.3145	\$0.3374	\$0.2921
Contact	\$0.2678	\$0.2707	\$0.2914	\$0.3119	\$0.2658
Mercury	\$0.2988	\$0.3023	\$0.3043	\$0.2950	\$0.2868

as at Oct 2015

cost per kWhr	Tauranga
Trustpower	\$0.3314
Meridian	\$0.3178
Genesis	\$0.2986
Contact	\$0.3029
Mercury	\$0.2917

- Globug is the most expensive provider in all centres, it is markedly more expensive in all except Tauranga where it is just \$6 per year more than Trustpower (in Hamilton Globug is \$663 more expensive than Trustpower)
- Trustpower is competitive in all the markets apart from Tauranga where it seems to set the high water mark.
- Tauranga prices for 7576 kWh/year range from \$2052 to \$2579
- Tauranga prices from Trustpower and to a lesser extent Meridian and Genesis and Contact appear elevated.
- Genesis Tauranga was competitive in 2015 but appears to have recently increased prices to nearly match Trustpower, other providers have held prices (ignoring Globug)

7 Conclusions

I believe that Trustpower elevates the prices charged to Tauranga consumers

It would appear that Genesis may be increasing Tauranga prices to match the market set by the dominant player Trustpower

I believe that Trustpower is using the TECT cheque as a barrier to entry for other providers. Trustpower would appear to be controlling access to the benefits of TECT.

The Electricity Authority has identified significant potential savings from switching providers in Tauranga but local consumers are remaining loyal to Trustpower, I can not think of any reason other than the TECT cheque.

Trustpower is using bundling of services (internet and gas) to hold customers. There is nothing wrong with this but the TECT cheque which rewards gas and internet bundles is using TECT money for Trustpowers marketing advantage

Electrical heating is a life saver. New Zealand electricity prices are high, Tauranga prices are among the highest. It is not fair to expect someone to fork out for inflated electricity with a promise to get some of your own money back later via the TECT cheque

Trustpower claim that Consumer Powerswitch is wrong because the average Tauranga consumer uses less than the 7576 kWh per year. I believe that consumers who use more than the average amount of electricity have already left Trustpower, they could not afford to stay so Trustpowers argument can be turned back against them.

At the TECT AGM it has been argued that Trustpower is so much better to deal with that the 'small' price difference is worthwhile. Consumer Institute Energy Providers Survey suggests otherwise, 49% satisfaction

"Trustpower's overall satisfaction score matched Genesis and Mercury. However, its customers were more likely to be dissatisfied with value for money: 1 in 5 didn't think they were getting good value. Its residential connections are down about 2000 from April 2017. Last year, the company featured on the Commerce Commission's list of traders that generate the most [Fair Trading Act](#) complaints."

TECT holds in excess of \$700M of assets and returns nearly \$10M to community projects and \$28M to Trustpower customers. The \$28M to Trustpower customers is effectively lost to the customers because of inflated prices legally charged by Trustpower. The Tauranga community need help to address these problems

See tect.org.nz emi.ea.govt.nz powerswitch.org.nz whatsmynumber.org.nz

David Riley

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