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## **Independent retailers support making it easier for consumers to compare tariff options and switch**

2degrees, Electric Kiwi, Flick Electric and Pulse Energy (the independent retailers) welcome the Electricity Authority's consultation on consumer plan comparison and switching. We agree with the Authority's starting premise that:

- While the growing number of diverse offerings is a positive outcome for consumers it can make it difficult for consumers to choose the right plan for their household needs; and
- "It is increasingly important for consumers to have access to accurate information that enables them to compare plans and easily make the switch if a better offer is available."

### **The independent retailers welcome the Authority's intent to "Maximise the benefits of competition ..."**

The independent retailers welcome and endorse the Authority's statement that one of its policy objectives is to "Maximise the benefits of competition in electricity supply for consumers". We also welcome the Authority's attempts to address the problem that some customers are 'sticky'/don't switch even when they would be better off by doing so.

The Electricity Price Review highlighted that consumers who are least likely to switch tend to be disproportionately low income and vulnerable – and have the most to gain from competition and better energy affordability. The discussion on previous initiatives in the consultation paper highlights that successfully targeting these consumer groups and ensuring they can access the benefits of competition isn't always easy.

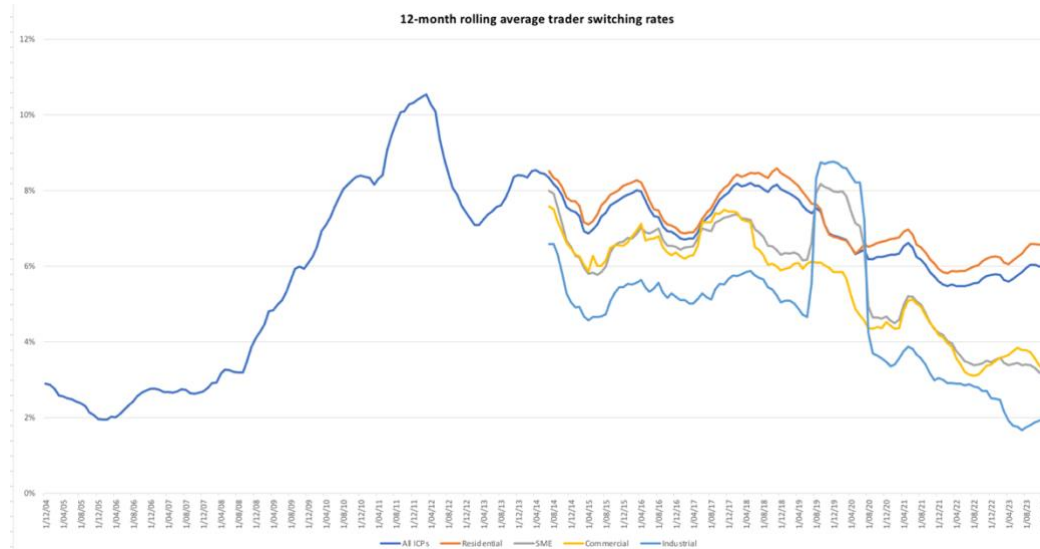
What this suggests is a two-pronged approach to competition policy should be adopted: (i) at the overall national market level, making sure the market and regulatory settings provide a level-playing field/eliminate or mitigate barriers to competition in electricity retailing; and (ii) targeted reforms aimed at regions and customer groups where competition isn't working as well as it should or as well as other parts of the market. If the Authority's aim is to reduce the number of consumers that don't switch/require targeted reforms, a more competitive market is the most cost-efficient change to make to have a broad impact.

### **The comparison plan and switching project should be seen in the context of a much bigger competition problem**

The Authority should be worried about signs of the worsening state of competition in the electricity market. As the Authority is aware, our submission to MBIE on the Energy Transition detailed that on

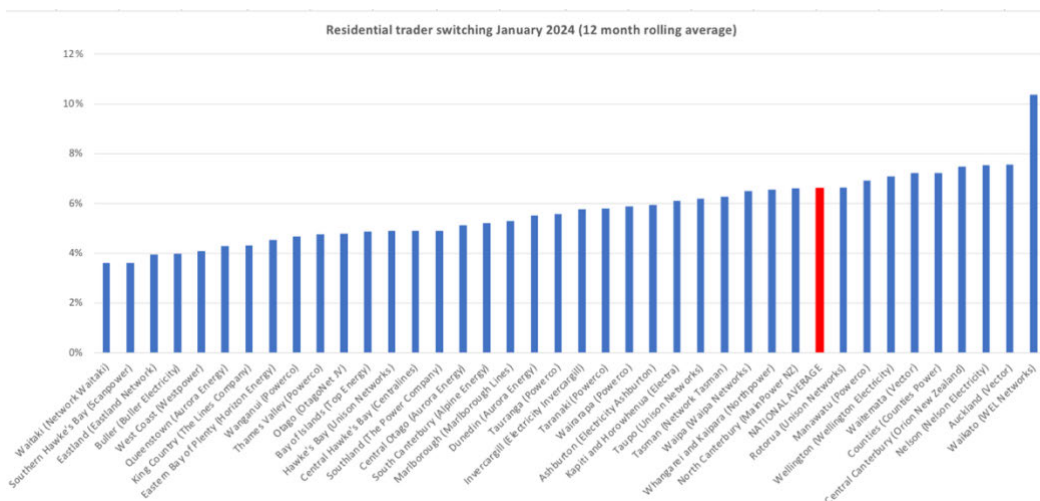
reasonable or objective metrics, the strength of retail competition has gone backwards; particularly over the last couple of years.<sup>1</sup>

This included that switching rates have been declining since 2018 and are now back at 2000s levels. We agree with the Authority that residential switching levels in New Zealand “remain low” at just 6.63%. The switching results are much lower for SME (3.09%), commercial (3.18%), and industrial (2%).<sup>2</sup>



What these figures and trends show is that there is a much bigger problem going on (notably following the Pohokura outage) with retail competition than the (albeit valid) issues the Authority is targeting in the plan comparison and switching consultation.

It would also be useful for the Authority to look at why there is large regional variation in switching rates across New Zealand; with Tauranga and Network Waitaki, for example, typically tracking well below the rest of the country. If the Authority is concerned that the national average of 6.63% remains low, what about Network Waitaki where the switching rate is 3.61%?



<sup>1</sup> 2degrees, Electric Kiwi, Flick Electric and Pulse Energy, MBIE Energy Transition Omnibus submission, Stronger competition is key to affordable electricity and a successful energy transition, 2023 11 02.

<sup>2</sup> We understand that the 2019-2020 SME and industrial spikes were due to a change in participant identifiers/classification for those ICPs due to a change in (Meridian?) systems rather than actual switching activity.

## Summary of the independent retailers' views on the options for consideration

<b>Website-related options</b>	
Option 1: No Authority/government supported or endorsed website.	We do not support this option.
Option 2: Retailer-run collective website.	This option should be ruled out. We are uncomfortable with the 'competition'/Commerce Act issues this option could create. We consider the Authority's observation that this "Requires complex collaboration" is an understatement.
Option 3: Authority accredited, externally run, websites.	We are open to further (or future) consideration of this option.
Option 4: Authority-supported existing or new, externally run, websites.	We support putting the provision of the consumer switching site out to tender.
Option 5: Expanded government utility comparison website.	We are open to further (or future) consideration of this option.
<b>Consumer choice support options</b>	
Option A: Retailers provide their existing consumers with best plan information.	We consider the nature of this option is such that it should be addressed in individual submissions rather than in joint submission.
Option B: Community advisers to support comparison and switching.	<p>In principle this could be a useful idea. We would need more information about how the Authority sees option B "Community advisers to support comparison and switching" working in practice to comment.</p> <p>To ensure costs do not escalate, if this option is adopted, there would need to be clear determination of eligibility for targeted support and a funding model which does not de-incentivise participation.</p>
Option C: Promotional activity and campaigns for comparison and switching services.	We suggest the Authority consider the implications of reintroducing Authority levy-funded promotion/advertising at a time when competition is in a distressed state. It may be better to ensure market settings enable competition on a more level playing field (e.g. resolve access to risk management/hedge products) first to maximise the potential benefits from advertising and to minimise the risk of unintended consequences. <sup>3</sup>

### **Other options the Authority should consider**

We support extra funding to ensure Powerswitch is fully levy-funded/can be kept up-to-date and improve.

We recommend the Authority introduce:

- a. KPIs/minimum service requirements for the consumer switching service; and
- b. requirements for periodic independent reviews, both in terms of the extent to which the switching service:

<sup>3</sup> We understand Powerswitch has promotional activity planned for later in the year.

#### Other options the Authority should consider

- i. is kept up-to-date e.g. how quickly new tariffs are incorporated and identified errors are addressed;
- ii. applies a consistent methodology to categories of plans e.g. plans with periods of low or no prices; and
- iii. correctly and accurately advises consumers: whether they should switch; who they should switch to; and the size of the potential savings from switching.

We would support the Authority undertaking further work aimed at targeting 'sticky' customers who may have never switched or have not switched for a long period of time. There is clear evidence sticky customers pay high 'loyalty taxes' to the incumbent retailers. Better understanding the barriers to participation would help to offer support to consumers appropriately.

We support the work "The Authority has ... underway to improve its collection of retail market data" including "the collection of more granular consumer data including household consumption and billing data." This would enable consumers to allow the switching site to access their actual consumption data for retail pricing plan comparison purposes and saving calculations based on load shifting (leveraging TOU pricing).<sup>4</sup> The current Powerswitch comparison site does not currently share the profile they use to estimate costs under a TOU plan which leaves consumers unable to make informed decisions as the critical assumptions in this calculation are opaque/and likewise limits participating retailers ability to scrutinise and review the methodology used by Powerswitch.

EMI enhancements: The Authority should monitor the extent to which customer 'stickiness' reduces (or not) as part of its retail market/competition monitoring, including the extent to which some customers have never switched/frequency of switching e.g. Figure 10.

The Authority should also consider reintroducing EMI's "consumer savings" monitoring. The Electricity Price Review (EPR) highlighted there were issues with its accuracy, and it understated the potential consumer savings. These issues could be resolved using Powerswitch information.<sup>5</sup>

#### The independent retailers' views on the consultation

- **We welcome the work Consumer NZ is doing to improve Powerswitch.** It is important to ensure Powerswitch, or any other comparison site the Authority may choose to partner with, is sufficiently well funded so that it can be kept up-to-date and improve. The work Consumer NZ is doing in relation to bundled services and time-of-use tariffs is particularly important for ensuring it provides consumers with accurate information about whether they could benefit from switching retailer.<sup>6</sup>
- An increasingly complex and difficult challenge any provider of switching advice will face is the increasingly dynamic and diverse range of product offerings e.g. the extent to which a customer will benefit from any time-of-use options (including \$0 tariff options) depends partly on their existing consumption patterns (known based on historic data) but also on how they may alter their consumption in response to the pricing signal (estimable only). These types of tariff options are only likely to become more common as part of the energy transition. To the extent switching services don't adequately consider both these factors it can result in a bias in favour of incumbent 'legacy' products.

<sup>4</sup> Note in the UK each customer's bill has a QR code which, when read, reveals that person's consumption data.

<sup>5</sup> As per the figure cited in paragraph 4.13.

<sup>6</sup> [https://www.ea.govt.nz/documents/3057/Independent\\_retailers-202324-Levy-funded-appropriation.pdf](https://www.ea.govt.nz/documents/3057/Independent_retailers-202324-Levy-funded-appropriation.pdf)

- **We support extra funding to ensure any affiliated comparison site is fully levy-funded:**<sup>7</sup> We welcome that the Authority has indicated it will consider funding arrangements as part of the competitive tender for the consumer switching site service. We continue to support Consumer NZ's view that the funding model should "reflect the recommendations made by the Electricity Price Review, namely; to fully fund Powerswitch operations and remove the need to rely on switching fees ...".<sup>8</sup>

The way Consumer NZ sets Powerswitch fees to cover the levy-funding shortfall – on a retail sales commission basis – is a 'tax on competition' which favours incumbent retailers at the expense of small and new entrant retailers.

- **We support the Authority's intention to work with the switching site "under a continuous improvement model** to ensure the service is evolving to meet market developments and delivers the best functionality to consumers. This could include Code changes to ensure the provider has the necessary data from retailers to make accurate comparisons."
- **In order for the Authority to ensure consumers get the maximum possible benefit from the switching site service, we consider it important it is subject to periodic independent review to assess its accuracy** i.e. the extent to which the switching service:
  - a. is kept up-to-date (how quickly new tariff information is incorporated and identified errors are addressed);
  - b. applies a consistent methodology to categories of plans e.g. plans with periods of low or no prices; and
  - c. correctly and accurately advises consumers: (i) whether they should switch; (ii) who they should switch to; and (iii) the size of the potential savings from switching.

One approach could be to assess the results of the site against real-world, actual domestic consumer annual consumption data. In order for the consumer switching site to protect consumers from over-pricing, and to best promote competition, it is vital there is good information on its accuracy, improvements in accuracy can be tracked over-time, and this forms part of the KPIs/minimum service requirements for the service.

- **In terms of question 16, "Option 2: Retailer-run collective website" should have been ruled out from the outset.** We do not consider this to be a viable option and are uncomfortable with the 'competition'/Commerce Act issues this option could create. We consider the Authority's observation that this "Requires complex collaboration" is a very big understatement.

Before electricity retailers could even develop a collective-run website, governance and voting arrangements would need to be established for its operation which would not be a trivial or straight-forward exercise e.g. would it be operated by an incorporated society, would it be modelled on the Telecommunications Carriers' Forum (TCF), what would the voting arrangements look like? If voting was based on size, the collective would be dominated and controlled by the large, incumbent retailers. If voting was on a more democratic basis, with equal voting rights, the very small electricity retailers would be able to control its operation.

We haven't commented in detail on this option in our submission but if the Authority were to consider it further, we would like the opportunity to discuss why we don't think it is a good idea.

<sup>7</sup> We have outlined this view, for example, in the last two Electricity Authority appropriations consultations: [https://www.ea.govt.nz/documents/4487/Independent\\_Retailers\\_email.pdf](https://www.ea.govt.nz/documents/4487/Independent_Retailers_email.pdf).







<sup>8</sup> <https://www.ea.govt.nz/documents/3054/Consumer-NZ-202324-Levy-funded-appropriation.pdf>



- **We support the Authority putting the provision of the consumer switching site out to tender (option 4):** One of the issues the Authority will need to consider as part of a competitive tender is the brand awareness tied up with Powerswitch (as per Figure 1). If the Authority changes supplier there is a risk of some loss of the benefits of brand awareness Powerswitch has built up over time, but this issue will only become more pronounced the longer it is before it is addressed. The Authority should consider whether control over branding should be part of the tender process requirements.
- **More information needed on option B:** We would need more information on how the Authority sees option B “Community advisers to support comparison and switching” working in practice before we could say we support/don’t support but are open to the Authority exploring this option further. It could be an expensive option that achieves little, and there may be more targeted options e.g. working with Government social agencies.
- **Industry regulators don’t need to advertise competition in markets that are fully competitive/where competition is thriving (option C).** The Authority’s proposal to reintroduce Authority levy-funded promotion/advertising of consumer switching (as per the previous ‘whatsmynumber’ campaigns) implicitly acknowledges competition is not working as well as it should. Marketing by competitors can be relied on in healthy, thriving competitive markets and there isn’t a need for regulator advertising.

We suggest the Authority consider the implications of reintroducing Authority levy-funded promotion/advertising at a time when competition is in a distressed state. We recommend the Authority ensure market settings enable competition on a more level playing field (e.g. resolve access to risk management/hedge products) first to maximise the potential benefits from advertising and minimise the risk of unintended consequences.

Yours sincerely,

<p>Emma-Kate Greer Chief Corporate Affairs Officer</p>  	<p>Luke Blincoe Chief Executive</p>  
<p>Pavan Vyas Chief Executive</p>  	<p>Sharnie Warren Chief Executive</p> 