



Agility CIS Limited Submission on NZ Market Design

Agility CIS Limited provides retail energy billing systems in New Zealand and Australia. We work with retailers on both sides of the Tasman and can make a direct comparison of the New Zealand and Australian retail environments.

One of the key points of the market restructure was to foster competition and reduce prices. The current market structure seems to have created an environment where the incumbents have little competition from any new entrants and prices (and Generator/Retailer margins) are rising, especially for the residential market.

Your report notes that there are very few new retailers. There is also a perception that the new retailers that have started offering electricity recently, are doing so more to protect their gas customer base and provide their customers with a dual fuel bill service, rather than it being a serious effort to compete for electricity-only accounts.

Price rises seem to be fairly continuous. Are the price rises related to increased costs for the retailers being passed on, or are the increases simply going onto the retailers/generators bottom line? The two listed New Zealand "Gentailers", Trustpower and Contact have had their share price increase by more than 60% in the last three years – which seems a healthy return – they may be well run companies but it seems they are increasing their margins somewhere in there. It is not such a wild guess to assume the Government owned Gentailers are also doing rather well. The existing competition in NZ is probably best described as "cosy".

Agility is regularly talking to people who are considering entering the market as new retailers. In the last 3 years, a number of new retailers have commenced trading within the Australian market (principally in Victoria but also South Australia, New South Wales and now Queensland). None have commenced in New Zealand, though there are quite a number who have seriously considered doing so. In our experience, they either give up and do nothing or start something in Australia due to real or perceived barriers to entry in NZ.

We are not trading in the market per nor do we want to. The following is what is reported to us by prospective retailers.

The main issues preventing new retailers in NZ are:

1. Lack of liquidity in the wholesale market – the perception is that it is pretty much a closed shop, controlled by the incumbent Gentailers. Even if the Gentailers may offer short or medium term hedge contracts, the feeling is (rightly or wrongly) that if after a few years you were actually making some progress and providing them with real competition then your ability to get a



hedge contract would be severely compromised and an “event” – similar to what happened to On energy and Fresh start in 02 might occur and you would end up selling your customers in a fire sale. This is the largest single issue, there are too few generators, most are also retailing and there no confidence that a new participant would compete on an equal footing with them.

2. Meter reading – having to perform your own meter reading makes it very hard for a startup, they have to attempt to acquire customers that are geographically close together or the meter reading would be uneconomic. Having multiple meter readers walking the same street is inefficient and in a rural situation untenable. The Australian model where the distributor performs the reading function by default makes a lot more sense.
3. Meter Ownership – some retailers actively prevent switching by either forcing meters to be replaced when switching occurs or charging untenable rents.
4. Data Administration – is a burden. Once again the Australian system where the function is performed centrally is more new entrant friendly. We are currently considering options for solutions to simplify this process to assist and encourage new entrants, but ideally we would rather not have to do this.

The deregulation currently seems to be only half done and is not achieving one of its primary goals. The solution? Split generators from retailers. Splitting may seem a drastic step, which other countries have not taken, but for any given area of NZ there are very few viable generation options (No doubt related to our low population density) and those few players have an overwhelming ability to control/game the market in the area. Currently, unless a new entrant has an association with a generator, the risks of doing business are too high and there will never be any realistic competition happening in NZ.

Meter ownership/Meter Reading/Data Administration could be more closely modeled on the Australian regime to create a more new entrant friendly environment.