



27th March 2018

Electricity Authority  
Wellington

Att: Dr Brent Layton, Chairperson

cc	Carl Hansen	James Moulder
	Chief Executive Officer	Chairperson
	Electricity Authority	Market Development Advisory Group

Dear Dr Layton,

## **Problems with ‘saves and winbacks’ and Powerswitch**

Electric Kiwi is seeking urgent action to address issues with the Switching Saves Protection Scheme (SSPS) and Powerswitch that are disadvantaging new entrant retailers and the majority of consumers, as well as being harmful to retail competition.

### **Incumbent retailers’ customer retention and acquisition strategies warrant scrutiny**

The response to new entrant retailers gaining market share has been for incumbent retailers to adopt increasingly aggressive and discriminatory customer retention and acquisition strategies which focus on “switchers”.

Saves and winback activity has increased to the point where some incumbent retailers are saving or winning back over 50% of the customers they lose (or would have otherwise lost). As a general rule, the more successful the incumbent ‘saves and winback’ strategy the less need there is to offer competitive prices to all consumers (including the majority who are “stayers”).

As part of the incumbent retailers’ saves and winback strategy, there is an increased prevalence of very sharply priced acquisition offers that are available only to new customers (“switchers”) and not existing customers (“stayers”).

The incumbent retailers’ strategy on both new customer only pricing, and heavy saves and winback activity, targets the part of the market new entrant retailers are predominantly active in. We believe some of the activity constitutes predatory tactics from incumbents with significant incentive and ability to exercise market power – leveraging off higher prices for “stayers” in order to offer low prices to “switchers”.

### **Many consumers are missing out on the benefits of competition**

While statistics such as trends in market share and the HHI index paint a rose-tinted image of improving retail competition the outcomes for consumers aren’t as positive as these would suggest.



In a healthy, properly-functioning, competitive market all consumers should expect to benefit from increased competition. Vodafone mobile phone customers, for example, have benefited from lower prices/better service quality, following the entry of 2degrees into the retail cellular market, regardless of whether they have considered switching. Likewise, all Sky TV customers have received the benefit of the recent lower priced service offering, which Sky TV introduced in response to competition from internet-based programming options (Netflix etc).

This is not what we are seeing in the retail electricity market. The Electricity Authority could usefully measure the extent to which “stayers” are missing out on the benefits of competition by using its information gathering powers to measure the widening gap between the prices for most of the incumbent retailers’ respective customer bases (the “stayers” prices) compared to acquisition and saves/winback prices (the “switchers” prices).

If the current rule settings are maintained, and the incumbent retailers’ saves and winback strategies continue to become more widespread, the nature of competition in New Zealand may increasingly to look similar the UK retail electricity market which is now widely viewed as failing the majority of consumers and the subject of intense political intervention. The evidence from the UK suggests the consumers missing out on the benefits of competition are those for whom electricity is least affordable.<sup>1</sup>

### **Saves and winbacks need to be addressed with urgency**

While saves and winbacks is back on the Electricity Authority’s work programme, which we fully support, we do not have confidence the review will be progressed and completed in a timely manner:

- The project plan only covers the preliminary stages of the review and doesn’t extend beyond consultation on an Issues Paper which will focus on problem definition only.
- The Electricity Authority has given MDAG six and a half months to conclude the initial consultation. We disagree with the Electricity Authority’s description of this timeframe as “short”; particularly as many of the issues with saves and winbacks have already been well canvassed and the Electricity Authority published its post implementation review of the SSPS in August 2017.
- The Electricity Authority’s work programme has a large number of high priority projects that have been delayed or stalled, some by several years. Electric Kiwi is concerned the saves and winback project could face a similar fate.

---

<sup>1</sup> Ofgem’s retail market report for 2016, for example, made the following observations (<https://www.ofgem.gov.uk/publications-and-updates/retail-energy-markets-2016>):

We have seen domestic switching rates in 2015 rise to 12% for electricity and 13% for gas - an increase of one and two percentage points respectively on 2014. We have also seen sustained rates of customers switching tariff with their existing supplier. Evidence suggests that much of this can be accounted for by already engaged consumers, who tend to be heavily motivated by price and are most likely to take advantage of competitive fixed-term tariffs.

... However, survey data suggests that the overall pattern of domestic consumer engagement in 2016 is largely unchanged relative to 2015 and 2014. More than one in five consumers are very disengaged. They are predominantly on expensive standard variable tariffs, less likely to engage with information and more likely to be in vulnerable situations.



Electric Kiwi considers it would be better for MDAG to undertake an initial consultation on problem definition, prior to the development of the first consultation paper. This would put MDAG in a stronger position to develop the Issues Paper for its planned May consultation.

We also suggest, as an interim step, the Electricity Authority apply the urgent Code amendment provisions in section 40 of the Electricity Industry Act to introduce a cooling off period. We support The Alliance of Independent Retailers recommendation to disallow reactive win-backs for 30-60 days after a switch is processed.<sup>2</sup>

Other changes around asymmetry of information and of a technical rule type can be addressed by MDAG on the current timetable. The adoption of a cooling off period would provide a useful before and after counterfactual which would help MDAG identify the impact of saves and winback on retail competition.<sup>3</sup>

### **Need to address misleading information on Powerswitch**

Electric Kiwi believes the Powerswitch website is being manipulated, with incumbent retailers being the main offenders. We believe the following flaws exist:

- Many offers appear at the top of the rankings which exclude existing customers. This goes against the premise that only widely available offers should appear. Consider the experience a customer would have if they relied in the Powerswitch website to see whether they would benefit from changing retailer. The information could be based on a comparison using a (lower) price than they are not getting from their retailer. Powerswitch could create the impression there is no benefit from switching or understate the benefit.
- Prompt payment discounts (PPDs) are included at the maximum a consumer could benefit. This contrasts to the average benefit way our own Hour of Power is accounted for. The price calculation should either exclude PPD or reflect the percentage of customers that on average receive the discount.

We are appealing to the Electricity Authority Board to raise these Powerswitch issues in its capacity as a significant funder of Powerswitch, and because the What's My Number campaign relies on Powerswitch. The site has a significant impact on price perception in the NZ market and we believe the Electricity Authority has the ability to influence the operation of Powerswitch to improve the platform and consequently the quality of competition occurring in the NZ market.

### **Concluding remarks**

Electric Kiwi encourages the Electricity Authority to take urgent action to halt the slide in the quality of competition occurring in the retail electricity market. We believe an urgent introduction of a

---

<sup>2</sup> Letter from The Alliance of Independent Retailers (to Roy Blundell (General Manager Market Performance, Electricity Authority), RE: Enquiry into FPVV vs ASX prices and PIR of save protection scheme, 4 May 2017.

<sup>3</sup> The issues with saves could also be addressed by expediting the review of switching process to shorten the switching process/follow the UK's proposed adoption of same day switching.



cooling off period into the SSPS is needed, and Powerswitch should be reviewed to ensure its price comparisons reflect the prices the majority of each retailers' customers genuinely incur.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'L. Blincoe'.

Luke Blincoe  
Chief Executive Officer  
Electric Kiwi Ltd