

28 June 2018

By Email

Market Development Advisory Group,
Cc: Power Market Review Panel

Consultation: Saves & Win-backs

Future Energy New Zealand Ltd, trading as energyclubnz, welcomes the opportunity to contribute to this critically important consultation of the Electricity Authority and we would welcome further engagement with the Market Development Advisory Group (MDAG) to input during the process as required.

energyclubnz has now been operating in the New Zealand electricity market, for just over a year, since its first customer was acquired at the end of June 2017. After a major funding round in 2017 energyclubnz is proud to be a Stuff joint-venture business. Stuff own 49% of Future Energy New Zealand Ltd. energyclubnz understands how tough it is to operate as a new brand in this market and we believe it is currently weighted very much in the favour of the incumbent operators who are fully leveraging their dominant positions **at the cost of the majority of hard working kiwi households.**

As the Founder of energyclubnz I am well placed to provide input into this process due to my extensive international and New Zealand experience in deregulated energy markets. I have headed up, at executive level, both incumbents (British Gas and Genesis Energy) and challenger brands (Australian Power & Gas, Energy Online and energyclubnz) so I fully understand this issue from both an incumbent and challenger brand perspective. Fundamentally the Electricity Authority has to step back to one of its core purposes which is 'to promote competition in the electricity industry for the long term benefit of consumers'. In our opinion this objective is not being delivered – the incumbents dominate the industry, control the wholesale markets and are pricing up New Zealand families without being fair and equitable across their customer bases.

energyclubnz believes that the recent issue of the 2017 Electricity Authority market 'savings' data demonstrates that competition is not being actively encouraged in the market. This analysis shows that the potential savings for consumers has increased by over \$80 million. In a highly competitive market absolute savings should be reducing and not increasing. This is a very clear indication that the 'market is potentially broken' and urgent action needs to be taken to address a market imbalance of regulation that appears to be protecting the profitability of the bigger players.

We also strongly believe that the current strong profit performance of the Gentailers requires the forthcoming Power Review to investigate thoroughly not only the financial performance of these businesses but also the mechanisms of whether the Gentailers are delivering 'efficient, fair and equitable pricing' as stated in the overriding objective of this review. We believe that the current industry winback and save activities, are a major part of this imbalance, which is failing to deliver against the objective of the review and should urgently be addressed.

Why does energyclubnz believe this is a market failure that does not benefit the majority of customers?

1. **The recently released Electricity Authority data (Residential Savings, June 2018) confirms that the total amount available for consumers to save in the New Zealand electricity market has increased in a year by +28%.** Effectively these increased potential savings indicate an increased Industry profit pool, versus the previous year, which has seen significant 'hidden' incumbent price increases to their non-contracted customer bases. This profit pool is 'owned' by the incumbent Gentailers with nearly 90% of households under their supply. These are similar issues to other de-regulated markets (UK and Australia) where pricing has discriminated against loyal 'sticky' customers who are effectively funding the better deals offered to 'new' and 'leaving' customers and are also driving overall increased levels of profitability.

	2016	2017	Increase	% increase
North Island	207,348,677	260,351,712	53,003,035	+25.56%
South Island	83,613,103	111,515,051	27,901,948	+33.37%
Total	290,961,780	371,866,763	80,904,983	+27.81%

Source: www.emi.ea.gov.nz (residential reports, residential savings by Island)

This report shows the estimated average and total residential savings available each year if all residential consumers had switched to the cheapest available plan to them (excluding spot priced plans). Electricity Authority data supports that absolute average price levels have increased by region driven primarily by price increases from the incumbent retailers who dominate more than 88% of the market (source: EMI market share snapshot 31/5/2018). The major retailers will blame this increase on the Distribution companies increasing pricing but the underlying data does not support this. All retailers have experienced the same network company increases and hence in a competitive market the savings available should be relatively similar, or less, and not an overall 27.81% increase.

The Tier 2 and Tier 3 price increases, ie the challenger brands, tend to be more cost reflective price increases, and will predominantly represent the lower pricing in this analysis (excluding some of the incumbents aggressive acquisition offers). The gap between the lowest and the average has increased by nearly \$50 per household. In a highly competitive market you would expect the savings to reduce over time and not substantially increase. **This could potentially be seen as the bigger electricity companies ‘pricing’ their loyal customer bases to fund better deals for new and leaving customers.** By coincidence the increases per household mirror the increased cost of the win-back/save activity that is benefitting a very small % of households and restricting competition.

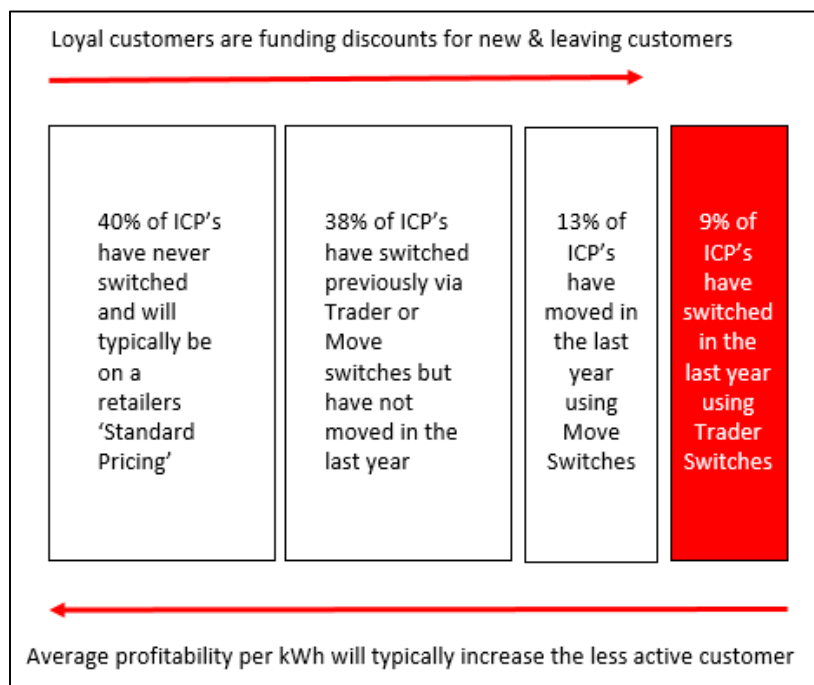
This pricing trend has continued in 2018 where we have already experienced major Gentailers significantly increasing retail pricing on uncontracted customers (estimated at between 4-6%), ahead of any network increases, despite delivering increased levels of profitability. At energyclubnz we believe that the market is failing to serve the majority of consumers and hence there is a market failure which is also suppressing competition.

- These potential network savings increases have happened in over 90% of network reporting regions. This demonstrates that competition is being suppressed by the incumbent retailers and demonstrates the impact of the bigger brands, that dominate the market, significantly increasing pricing across the c.80% of non-switching customers.

Region ID	Network reporting region	Average savings (\$) 2016	Region savings (\$) 2016	Average savings (\$) 2017	Region savings (\$) 2017	Difference in average savings	Change in Regional Savings
1	Bay of Islands (Top Energy)	124.85	3,295,280	219.18	5,838,837	94.33	2,543,557
2	Whangarei and Kaipara (Northpower)	175.97	8,143,625	257.26	12,154,831	81.29	4,011,206
3	Waitemata (Vector)	141.28	28,026,159	185.69	37,389,095	44.41	9,362,936
4	Auckland (Vector)	137.52	39,956,193	182.53	53,389,091	45.01	13,432,898
5	Countries (Countries Power)	151.82	5,188,956	190.35	6,675,326	38.53	1,486,370
6	Thames Valley (Powerco)	183.12	10,673,414	229.86	13,567,761	46.74	2,894,347
7	Waikato (WEL Networks)	96.88	7,166,987	137.54	10,397,080	40.66	3,230,093
8	Waipa (Waipa Networks)	264.32	5,541,499	309.63	6,629,037	45.31	1,087,538
9	King Country (The Lines Company)	125.97	2,258,196	79.51	1,433,628	-46.46	-824,568
10	Tauranga (Powerco)	399.5	28,568,699	444.43	32,640,880	44.93	4,072,181
11	Potorua (Unison Networks)	219.25	5,902,798	271.52	7,323,140	52.27	1,420,342
12	Eastern Bay of Plenty (Horizon Energy)	191.52	3,842,670	224.76	4,537,486	33.24	694,816
13	Taupo (Unison Networks)	236.33	3,254,936	267.27	3,725,037	30.94	470,101
14	Eastland (Eastland Network)	174.22	3,556,403	221.4	4,555,407	47.18	999,004
15	Hawke's Bay (Unison Networks)	188.01	5,509,993	136.2	7,474,106	28.19	1,964,113
16	Central Hawke's Bay (Centralines)	177.98	1,075,695	135.25	821,421	-42.73	-254,274
17	Southern Hawke's Bay (Scanpower)	227	1,081,666	191.96	821,739	-35.04	-259,927
18	Wairarapa (Powerco)	167.57	3,345,508	185.39	3,759,455	17.81	412,947
19	Taranaki (Powerco)	123.94	5,822,491	175.42	8,327,187	51.48	2,504,696
20	Wanganui (Powerco)	147.37	4,036,982	182.73	5,032,878	35.36	995,896
21	Manawatu (Powerco)	136.1	6,285,729	150.01	6,983,348	13.91	697,619
22	Kapiti and Horowhenua (Electra)	80.82	3,173,284	111.76	4,430,849	30.94	1,257,565
23	Wellington (Wellington Electricity)	137.7	20,852,116	145.87	22,182,593	8.17	1,330,467
24	Nelson (Nelson Electricity)	296.54	2,267,581	400.35	3,065,550	103.81	797,969
25	Tasman (Network Tasman)	124.52	4,111,364	244.04	8,177,846	119.52	4,066,482
26	Marlborough (Marlborough Lines)	230.85	4,941,769	355.62	7,881,670	124.77	2,739,901
27	Buller (Buller Electricity)	168.16	665,525	198.45	751,498	20.29	85,973
28	West Coast (Westpower)	248.28	2,709,117	296.11	3,239,284	47.83	530,167
29	North Canterbury (MainPower NZ)	126.42	3,902,385	295.52	9,298,516	169.1	5,396,131
30	Central Canterbury (Citron New Zealand)	177.01	29,774,814	198.01	33,984,062	21	4,209,248
31	Ashburton (Electricity Ashburton)	317.26	4,182,146	409.38	5,460,363	92.12	1,268,217
32	South Canterbury (Alpine Energy)	165.03	4,103,939	236.07	6,311,654	81.04	2,207,715
33	Wairarapa (Network Wairarapa)	173.32	1,737,027	219.87	2,212,733	46.55	475,706
34	Queenstown (Aurora Energy)	273.28	2,984,818	317.22	3,626,901	43.94	642,083
35	Central Otago (Aurora Energy)	217.85	3,342,596	263.05	4,199,739	45.2	857,143
36	Otago (OtagoNet JV)	242.94	2,791,286	296.71	3,418,453	53.77	627,167
37	Dunedin (Aurora Energy)	187.01	9,011,903	200.82	9,745,834	13.81	733,931
38	Southland (The Power Company)	179.18	4,756,613	263.71	7,060,221	84.53	2,303,608
39	Invercargill (Electricity Invercargill)	152.39	2,324,345	195.23	2,982,062	42.84	657,717
Total			290,576,497		371,405,588		80,829,091

- The incumbent retailers are suppressing competition as they are only competing in the 9% of the market representing Trader switches. This is shown in the red block in the diagram below. In this sector they are using their aggressive win-back activities and new customer offers to protect their customer base and prevent a flood of exiting customers. This strategy, associated to increasing prices for loyal customers, protects a profit pool which is funding the lower deals for both new customers and save/win-back activities.

The industry in New Zealand should be very proud of both its smart meter and switching rates versus other de-regulated markets but the protectionism of the losing retailer is limiting competition and potentially supporting higher pricing across the non-switching base.



Source: Electricity Authority consultation documents/EMI information

4. These saves or winbacks will take the form of lower pricing and credits designed to eliminate the savings made by the acquiring retailer. Two examples are listed below. These examples are typical for major retailers.

In the Vector region as an example the incumbent brand Mercury Energy will automatically increase the customers prompt payment discount from 10% to 20% and then add a \$200 credit to save the lost customer. The discount increase is worth an estimated \$200+ on the average bill. This is designed to eliminate the savings made by switching (supported by the data in section 2. above showing an average \$180-\$190 saving in the Auckland region and suppress or eliminate competition). This means that including the credit the total value could be in the region of \$400. This approach is consistent across all the major brands using a mixture of pricing and credits to retain the customer.

Win-backs risk leveraging a dominant market position and fails to deliver 'fair and equitable pricing'.

In the example below a customer was attracted to energyclubnz with a 12.81% quoted saving on a bill. This was a result of significant investment in time and effort to get the customer to run a comparison and 'check their savings'. Purely because the individual has switched the losing retailer has gone back to the customer with a 'win-back' rate that they do not offer to existing loyal customers. The trigger for this switch was from energyclubnz. At no point prior to this switch had the losing retailer identified to this customer that they could save 12.81% or \$35.55 on a bill.

Genesis Energy	Units	Cost (cents)	Total (\$)	energyclubnz	Units	Cost (cents)	Total (\$)	Genesis Energy Winback Offer 1	Units	Cost (cents)	Total (\$)	Genesis Energy Winback Last Resort	Units	Cost (cents)	Total (\$)
Household Anytime kWh	586	23.67	138.71	Household Anytime kWh	586	20.36	119.31	Household Anytime kWh	586	22.54	132.08	Household Anytime kWh	586	22.54	132.08
Household Controlled kWh	391	19.7	77.03	Household Controlled kWh	391	16.24	63.50	Household Controlled kWh	391	18.69	73.08	Household Controlled kWh	391	18.69	73.08
Daily Charges Days	30	175	52.50	Daily Charges Days	30	126.1	37.83	Daily Charges Days	30	144	43.20	Daily Charges Days	30	144	43.20
Sub Total			268.23	Sub Total			220.64	Sub Total			248.36	Sub Total			248.36
GST			40.23	Club fee			21.43	GST			37.25	GST			37.25
Sub Total			308.47	Total including GST			242.07	Sub Total			285.62	Sub Total			285.62
Less 10% Prompt Payment Discount			30.85	Saving on bill			35.55	Less 15% Prompt Payment Discount			42.84	Less 20% Prompt Payment Discount			57.12
Discounted Total			277.62	% Saving			12.81%	Discounted Total			242.77	Discounted Total			228.49

Plus \$50 credit

Plus \$100 credit on a 2 year contract

Plus \$100 credit on a 2 year contract

The first win-back offer was relatively unattractive to the customer and was rejected by a simple email response (no thank you, I am still switching). In this case Genesis Energy came back with a second 'last resort' offer offering an even bigger discount. Full details can be provided to MDAG on request. We would encourage the Electricity Authority/MDAG to investigate this, or similar examples, as we believe that these win-back rates could actually be 'loss leading', when taking into account the average cost of servicing an electricity customer from the financial reports of the major retailers, and could potentially be deemed to be 'Predatory Pricing'. Our estimate

is that given the Genesis Energy cost base and listed inter-company transfer wholesale pricing (\$79.11/MW sourced from the half year interim report) that Genesis Energy is losing significant levels of money on this customer. This issue is not limited to Genesis Energy and is typical of the major incumbent retailers approach.

The 17.7% lower pricing has been solely achieved because another retailer has invested marketing funds to communicate the potential savings to the customer who has subsequently switched not because a customer was proactively looking to switch.

A neighbouring property who is on exactly the same brands original tariff, with exactly the same meter type and consumption will now be on much higher pricing as they have not made the same effort to switch. Note – the original switcher responded to an offered quote from energyclubnz and did not make any proactive effort to switch. This is neither fair or equitable. Two adjacent households with the same brand could have significantly different pricing – in this case one would be 17.7% lower pricing.

In summary 9% of customers in any one year are getting a much lower price, funded by those that are loyal to their existing brand, and the remaining customers are being priced aggressively. We strongly believe that once the cost base of the losing retailer is included in these calculations that the overall deal could potentially be classed as 'loss leading'.

2. Winback and save values range from \$200 to \$400. With the total profit pool of the incumbent retailers increasing (on their joint Generation and Retail businesses) these discounts are consequently funded via the existing 78% of customers, excluding 'movers', who remain loyal to the brand in any one year. **This means that loyal users, who are not switching in any given year, are having to fund between \$25 and \$50 per household to offer 'switching' or 'save' customers lower pricing.** This is fundamentally against the Power Reviews objective of delivering 'fair' and 'equitable' pricing. How can a brand justify having two adjoining houses, with the same usage, consumption habits and meter types on pricing that could be 10-20% lower on the same brand?
3. Investment for new brands in sales channels is increasing by c.+15-20% due to cancellations, and reversed switches, created by save and win-back activity. This is due to the investments being made resulting in 20%+ of the acquired customers actually being won back. Net, the acquisition costs of new customers increase and so does the inefficiency of the market.

Recommended Action:

All saves and win-backs should be banned in the electricity market. If a retailer cannot delight a customer and offer them great everyday value, through their regular non-discriminatory pricing, they should not be able to use any of their own data to target those customers again.

I hope this is of use. I will be happy to answer any questions from your team directly.

Yours sincerely



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Founder

