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authoritative analysis

Indicators of Retail Market Activity

Comments on the Electricity Commission's Consultation Paper

Report to MEUG

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Preface

NZIER is a specialist consulting firm that uses applied economic research and analysis to provide a wide range of strategic advice to clients in the public and private sectors, throughout New Zealand and Australia, and further afield.

NZIER is also known for its long-established *Quarterly Survey of Business Opinion* and *Quarterly Predictions*.

NZIER was established in 1958.

Authorship

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1. Introduction

One of the requirements placed on the Electricity Commission (the Commission) by the Government Policy Statement (GPS) on electricity governance is to 'give high priority to ensuring relevant information is made available to market participants and to the public at large on matters relating to the electricity sector.'

The Commission has interpreted this obligation as requiring it to ensure, inter alia, that information is available on electricity retail market activity and competition. For this purpose the Commission has developed a set of indicators and published a Consultation Paper to seek feedback on this proposed set of indicators, or dashboard. The Commission proposes to compile the indicators and publish them and a commentary on them periodically.

MEUG has asked NZIER for its advice on the Commission's proposed set of indicators. This paper is the response to that request. For ease of exposition the response is structured in the form of 'answers' to the 32 questions contained in the Commission's Consultation Paper.

2. Issues and Questions

Section	Issues/Questions and Responses
3	*Q1. Are the types or categories of indicators in other electricity jurisdictions applicable or useful to the NZ retail electricity market? Please specify.* Yes. The indicators in other jurisdictions considered by the Commission are classified by it as relating to: • Customer satisfaction • Switching behaviour • Information and awareness • Retailer numbers and market share • Diversity and differentiation of offers • Barriers to entry An alternative classification of these indicators is to identify whether each indicator relates to market structure (S), market

	conduct (C) or market performance (P). S-C-P analysis is a very common approach adopted by competition regulatory agencies when considering the competitiveness of markets. For comparability and ease of comprehension reasons it would have been preferable if the Commission had adopted this classification schema. There are no categories of indicator commonly found in S-C-P analysis that are missing from the list of indicators identified by the Commission from its international sources.
4	*Q2. Are the types or categories of indicators used in other industries applicable or useful to the NZ retail electricity market? Please give reasons for your views.* Yes. The indicators used in other industries are generally developed using the S-C-P approach which is employed by many competition regulators. This approach is readily usable across a wide range of sectors and indicators developed using it for one sector often has application in other sectors. We are not surprised the Commission referred to competitive activity indicators from the financial and banking sector. We are surprised, however, that the Commission did not locate in the course of its research an S-C-P type analysis of the New Zealand banking sector NZIER undertook for the Reserve Bank in late 2004.[1] This contains some useful and relatively easily gathered indicators in a New Zealand context for a sector not dissimilar to electricity retailing.
	Q3. Please specify any other industries and/or indicators that are potentially relevant to the NZ retail electricity market, giving reasons why you consider the industries or indicators are relevant. Telecommunications and gas supply because of obvious parallels in terms of history of provision and high overlap of consumers with electricity retailing.
5	*Q4. Are the evaluation criteria suggested above appropriate to meet the Commission's objective to ensure that the Commission, market participants, and the general public are provided with relevant information regarding activity in the NZ retail electricity*

[1] http://www.rbnz.govt.nz/finstab/banking/supervision/OIApapers.pdf

market? Please give reasons for your views.

The evaluation criteria identified by the Commission are:

- Measurable: quantitative as opposed to qualitative information is objective and provides a basis for ongoing comparison if required.
- Meaningful: indicators should be meaningful to market participants and the public at large.
- Simple: indicators should be easy to understand to ensure they are useful.
- Unambiguous: indicators should be clearly defined to ensure that they are not subject to misinterpretation.
- Relevant: indicators should be reflective of retail market activity levels and should relate back to the GPS.
- Accurate: reported indicators must be accurate to ensure that they are trusted and have integrity.
- Customer focused: indicators should show whether customers are well informed, know where to get the best deal, and are prepared to switch and change.

Other parties have been interested in developing dashboard indicators and two other schemas for evaluation we have seen are:

- Relevance, timeliness, measurability and accessibility, robustness and comparability.
- Relevance, credibility, applicability and practicality.

Consideration of these alternative criteria suggests the Commission's set might be usefully supplemented by the addition of criteria related to "timeliness", "practicality" and "accessibility"; although it could also be argued these are implicitly covered by other criteria contained in the Commission's schema. An indicator that is not available until well after it would have been useful is of limited value as is one that is theoretically sound but impracticable to gather or observe. An indicator the meaning of which or how to interpret is not accessible to users is also likely to be of limited value.

Q5. What is the relative importance of each criterion? Please state in order from most to least important. Please give reasons for your views.

No preferences for order. They are all relevant and when trade-offs between them have to be made the focus should be on ensuring that the overall purpose for developing the indicators is

	most likely to be achieved.
6	*Q6. The indicators discussed in this document apply only to electricity. Other products such as gas have not been considered except where product bundling could be interpreted as evidence of an innovative offer. Do you agree with this approach? Please give reasons for your views.* We agree that other products, such as gas, should not be directly considered because to do so will dilute the focus of the dashboard and complexity of both compiling it and understanding it. 'Dashboards' with too many dials require considerable training to follow.
	Q7. Should the application of the indicators discussed in this document be restricted to customers who are supplied by an electricity retailer? Please give reasons for your views. Since the indicators are about retail market activity it seems natural to assume that the coverage of the indicators should be restricted to those supplied by a retailer. However, some users of electricity realistically have the option to use a retailer or not. The extent they chose to do so is in itself an indicator of retail market activity. Thus, it may be appropriate that some of the indicators cover parties not supplied by a retailer. For example, in a concentration ratio measure of market structure it would seem appropriate to measure the concentration of retailing against overall electricity consumption and not just against electricity purchases through a retailer.
	Q8. Should the scope of the indicators be restricted to the mass market? If so, how would the mass market be identified, (for example, metering configuration, load, etc)? If not, why not? Please give reasons for your views. No. The extent or lack of competition among alternative suppliers is an important issue for major users, and is arguably more important for them than the mass market given the importance of electricity in the basket of inputs they purchase.
	Q9. Should the indicators be applied to defined regions within the NZ retail electricity market? If so, how should regions be defined? Please give reasons for your views. Some of the indicators may be suitable for publication at a regional or distribution network level, but this will depend in part

	on the indicator and the costs of regional compilation.
	Q10. If distribution network areas are used to define regional segments, would the regions be defined by the traditional distribution network areas as at 1999? Yes. It seems unlikely that the time and expense of developing alternative definitions of distribution network areas would be justified.
	Q11. Should the indicators be applied to different customer subsets within the NZ retail electricity market? If so, how should customer subsets be defined? Please give reasons for your views. Again, some of the indicators may be suitable for publication at the customer-type level, but it will depend in part on the indicator and the costs of compiling the data on this basis.
	Q12. If annual consumption is to be used to categorise customers, should this be measured at the ICP or customer level? Please give reasons for your views. If the ICP's are not used, what can be used that is unambiguous and practical? Using a single firm or legal entity as the basis is still complicated by the different ways businesses utilise subsidiaries and the consumption of individual firms or legal entities will in some cases hard to identify. On balance we see no practicably alternative to ICP's as the basis for measuring volume.
	Q13. What indicators are relevant to each of the customer subsets that you have defined? Please give reasons for your views. See responses below to similar questions relating to each category of indicator.
7	*Q14. Should the [Category 1] indicators be measured by customer category and/or region? Please give reasons for your views.* The indicators suggested for Category 1: Market Structure are: • Number of retailers in the market • Number of new entrant retailers in the last 12 months • Market share of each retailer – ICP's • Market share of each retailer – Load

	• Incumbent retailer market share – ICP's • Incumbent retailer market share – Load It would be useful to measure these on a regional basis by distribution system. This would seem necessary for the indicators relating to incumbent retailer market share or else the notion of which retailer is "incumbent" will be difficult to define.
	Q15. Is incumbent market share (ICPs or load) by traditional (as at 1999) distribution network or grid exit point areas a relevant measure? Incumbent retailers are currently identified through the reconciliation process as the party that is attributed with the residual usage profile at the grid exit point. If the reconciliation process were to change and remove the concept of an incumbent retailer, what would be the definition of an incumbent retailer? Please give reasons for your views. Incumbent market share is currently a relevant measure. By the time the reconciliation process is changed so that the concept of an incumbent retailer is no longer relevant then it is very likely the measure would have ceased to be significant also.
	Q16. Should the indicators [for Category 2] apply only to the mass market (as switching rates might not be a relevant measure with regard to large commercial and industrial customers)? Please give reasons for your views. The indicators suggested for Category 2: Switching Behaviour are: • Switching rates: the number of completed ICP switches during the reporting period as a percentage of the number of active ICP's. • Time to switch: the average number of days taken to complete the switch of an ICP. No. Switching, and the opportunity to switch, are also relevant for larger volume consumers.
	Q17. Should the indicators [for Category 2] be measured by customer category and/or region? Please give reasons for your views. Regional switching data are likely to be useful because the outcomes could vary materially by region and it would be useful to know if this were the case. If customer category data can be

	identified with accuracy and relatively cheaply then switching classified on this basis may also be useful.
	Q18. Currently, the registry only identifies switches when the retailer associated with an ICP changes. What is not measured is the instance of a change in tenancy where the new occupant (who may have been with Retailer X at their old property) chooses to stay with the current retailer (Retailer Y) at their new property. This is an instance of customer choice that is not reflected within current switching measures. Could a separate indicator be defined to report on changes in tenancy where the new occupant elects to remain with the existing retailer at the new property? Please give reasons for your views. We doubt the effort necessary to introduce and monitor an indicator adjusted to capture switching of this type is likely to be exceeded by the benefits from having this additional data.
	Q19. Will the indicators [for Category 2] provide adequate information regarding switching behaviour in the NZ retail electricity market? Please give reasons for your views. Questions in the proposed customer survey of whether customers perceive they know enough about alternative offers to determine whether they should switch and perceive switching to be easy would appear desirable additional questions.
	Q20. Should the indicators [for Category 3] apply only to the mass market (as the above indicators might not be a relevant measure with regard to large commercial and industrial customers)? Please give reasons for your views. The indicators for Category 3: Competitive Activity are: • Acquisition or retention offers: the proportion of customers who have received an acquisition or retention offer from a retailer during the reporting period. • Diversity of offers. • Product differentiation: the range of electricity commodity prices for standing offers. • Options: the number of options available to customers with regard to the purchase of electricity. These seem relevant questions for major users as well as for the mass market. An indicator of the types of new and replacement meters being installed that differentiates the time of use meters from the non-time of use meters and the sophistication of the time

	of use technology may also be a useful indicator of the degree of competition activity.
	Q21. Will the indicators [for Category 3] provide adequate information regarding customer choice in the NZ retail electricity market? Please give reasons for your views. One possible gap is not including data on advertising spend by electricity retailers by media. These data will give a reasonably easily measured and quantified indicator of retailing competitive activity.
	Q22. Should the indicators [for Category 4] be measured by customer category and/or region? Please give reasons for your views. The indicator for Category 4: Customer Satisfaction is: • Customer satisfaction: the proportion of customers satisfied with the service they are receiving from their retailer. Regional data would appear desirable because the outcomes could vary materially by region and it would be useful to know if this were the case. If customer category data can be identified with accuracy and relatively cheaply then customer satisfaction data classified on this basis may also be useful.
	Q23. Will the indicator [for Category 4] provide adequate information regarding customer satisfaction in the NZ retail electricity market? Please give reasons for your views. Inclusion of some follow up questions about the satisfaction or otherwise of customers of various aspects of service – call centre, price, billing statements, payment and pre-payment options, contract options, etc - would appear desirable. Moreover, the data should be published broken down according to the retailer used by the respondent to provide a league table of retailers in terms of satisfaction.
	Q24. Should the indicators [for Category 5] apply only to the mass market (as market awareness might not be a relevant measure with regard to large commercial and industrial customers)? Please give reasons for your views. The indicators for Category 5: Information and Awareness are: • Market awareness: the proportion of customers who are aware that they have a choice with regard to selecting an electricity

	retailer. • Choosing a retailer: the proportion of customers who are satisfied with the level of information on price, services, and terms to support an informed choice. • Independent advice: evidence of independent tools, resources, parties to assist customers with making a choice, e.g. price comparisons, etc. The indicators will have relevance to some major users.
	Q25. Would it be useful to define separate 'information and awareness' indicators for small commercial customers? If so, what would these be? Please give reasons for your views. Not separate questions but a separate survey may be needed if small commercial entities are to be covered as a general household focused survey may not be the right vehicle to gather this information.
	Q26. Will the indicators [for Category 5] provide adequate information regarding information and awareness in the NZ retail electricity market? Please give reasons for your views. There are no obvious gaps.
	Q27. Is it useful to have separate indicators for large commercial and industrial customers? Please give reasons for your views. The proposed indicators for Category 6: Large Commercial and Industrial Customers are: • Information: the proportion of customers who are satisfied with the quality and range of information they received from retailers during the offer process. • Customer satisfaction: The proportion of customers satisfied with the service they are receiving from their retailer. • Value-add services: evidence of services for commercial and industrial customers relating to bill consolidation, bill presentation and payment options, etc. It seems useful to separately pursue these questions for large commercial and industrial customers if only because the method of collecting the information is likely to be different than that used to gather information on the mass market.
8	*Q28. Would an annual customer survey for the relevant indicators be an appropriate method of information gathering? Please give reasons for your views.*

	Since much of the value of the information will come from studying trends over time, annual surveys at the beginning of the data gathering process would seem to be too infrequent to allow a good idea of trends and hence whether there is any need for remedial action to be obtained in a timely manner. The cost of more frequent surveys may be prohibitive, although much of the mass market customer survey data might be able to be collected reasonably frequently at relatively low cost by adding questions to one of the omnibus surveys regularly conducted by professional polling organisations. Another way to potentially lower costs is to utilise survey information that might be collected by other organisations. For instance the performance of call centres is regularly surveyed by organisations and the data from these surveys may be able to be used by the Commission.
	Q29. Should specialist third party organisations be commissioned to carry out customer surveys? Please give reasons for your views. Yes. To tap their expertise in question design, sampling design and to take advantage of the economies of scale they should be able to capture.
	Q30. Are there any aspects of the customer survey process that could be carried out by market participants? If so, please identify those aspects and give reasons for your views. Unsure.
	Q31. Would an annual survey of retailers for the relevant indicators be an appropriate method of information gathering? Please give reasons for your views. Annual or more frequent surveys of retailers could be appropriate for some data.
	Q32. Is it reasonable to produce and report on the proposed indicators on an annual basis with quarterly refreshers of easily obtainable indicators? Please give reasons for your views. Annual reports with quarterly refreshers would appear appropriate provided much of the mass market customers focused data are also gathered and reported quarterly and not just the “easily obtained indicators.”