March 21, 2019

Electricity Price Review Panel Secretariat
Via email: energymarkets@mbie.gov.nz

Re: Pulse Energy Submission to the EPR Panel

Thank you for the opportunity to comment on the recent EPR preliminary report.

Pulse Energy provides retail services to approximately 75,000 residential and commercial customers across New Zealand. The business has operated for more than 10 years, starting out with a metering utility offer and evolving into the largest independent energy retailer offering gas and electricity. Once current trials are completed, we will also be offering fuel discount cards and broadband to the market.

Pulse Energy is one of many retailers that does not have an in-house generator to buy from and therefore depend upon sound market rules for a level playing field. Market participants such as Pulse have been the major reason why consumers have so much choice and have gained from a constant downward pressure on prices over the past 10 years. As the market found new levels of overall efficiency, retailers like Pulse were there to ensure consumers had an opportunity to win from those gains. We were pleased to see the early indications from the EPR recommendations emphasized the need to the lower the long-term risk to participants like ourselves. We congratulate your leadership and foresight as the next 10 years will require a stronger retail environment as PV technology, EVs and time-of-use pricing become mainstream.

We are also pleased that you recognize that this is an critical moment in time. The forward markets are indicating prices increasing and generator-retailers are publicly declaring price rises. This is the important time to liberate the market further as fair competition will be critical in this shift. Large wholesale price spreads, two-tiered retail pricing, two-tiered wholesale pricing and sparse volume in the forward market needs to be addressed or the gains from competition from last 10 years could be unwound in the coming 12 to 24 months.

Pulse has been actively calling for improved market liquidity, prohibition of win-backs and cessation of certain misleading practices for many years now. In our view, the Electricity Authority has missed several good opportunities to prepare the market for this moment in history.

If there is one lesson from the past, it is that all forms of retail provider, both large and small, are necessary to ensure consumer benefit from an openly competitive market. At Pulse, we can assure you that we are ready to translate any changes the EPR Panel wishes to make into lower prices for consumers; we just need better tools to do so.

With this in mind, we would force-rank the improvements necessary as follows:

Priority # 1: Improve Wholesale Market Liquidity through Mandatory Market Making

The points we wish to emphasize are:

1. There is a long-term imbalance in the market with ~90% retail market share held with 5 generators and ~10% held by 30 small retailers. These are justifiable conditions for mandating of liquidity measures in the futures market;

2. Quotas for selling futures can be easily delivered at no cost and generators have equal opportunity to benefit from liquidity improvements. All market participants can realize a competitive advantage from increased futures volumes in the current hydrological year and all will benefit from transparency of the long-run costs in subsequent years;

3. Separation of generation from retail, whether by mandated reporting separation or structural separation, will ensure the benefits of greater liquidity will reach consumers;

4. A lack of liquidity in the next three years perpetuates the two-tiered wholesale and retail markets as low-liquidity premiums are forced upon retailers by generators. This results in upward pressure on consumer pricing;

5. Limits to self-dealing, where a generator is compelled to acquire volumes that flow through the open market, will increase transparency, narrow spreads and lower absolute prices. Informed markets will contract more volume for longer terms which will benefit generators, retailer and consumers;

6. Dry year risk is real, and we acknowledge that generators face limitations to firmly contract certain capacity. We see this situation as even further justification for mandating market making for further periods into the future.

We therefore fully support mandatory market making for three years into the future, for about 20% of the firm capacity. We believe this can be only governed with full reporting separation of the generation activity from retail competition. We believe this can be costless as generators will receive compensation through the benefits from greater transparency and access to more liquidity in their own portfolios.

Priority #2: Prohibit Win-backs

The points we wish to emphasize are:

1. Large retailers unfairly compete through win-backs as they opportunistically wait for a consumer decision to make an offer;

2. Consumers will be better off if competition is open, transparent and widely available. Win-backs are a strategy to keep competition private, isolated and bespoke for only those who engage with a competitor;

- Win-backs are economically penalizing on those who stimulate competition. Pulse has had over 30,000 customer relationships forced away within the first 10 days after bearing the cost of acquisition. Most of the customer benefit was created in the first sale as the win-back needed only to match the offer;

- Win-backs create a two-tiered retail market as prices will slowly drift up for those not seeking to switch and step down for those that do.

- Instigating retailers will tire of paying for failed acquisitions and competition will reduce. This is particularly true in prices where two-tiered wholesale prices also widen; and

- Win-backs produce a negative consumer climate as trust and confidence is impacted by reversals and cancelations of successful sales.

We therefore fully support prohibiting win-back activity. If retailers are forced to compete more transparently to "win back" a customer, competition will be fairer and consumer confidence will increase over time. Small retailers will also be more sustainable as the cost of reversed sales can translate into stronger competition.

Priority 3: Improved consumer-facing behaviors

The points we wish to emphasize are:

1. We believe prompt payment discounts, in their common form, have had the effect of misleading consumers to believe they are getting a real discount. Market research has shown that most consumers genuinely believe it is a discount of significant magnitude as opposed to a disguised form of a late-payment penalty; and

2. We believe transparency of billing and the explicit separation of lines charges will enable consumers to properly receive price signals from lines companies. Consumers deserve to know if a lines company is lower its cost through a transparent presentation of that cost and time-of-use pricing should be consistently presented so consumers can react to the price signal.

We therefore fully support prohibiting Prompt Payment Discount; or at least, if they are used, they are labelled Late Payment Penalty.

We also fully support transparency of lines charges and their price structures.

Priority 4: Coordinated effort to move to 100% renewable

1. We believe the market will have a greater success in converting to 100% renewable if:

- We convert fixed lines charges to time-of-use pricing;
- We increase price signaling to encourage EVs, solar and batteries through flow through of lines charges and greater transparency;
- Greater liquidity of futures market for at least two to three years in advance; and
- Expansion and strengthening the presence of small retailers willing to bring new innovations and ideas.

Priority 5: Coordinated effort to improve energy poverty

1. We believe the market will have a greater success in reducing costs to consumers:
   - Remove fixed lines charges and reward frugal users;
   - Increase the number of competitors offering prepayment services;
   - Increase price signals and increase opportunities to shift usage patterns;
   - Strengthen competition and continue to see small retailers thrive; and
   - Create conditions for more renewable energy as long run marginal cost of renewables continue to fall.

We thank the Panel for the options presented for us and look forward to the final recommendations. We are more than happy to elaborate on any of our positions stated herein.

From:
Pulse Energy

At a Glance	Pulse Energy Highlights	Other Key Points
A. Strengthening the Consumer Voice	• We support a Consumer Advisory Council - A1	• A2 - Regulators' language and issues are generally too complex for most consumers. • A2 - Advisory Council to advise on regulatory priorities for long term benefit of consumers
B. Reducing Energy Hardship	• Pulse agrees with all the recommendations B1 to B8	• Energy hardship is a cross-energy industry topic for government. • Budget choices are made between power, gas, petrol and public transport options • Govt. may find one of these energy areas easier to provide social support to than another.
C. Increasing Retail Competition	• Pulse recommends C5 and C6	• C4 is a cost barrier to managing better customer information • C1 and C6 can be implemented through one agency as recommended
D. Reinforcing Wholesale Market Competition	• Pulse strongly supports D1 to D4. • Pulse notes D2 is the most important recommendation to ensure sustained retail competition and a level playing field. • Separate reporting is nearly costless and critical to an openly competitive retail environment.	• Panel to make clear to govt. that that D1 to D4 are lesser alternatives to D5. • Panel to recommend specific outcomes for D1 to D4 that simulate vertical separation including specific rules on: o Deterrence to cross-subsidies o Transparency of internal transfer pricing o Board level reporting of portfolio Stress testing and governance/compliance • Establish KPI's and Key Milestones for those outcomes with D5 the default outcome if KPI's not met by industry.

E. Improving the Regulatory System	• Pulse supports recommendations E1 and E2 for government policy statements for transmission and network pricing. • Pulse support E5 – Removal of LU/SU regime in favour of variable time-of-use pricing	• Panel to further consider recommendations G1 to G4 – Preparing for a low carbon Future in the context of E1 and E2 policy statements. • Growth of Solar PV, Battery storage and EV's has been forecast by Transpower as being fundamental to our achieving a Net Zero Economy by 2050. • We believe fixed charges by lines companies should be replaced with time-of-use rates.
F. Improving Transmission and Distribution	• F6 - Pulse recommends combining electricity and gas regulation functions • F2 – Pulse supports managing network and distribution related regulations through two agencies with clear objectives to regulate. The ComCom should deal with monopoly regulated services and EA with energy market regulations.	• F6 - The gas wholesale market is lagging electricity market progress and this is starting to impact on electricity consumers through higher prices and wholesale price volatility. • F6 - Many electricity customers' deals now bundled with gas. Combining customer side regulations and compliance regimes would streamline servicing processes and costs. • F2 – clearer delineation between monopoly and competitive market services will ensure a level playing field for smaller Independent Retailers and Generators, including Micro-DG home owners.
Preparing for a Low-Carbon Future	• G2 – Pulse notes that recent plant closures have impacted that resilience and security of supply. Specific decisions to increase distributed firm capacity are needed	• G2 – Climate change policies can reduce system firm supply – by discouraging removing peaking capacity. o G2 and G3 – Liquidity of peaking futures will increase transparency and encourage investment.

		o Time-of-use pricing will maximise solar and battery market penetration and simultaneously discourage peak demand and capital spend by distribution companies.