

Competition, the Internet and the Customer

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Competition, the Internet and the Customer

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Electricity
Commission

NZEM
New Zealand Electricity Market

- Competition – disruptive market reforms

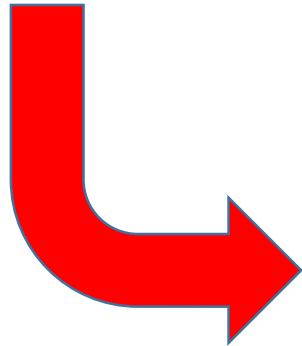


- The Internet – new ways of doing business (even in the electricity industry)

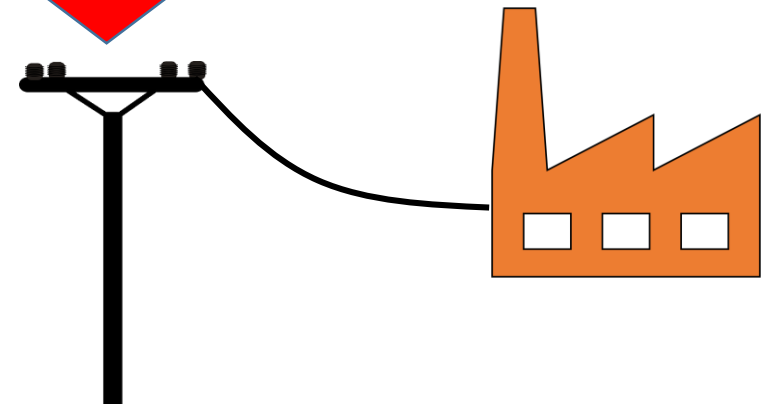
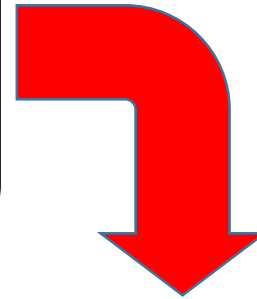


- Benefits for C&I customers – lower prices, more choice, more & better data

The “Good Old Days”



Electricity Supply Authorities
Lines
Customers
Some generation



Number of choices \approx ZERO

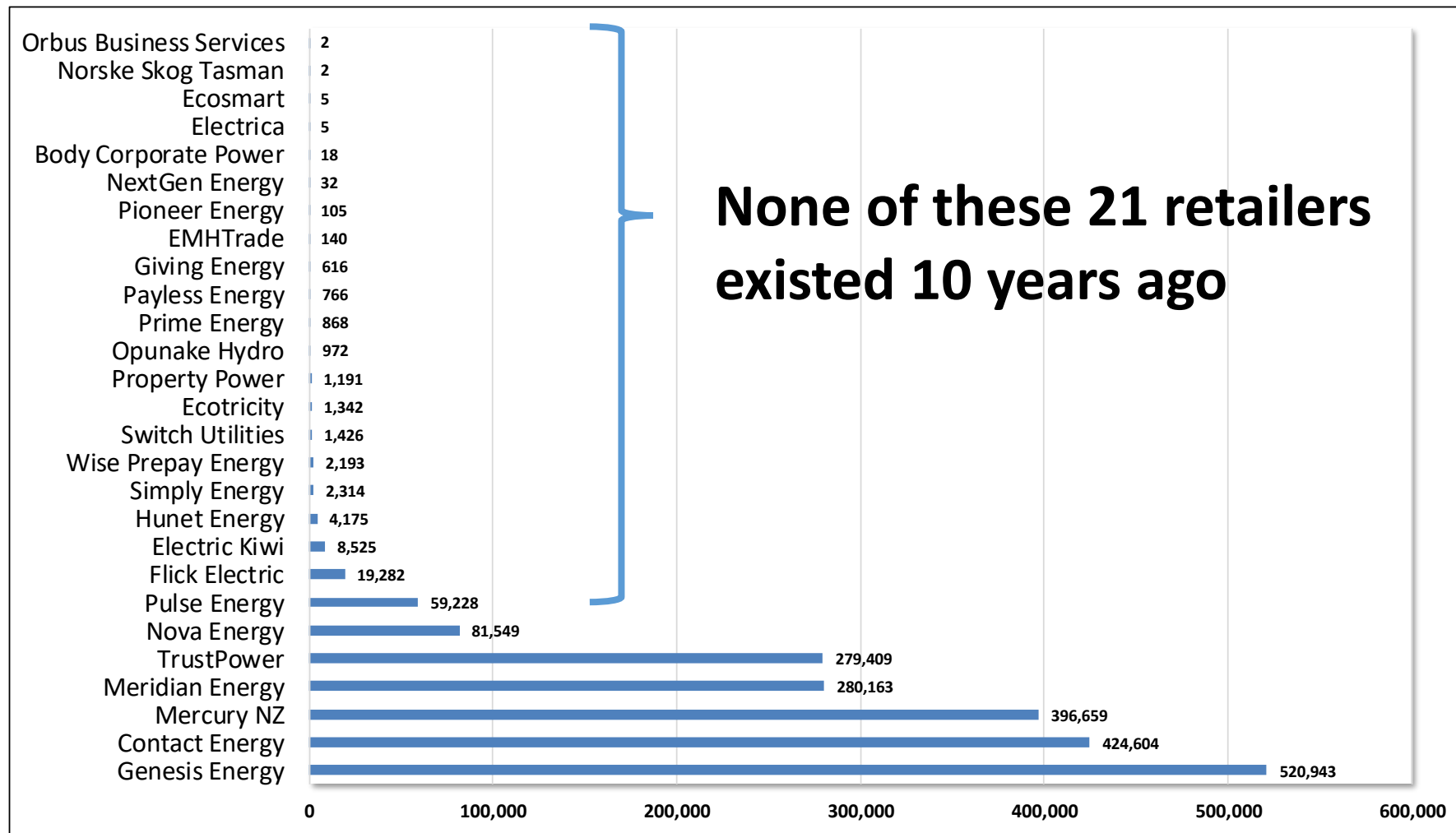
Market Reforms to Facilitate Competition

- 1994 – monopoly customer franchises removed from Electricity Supply Authorities
 - consumers over 0.5 GWh per annum could switch supplier
- 1996 – spot market established – option to buy everything at genuine spot prices
- 1998 – separation of line and energy businesses – all retailers compete on equal basis
- 1999
 - new SOEs created from ECNZ => three more large retailers
 - Registry database established to facilitate switching of retailers
 - all customers able to switch retailer

More Market Reforms...

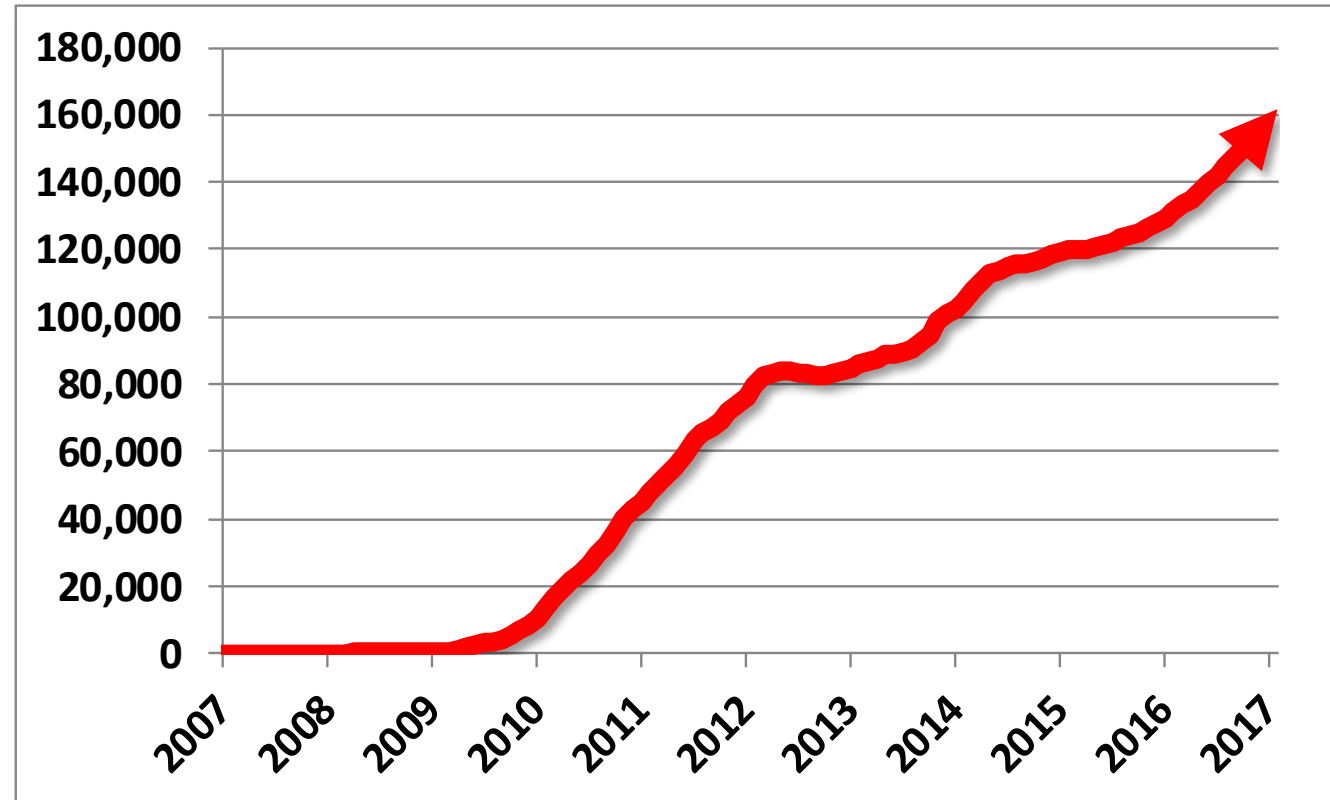
- 2010 – many reforms to help facilitate retailer competition
 - e.g. funding for Consumer NZ's Powerswitch and “What's My Number?” campaign
- 2016
 - access to Registry data by third parties
 - retailers must release 24 months of consumption data for free

Tier 1 Retailers – Buy Direct from Spot Market



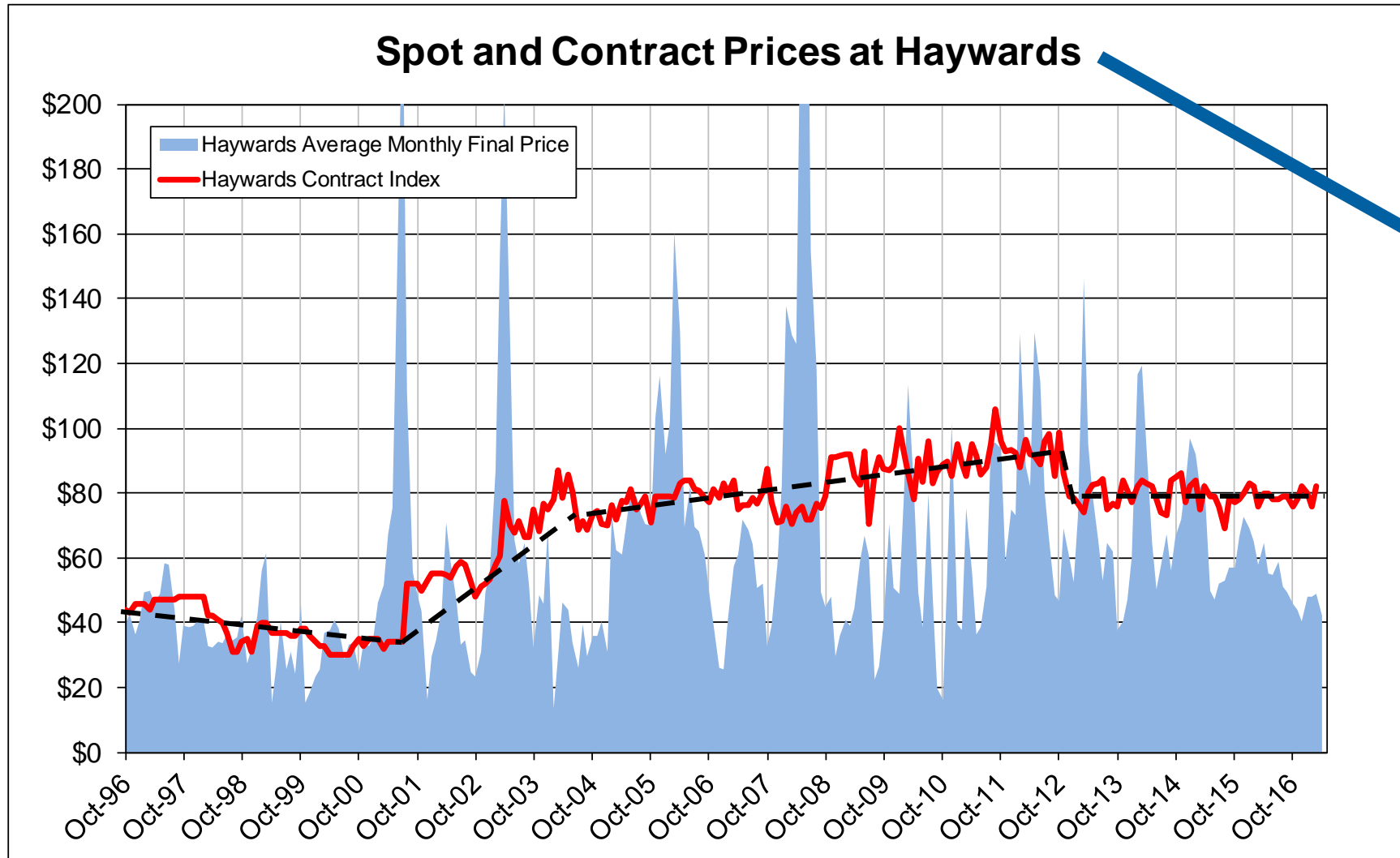
= Installation Control Point

New Retailers' Total Market Share

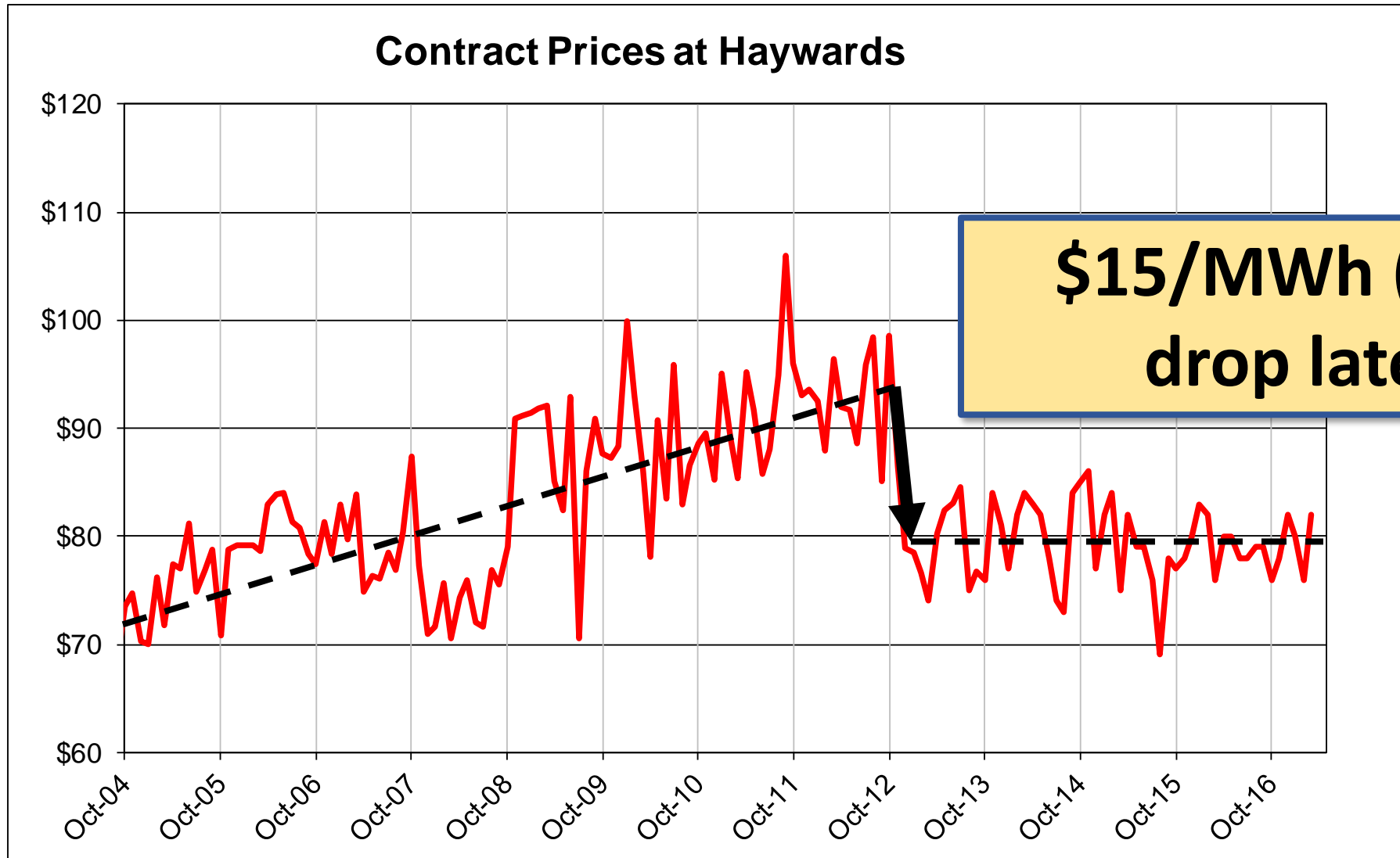


8% of the market (~ 170,000 ICPs) and growing 1.5% per annum

Spot vs Fixed-price Contract

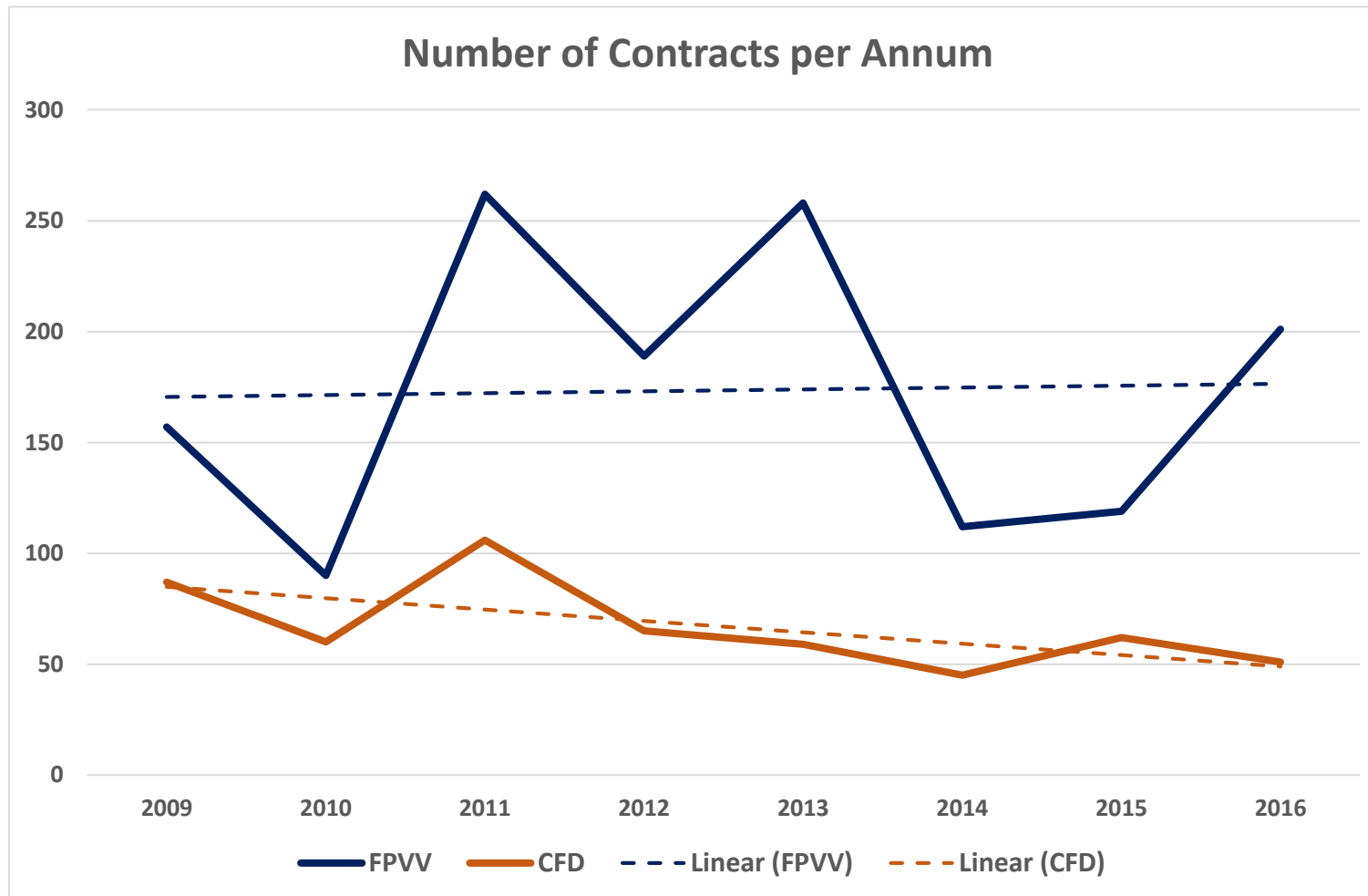


Contract Prices 2004 - 2017



Fixed Price Variable Volume (FPVV) versus Hedging

- C&I customers can choose between Fixed Price Variable Volume (FPVV) or buying at spot price and hedging the risk with “Contracts for Differences” (CFDs)

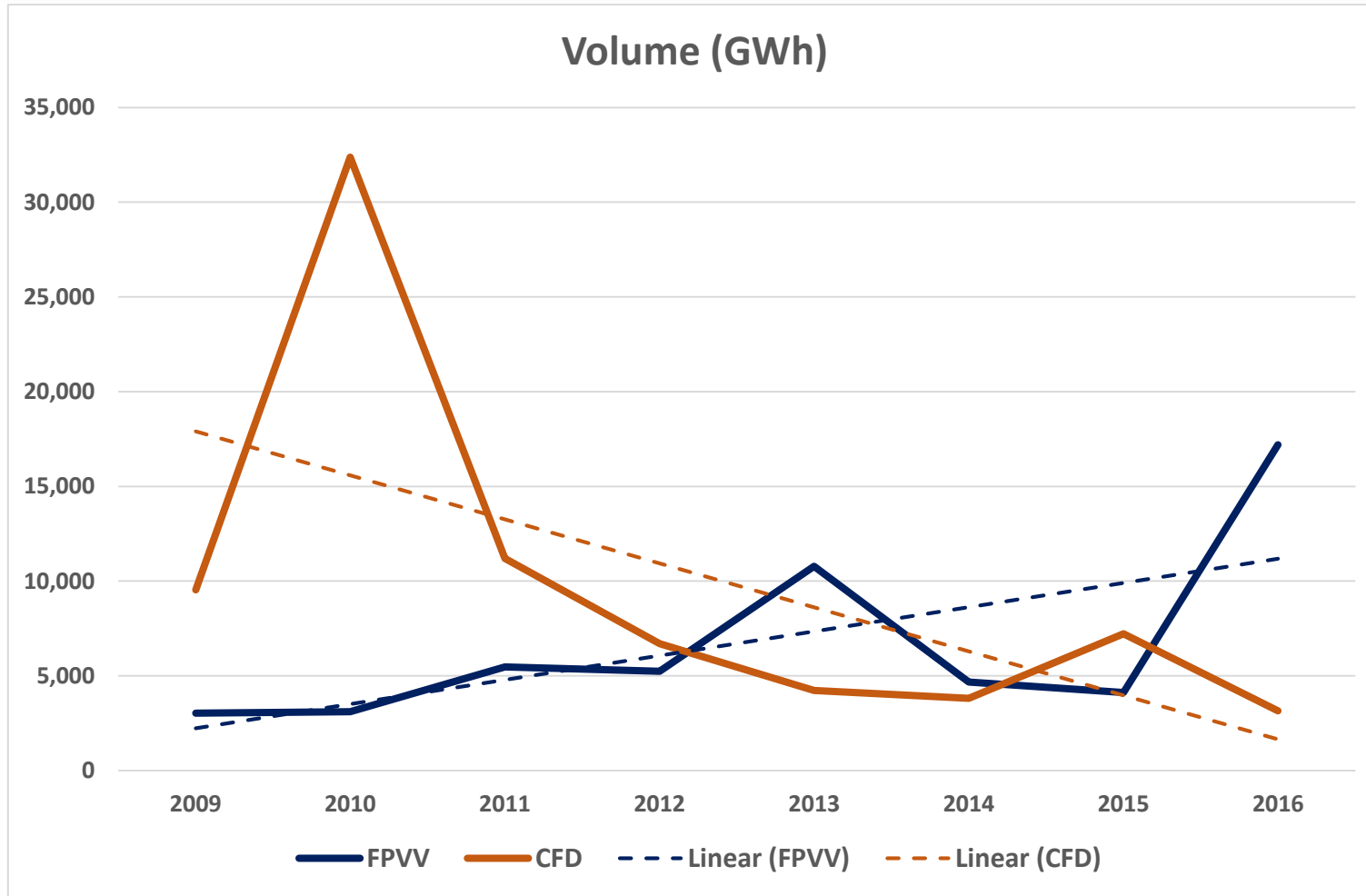


Since 2009:

FPVV numbers up 28%

CFD numbers down 41%

FPVV versus Hedging – GWh Volume

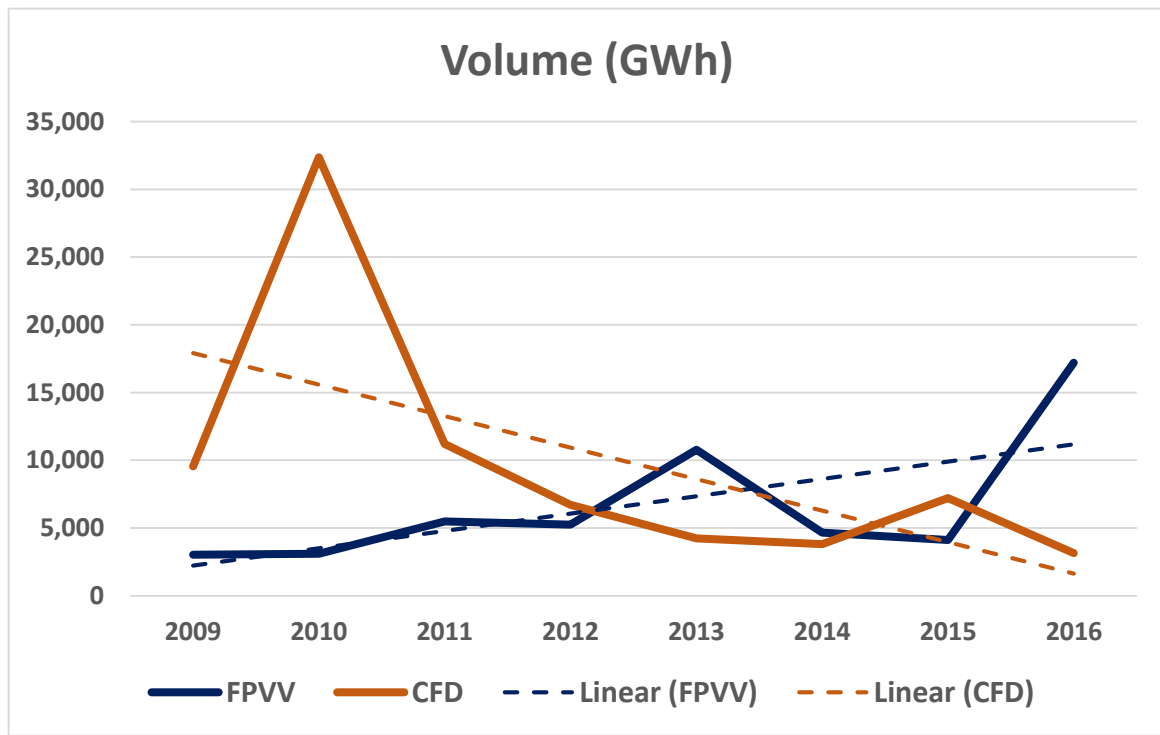


Since 2009:

FPVV volume up 468%

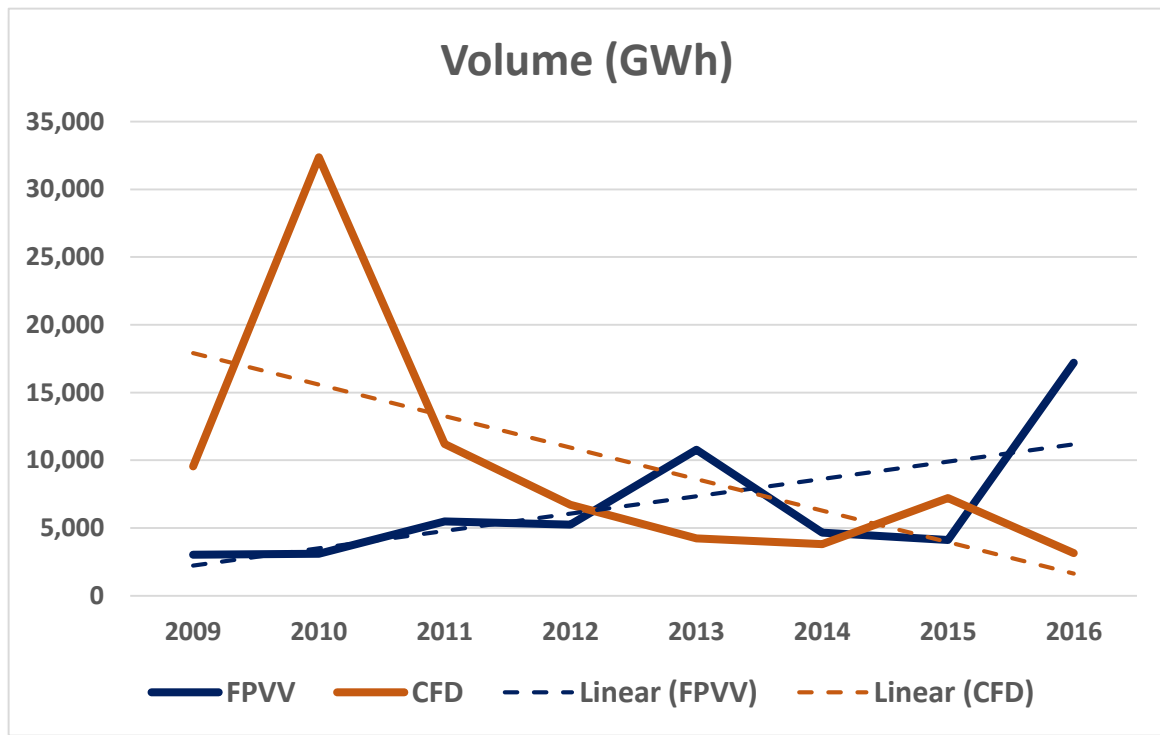
CFD volume down 67%

FPVV versus Hedging



- FPVV 7% - 8% more expensive than hedges on average
- Since 2009 spot prices have averaged less than contract prices
- Spot + partial hedge would have been the cheapest strategy!

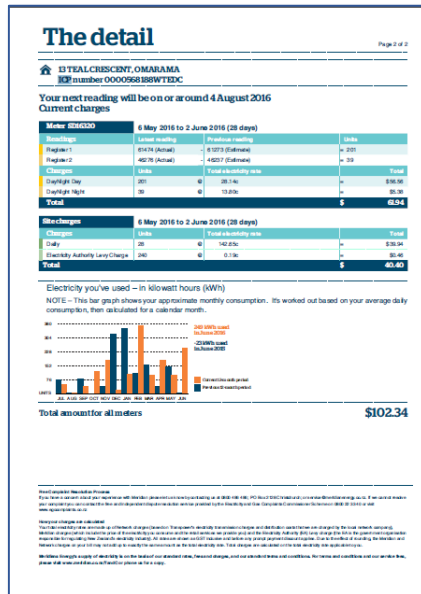
FPVV versus Hedging



- So why have C&I customers moved away from hedges?
- Competitive pricing on some (but not all) FPVV contracts has tempted customers away from hedges
- The result of intense competition for C&I customers

The Internet to Date

- Re-engineering business processes, access more data



- Comparing retailers

consumer.
powerswitch

switchme.
canz

The Energy Exchange

- Fully-featured procurement portal for larger customers

- Paperless RFPs (tenders)



- enter ICPs
- Energy Exchange gets historical consumption data
- compile a paperless RFP
- Energy Exchange sends to retailers
- process multiple offers using the Deal Selector

- Reverse auctions either with or without an RFP



Small Single TOU ICP

- Small-medium commercial site ~ 2 GWh p.a.
 - one TOU ICP in Central Otago
 - one reverse auction: like Trademe but prices fall as the auction progresses
 - large savings by going to more retailers
 - bidding by six retailers
 - total client time commitment of less than two hours
 - minimal contact with Energy Link



“TOU” = Time of use & refers to metering which is half hourly

Large Multi-ICP

- Large utility ~ 100 GWh p.a.
 - ~30 ICPs on time-of-use (TOU) pricing plans
 - several hundred non-TOU ICPs
 - one reverse auction, one RFP
 - savings due to ensuring competitive pressure is maximised
 - accurate pricing by retailers, client able to drill down to each ICP
 - assisted by Energy Link
 - total commitment of time ~ two days
 - compared to a week or more of hard work with spreadsheets and databases



Looking Ahead – What to Expect from Retailers

- More retailers!
- Margins
 - continual downward pressure
 - maintaining margins by reducing costs using automation and **the Internet**
- Customer experience
 - acquiring customers using data captured from **the Internet**
 - tailoring the customer experience using **the Internet**

Looking Ahead – Line Charges

- Some lines companies are moving to
 - reduce volume-based charges c/kWh
 - and increase peak or capacity charges in $\text{\$/kW}$ or $\text{\$/kVA}$
- Driven by the desire to avoid inefficient incentives to install solar panels
- Expect more of this!

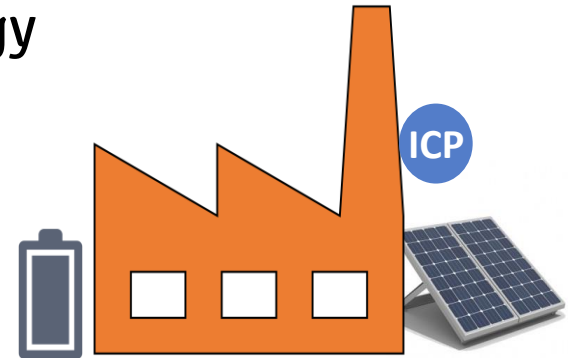


Looking Ahead – Third Parties Adding Value

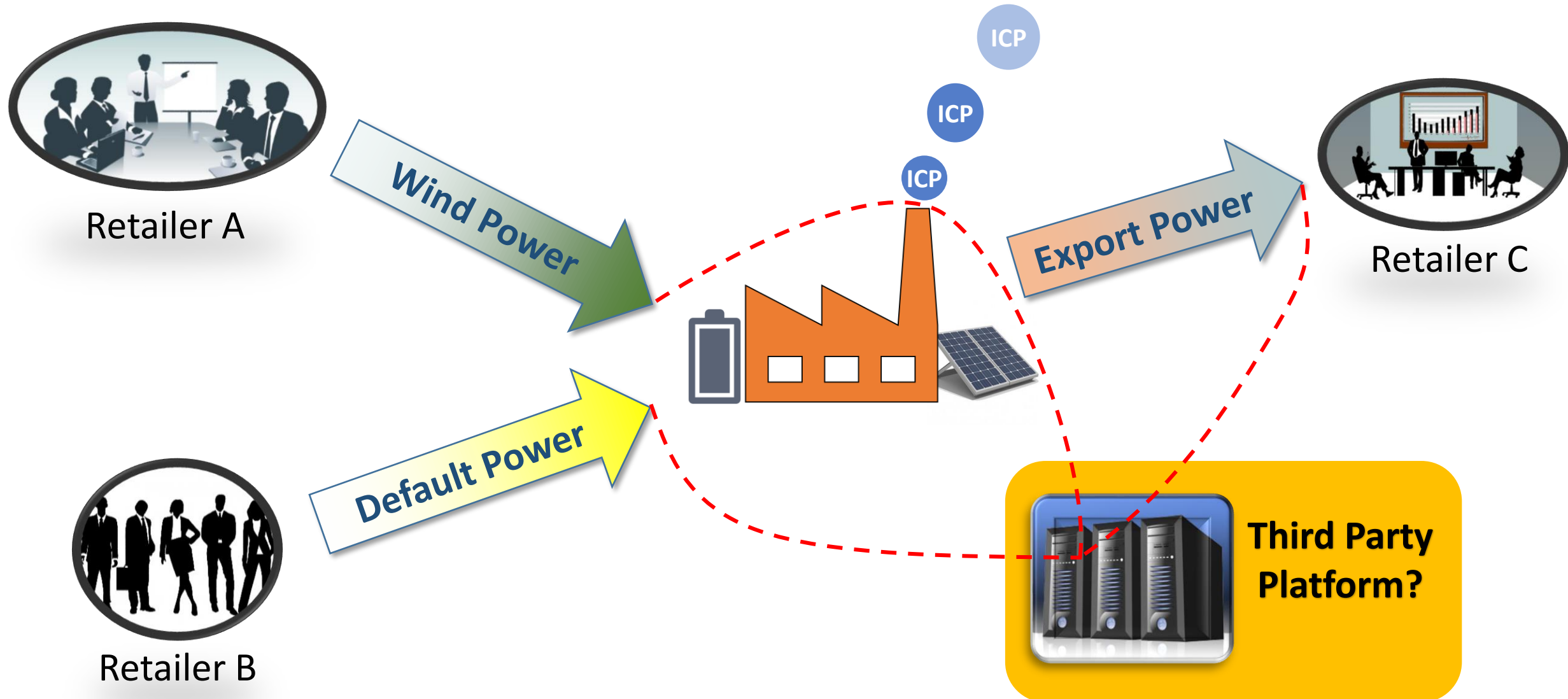
- Switching and procurement platforms
 - helping the customer make complex choices amongst suppliers

The Power of Choice = The Choice of Power

- Consumption data analytics
 - helping the customer decide how and when they consume energy
- More suppliers of solar & storage systems



Looking Ahead – Multiple Retailers per ICP?



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- Disruptive reforms, enhanced competition, more retailers



- Lowering costs, easier access to more data, third party providers



- Lower prices since 2012, more choice, more data