

Competition policies and practices in New Zealand

Asia-Pacific Energy Regulators Forum
Auckland, NZ

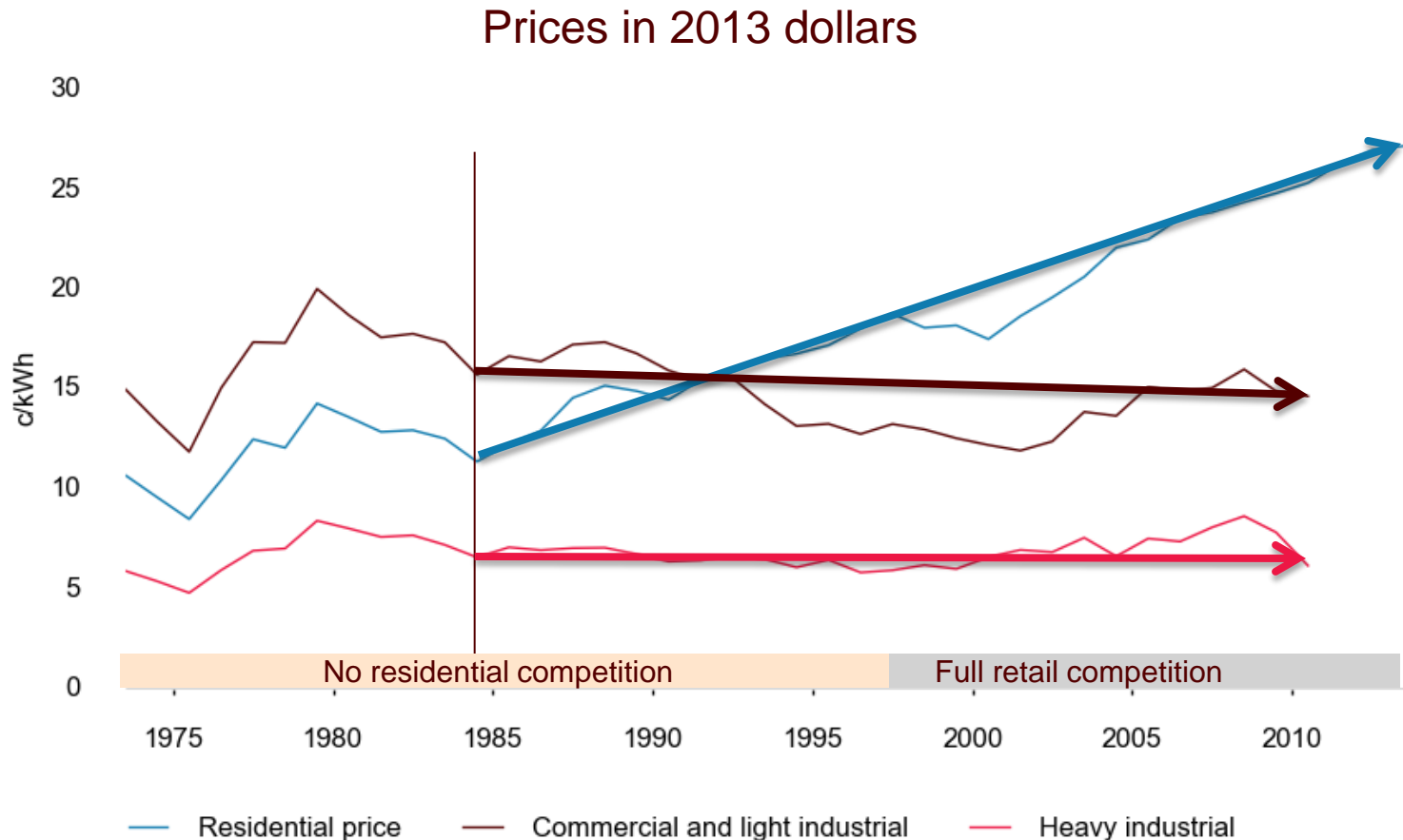
27 & 28 August 2014

Overview

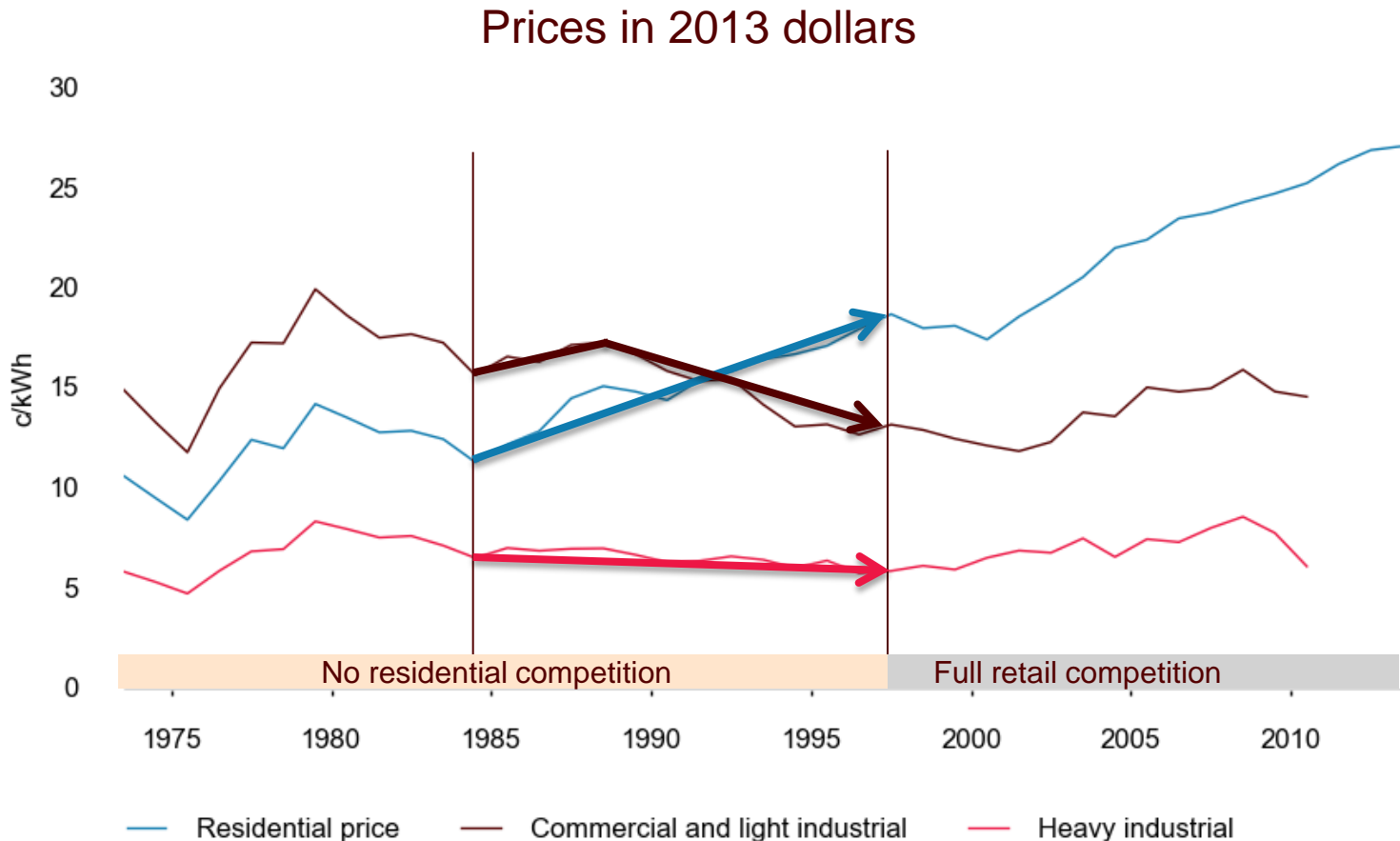
- ❑ Why competition is a big issue in NZ
- ❑ Initiatives to enhance retail market competition in NZ
- ❑ Key metrics on retail market competition

Why competition is a big issue in NZ

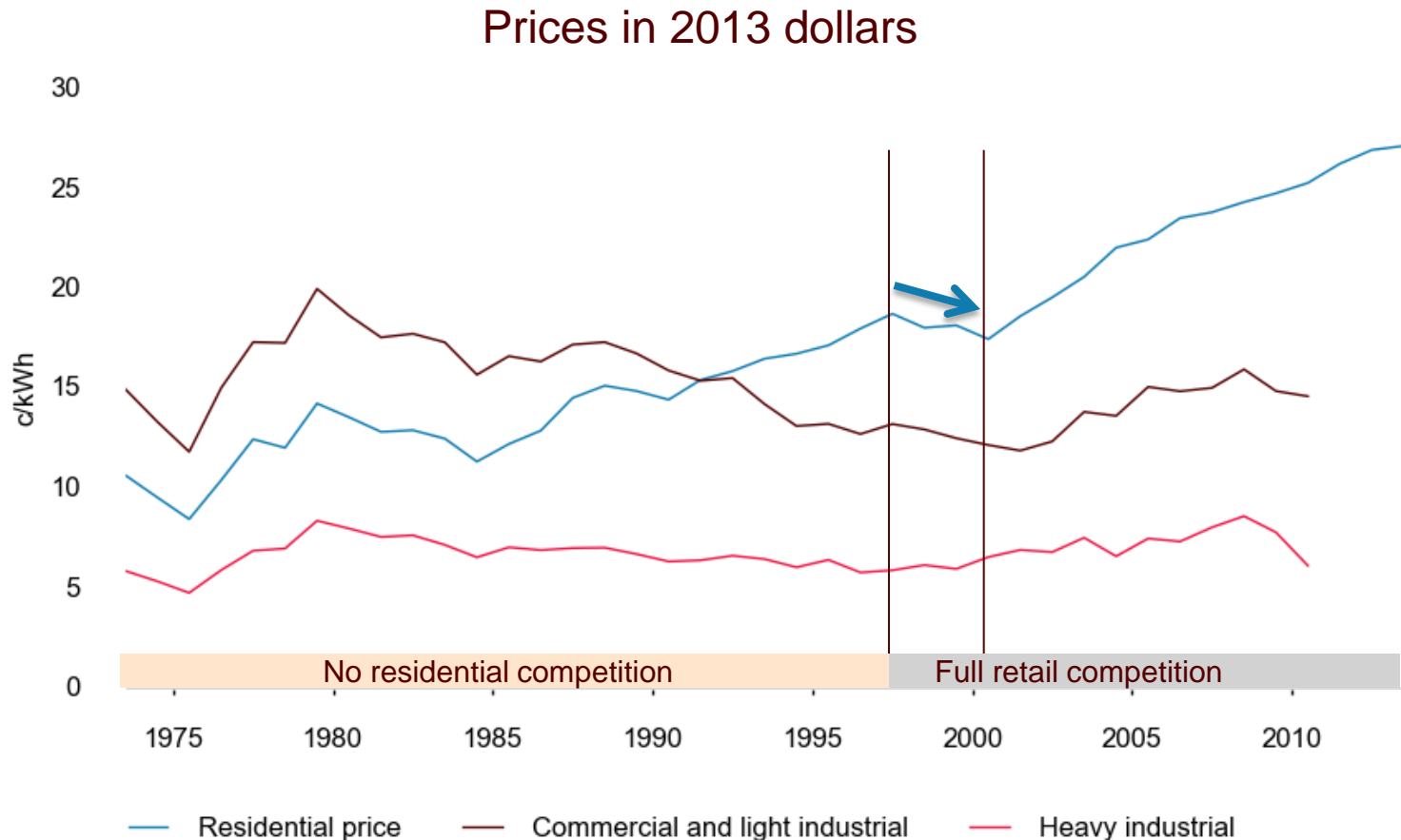
NZ has had on-going rises in residential prices for 30 years, creating widespread cynicism about the market



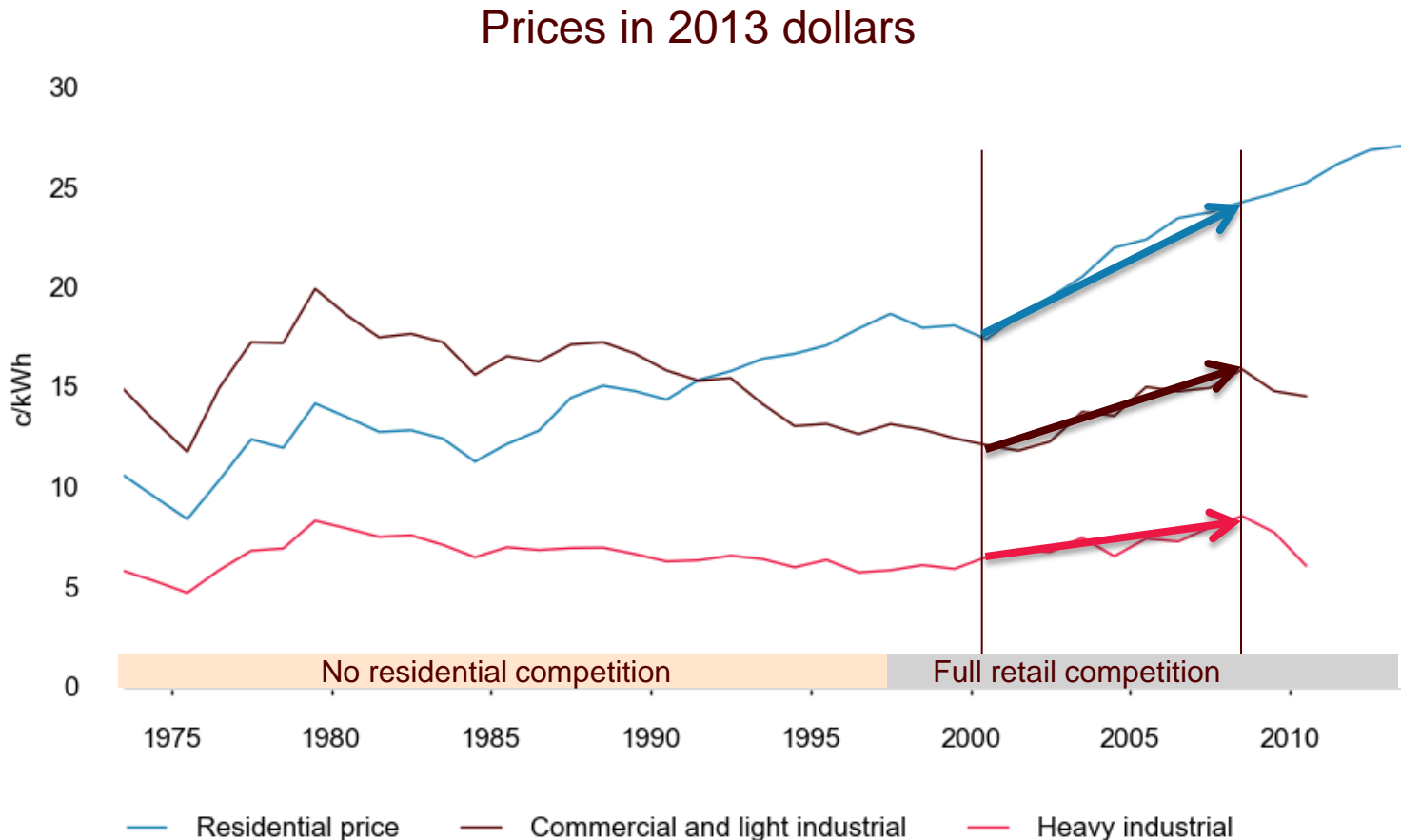
1985-98: residential prices rose and C&I prices fell



Residential prices fell when competition first introduced

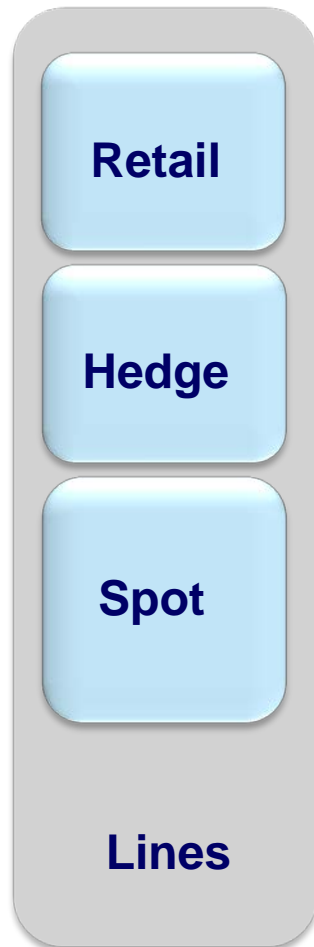


But over 2001-08 all prices increased, with residential prices rising even faster than C&I prices – why?



**Key supply-side initiatives
to enhance retail market competition**

Initiatives to reduce barriers to retailer entry/expansion



General Approach

Ensure 'level playing field' for retailers

Easier risk-management for retailers

Reduce price and cash-flow risks

Reduce geographic barriers & expansion costs for retailers

The Key Initiatives

Retailer access to consumer data

Neutral switching process

Low Fixed Charge (LFC) regulations

Physical and virtual asset swaps

Encourage active hedge market

Introduce FTR market

Stabilise spot prudential requirements

Introduce pivotal pricing rules

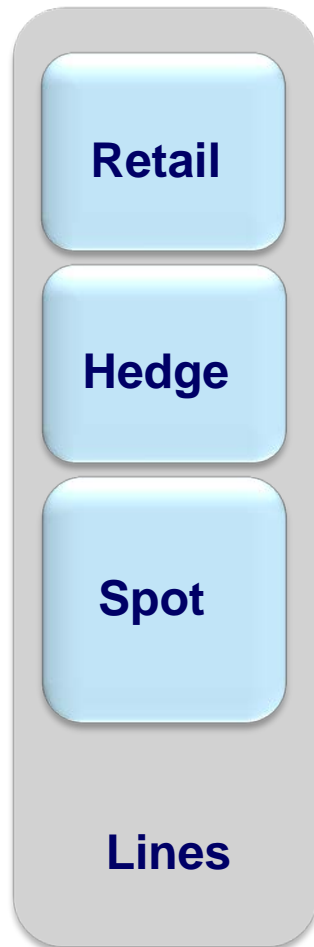
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Limit distributor prudential requirements

Greater standardisation of UoSAs

Standardisation of information transfers

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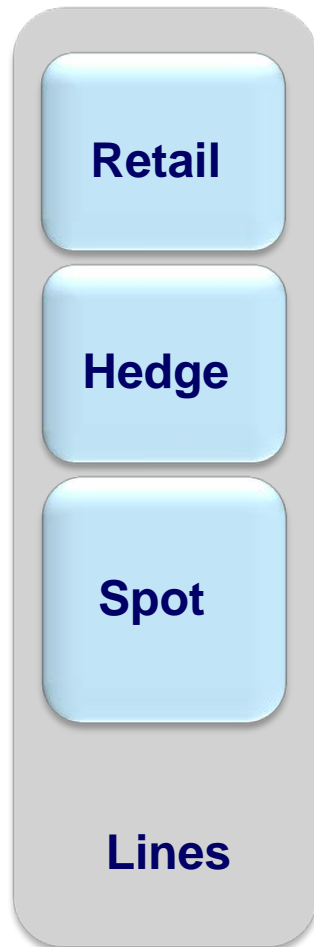
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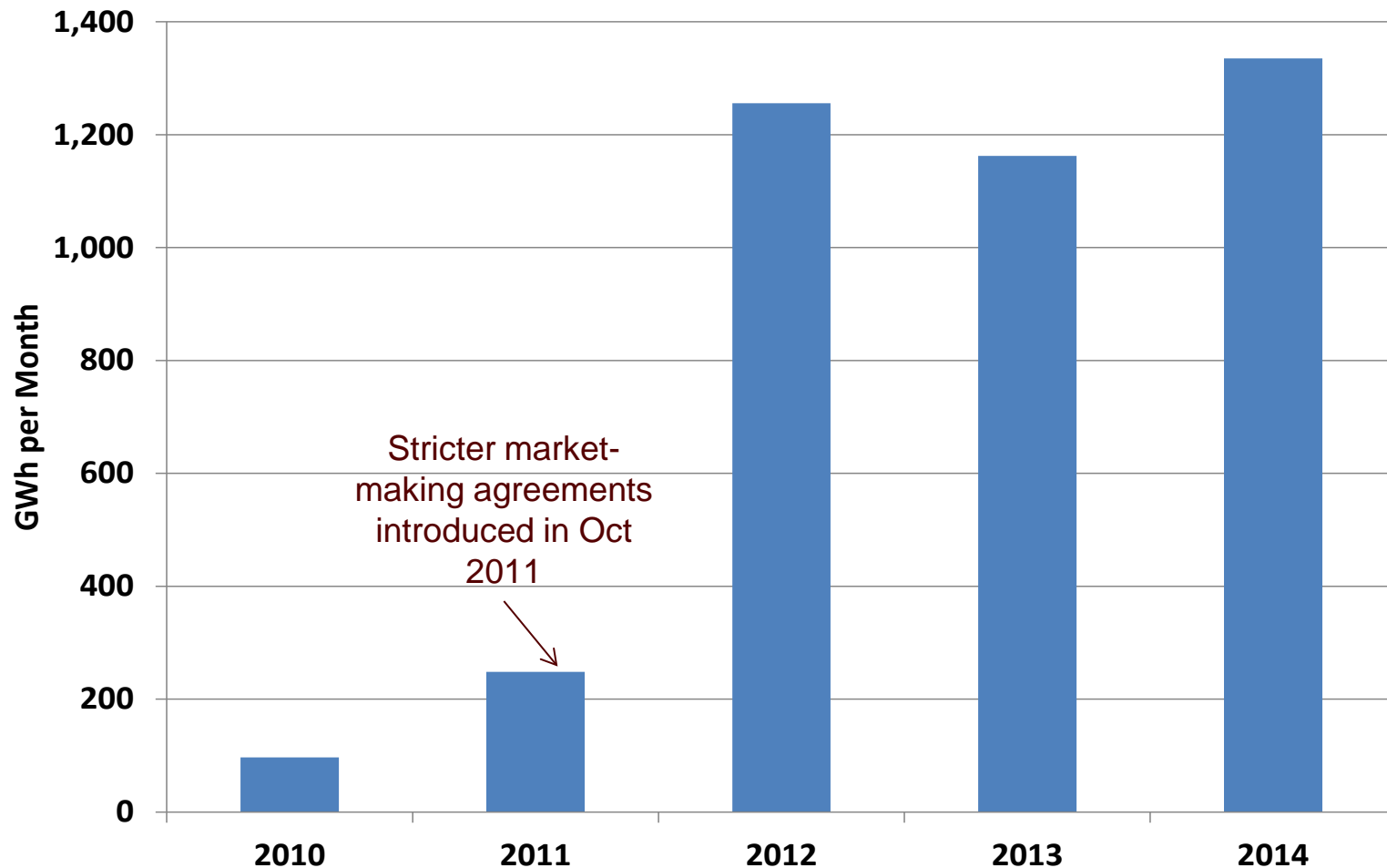
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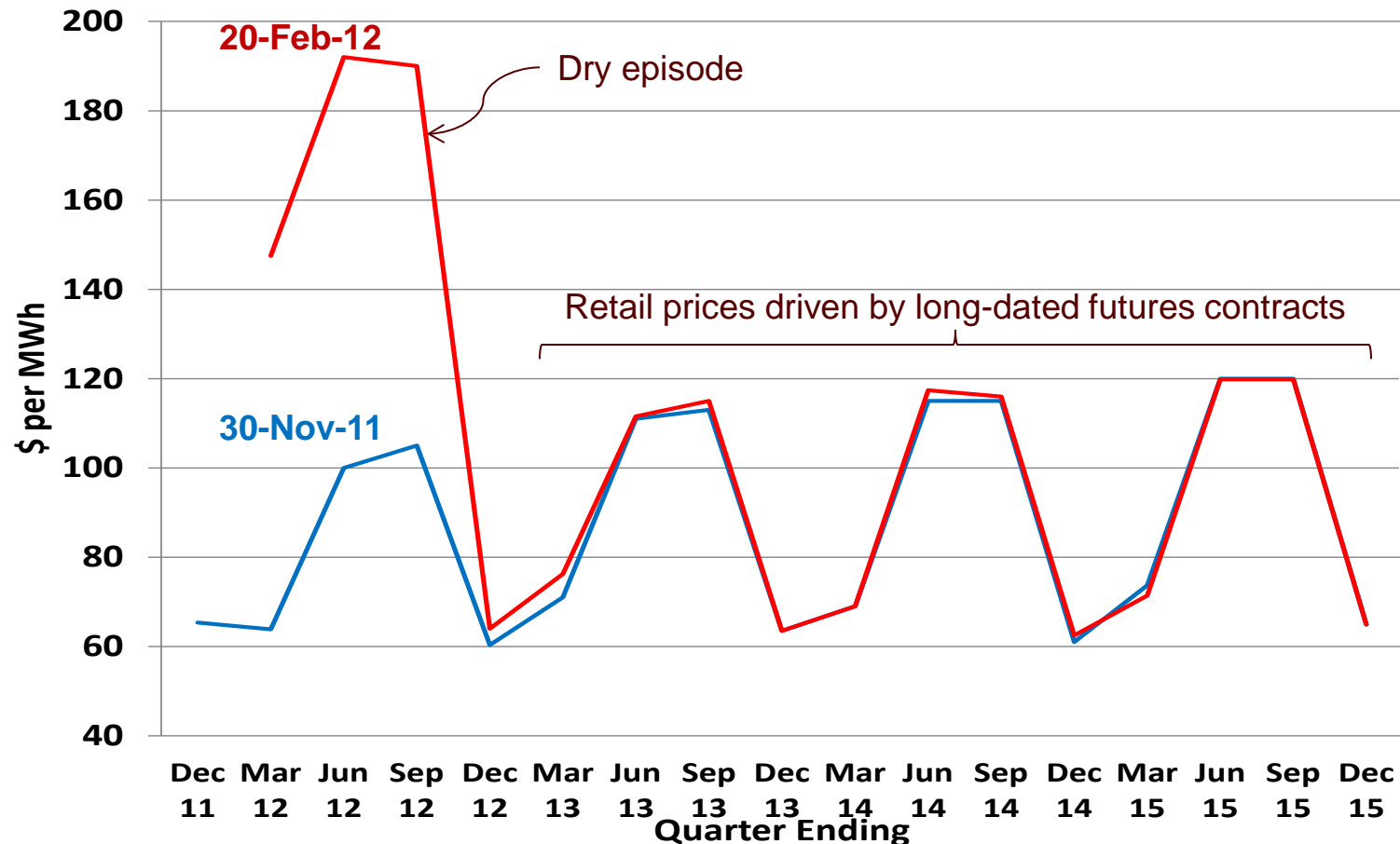
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Futures trading activity 500% larger than in 2011



Transparent and robust forward price curve greatly assists retailers

Futures prices at Benmore at two different dates



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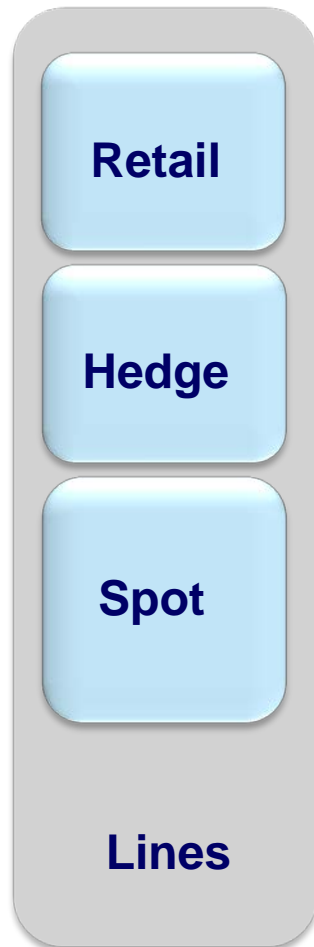
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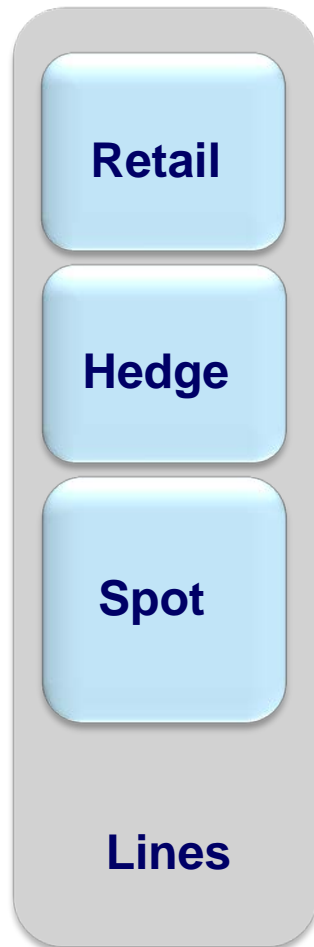
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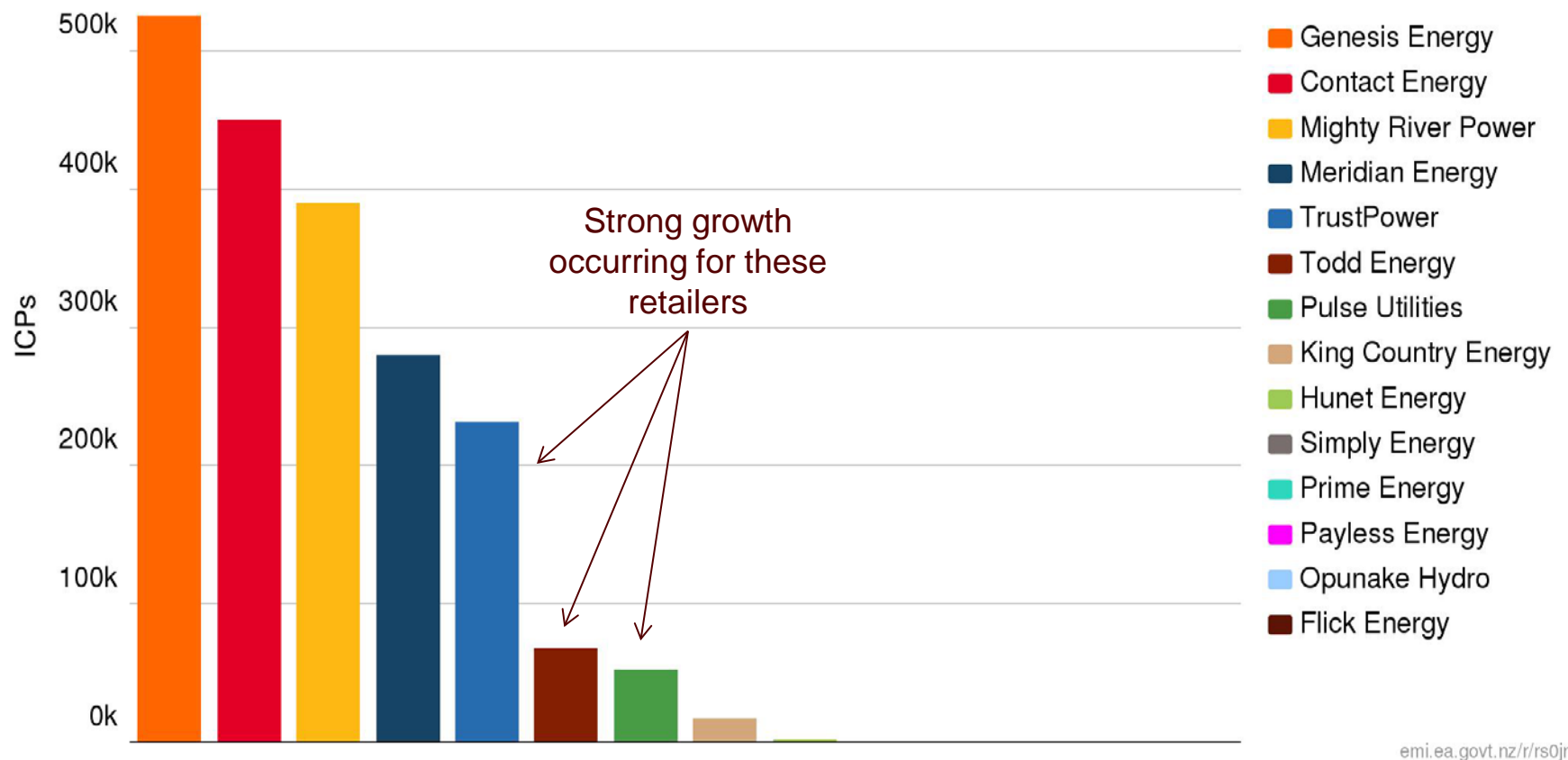
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Key metrics on retail market competition in NZ



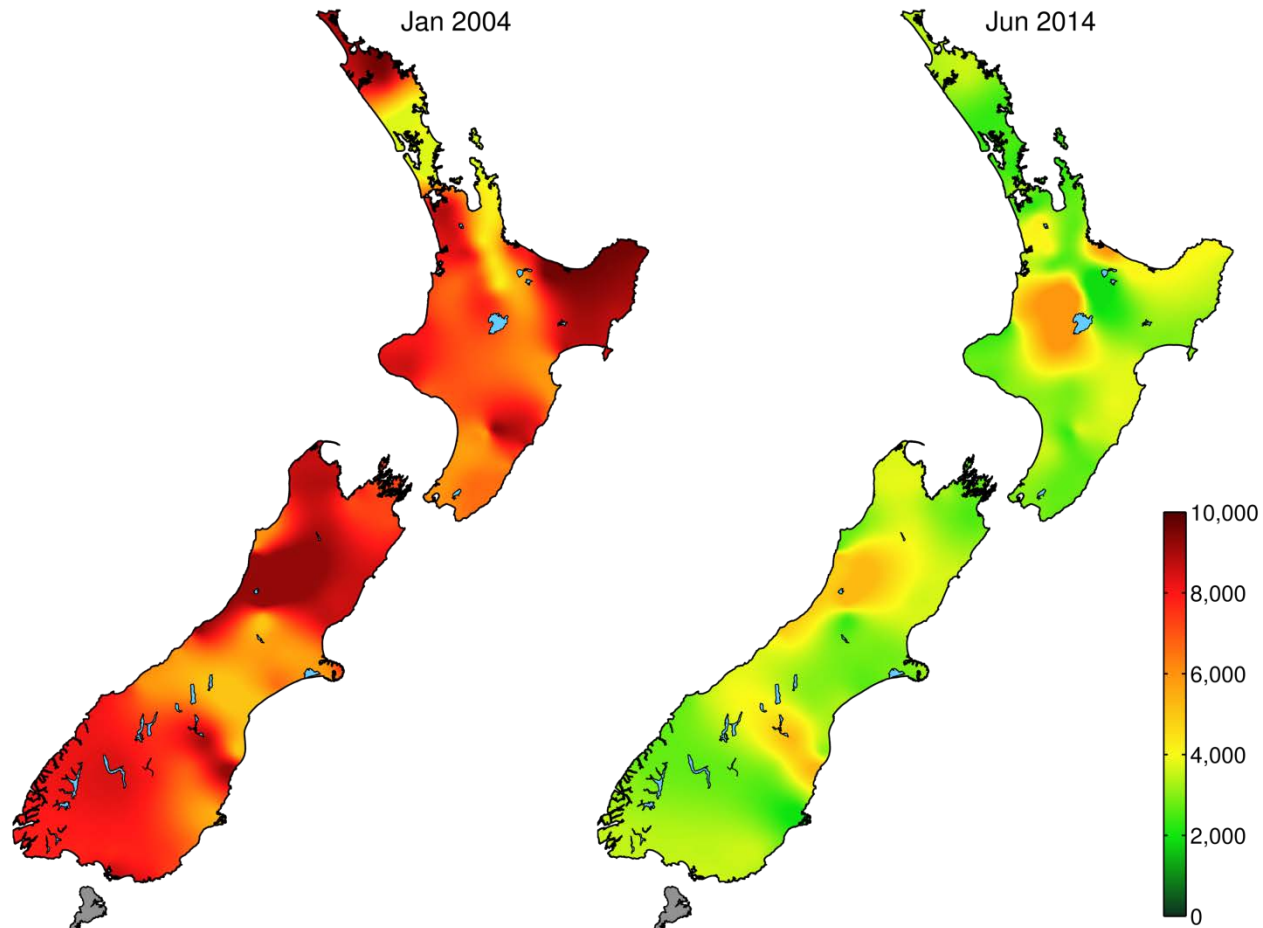
New Zealand has 14 electricity retailers

Market share of connections (31 July 2014)

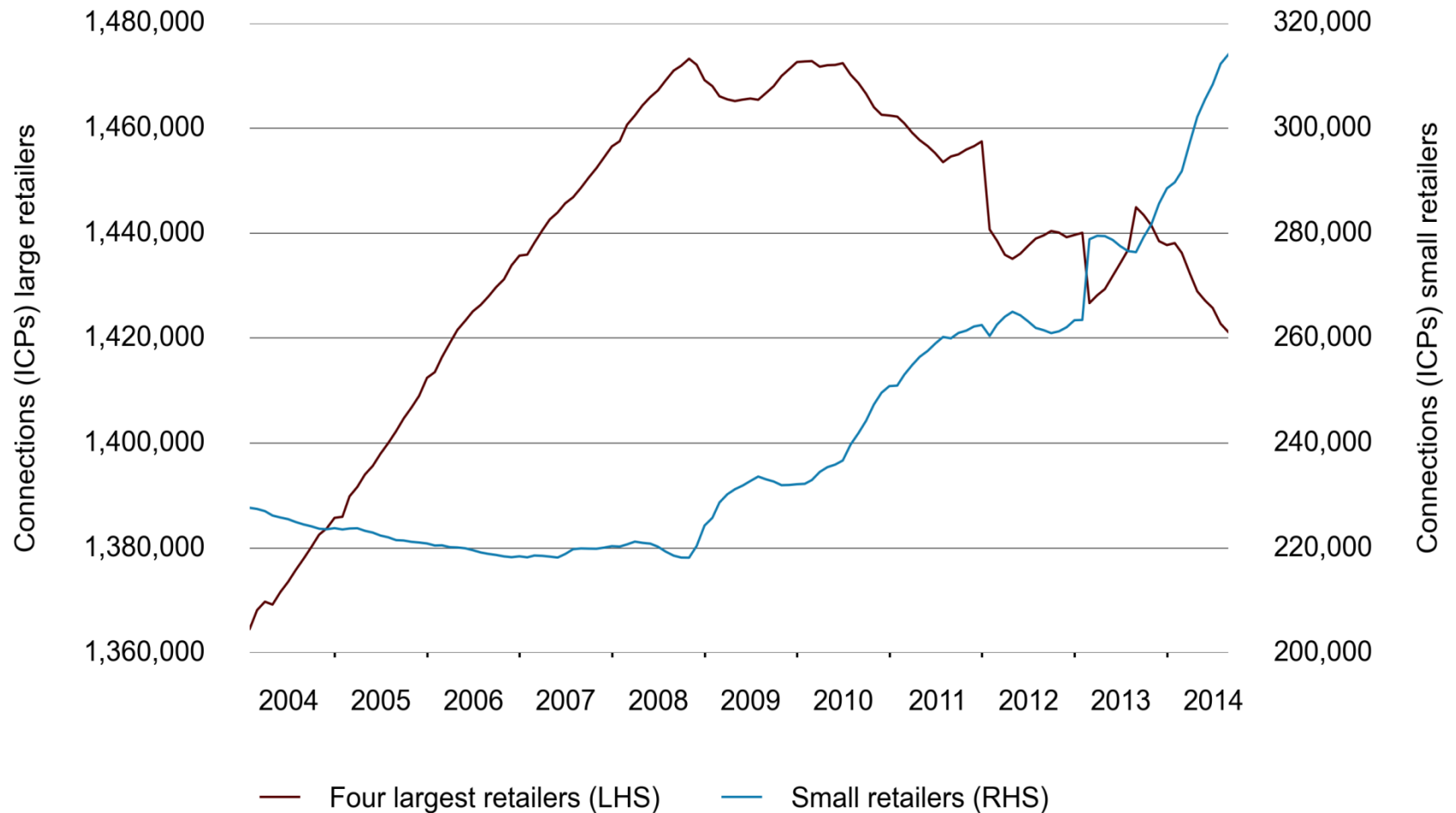


Retail concentration (HHI) has declined significantly

HHI = Herfindahl-Hirschman Index

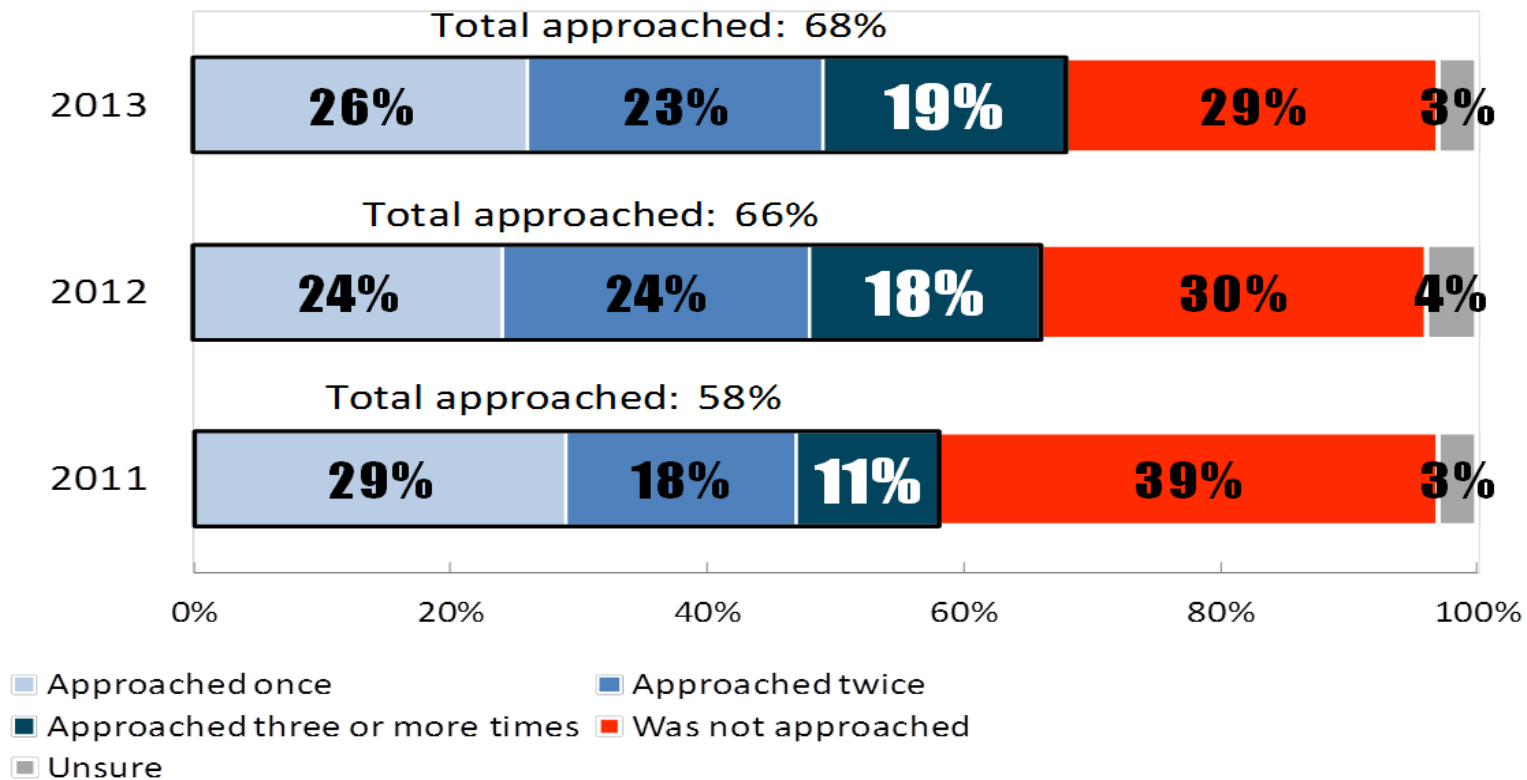


Small retailers have expanded rapidly since 2008

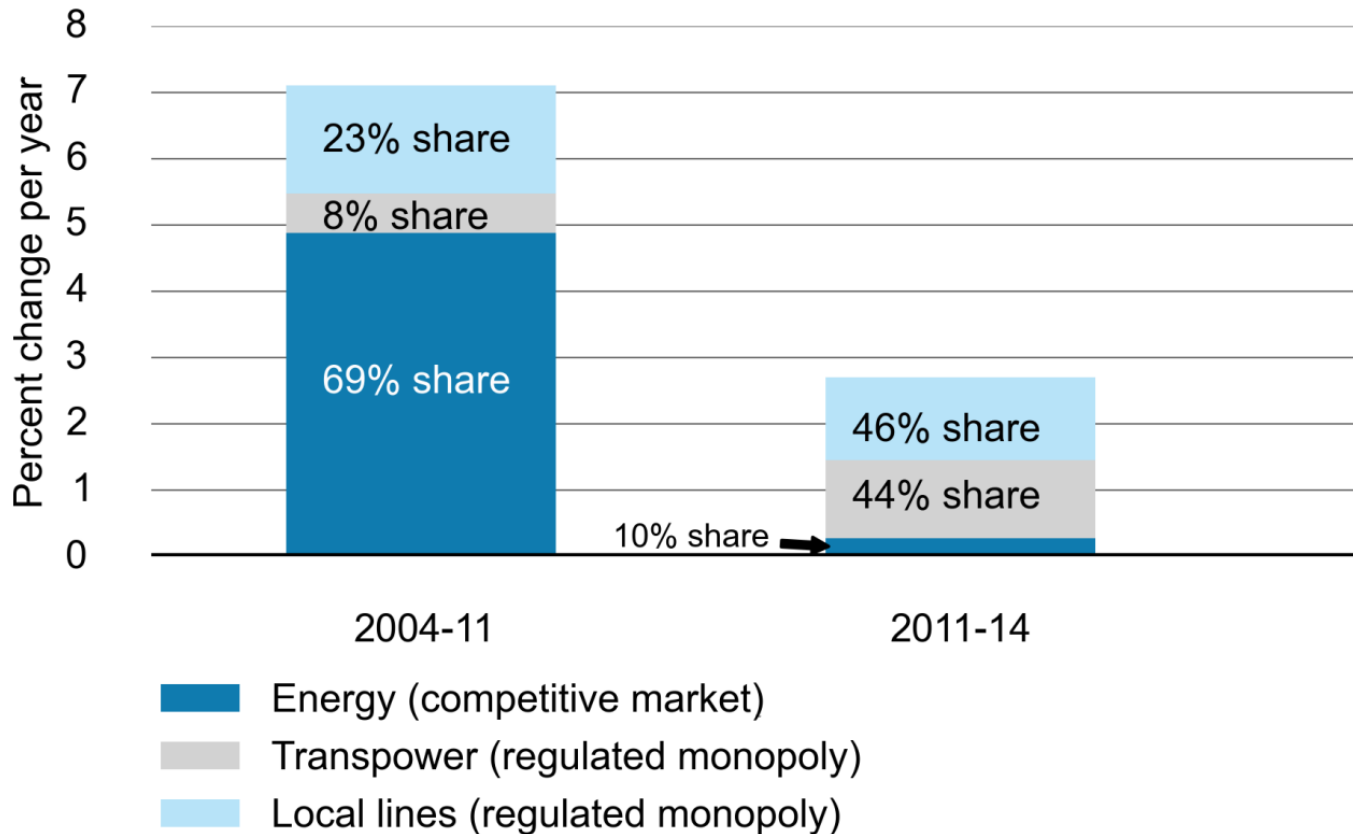


Big increase in pitching to customers since 2011

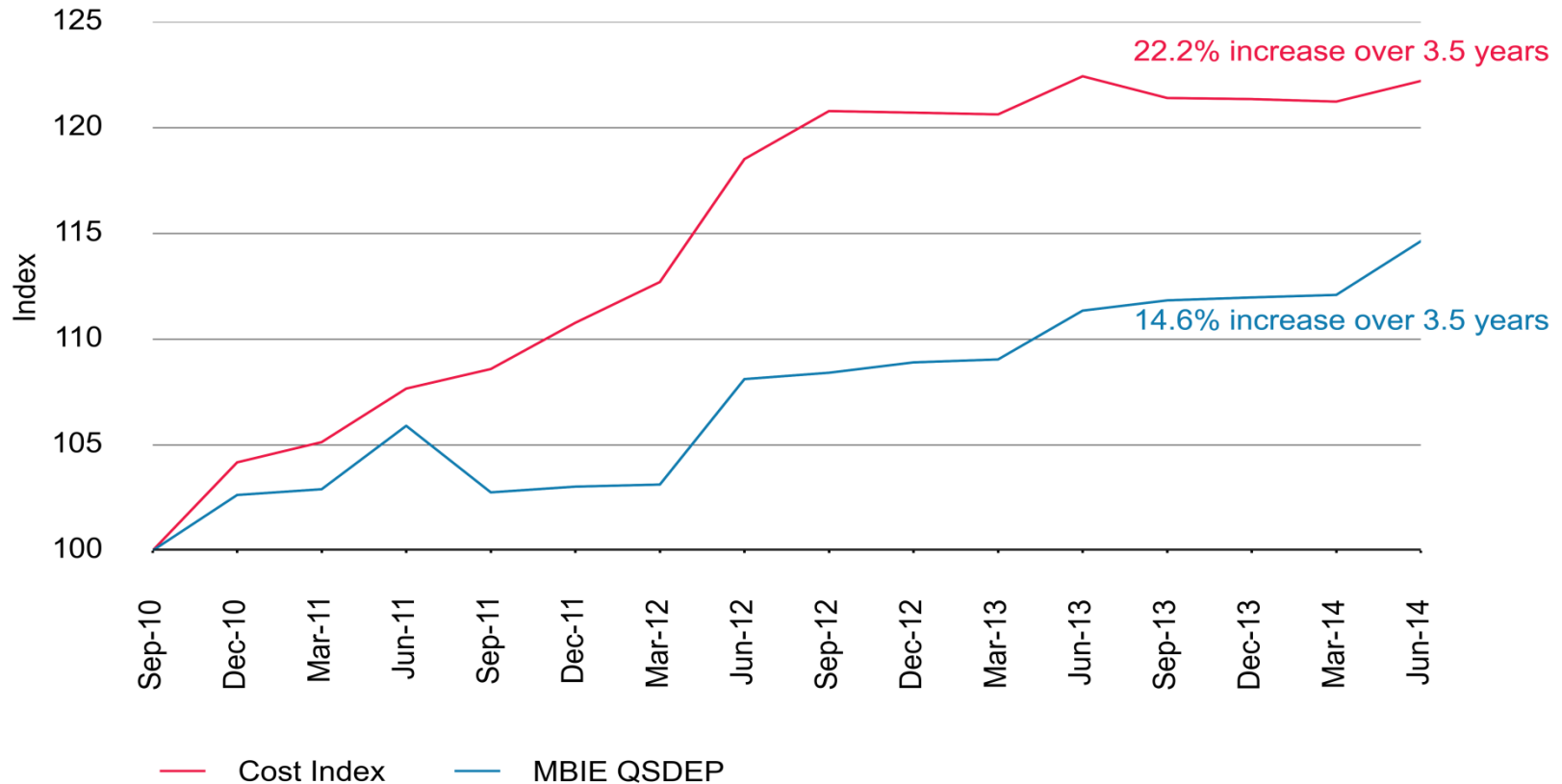
Question to respondents: how many different power companies have approached you in the last two years to switch to them?



Price increases from the competitive side of the market only 0.5% p.a. over last three years



Costs facing stand-alone retailers rose faster than residential prices: implies pretty competitive market



Conclusions

- ❑ There is no 'silver bullet'
- ❑ Substantial improvement in retail competition – but more needed?
 - Price increases < cost increases
 - Significant discounting to attract customers
 - But higher price rises for passive consumers
- ❑ Seeing a wider impact on the electricity sector
 - Innovation
 - Investment risk
 - Cost-efficiency
- ❑ Many initiatives yet to impact the market

Questions