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Submissions
Electricity Authority
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By email: switchingconsultation@ea.govt.nz

Consultation paper - Options to support consumer plan comparison and switching

Nova Energy ('Nova') welcomes the opportunity to provide feedback on the Electricity Authority's ('Authority') 'Options to support consumer plan comparison and switching' consultation paper.

Nova agrees that retailer's offerings are becoming increasingly complex, and it is difficult for consumers to identify the energy plan that best fits their needs. This complexity has a number of causes:

- a) Electricity distribution business ('EDBs') are being asked to adopt cost reflect pricing in the interests of reducing demand during peak demand periods.
- b) Electricity spot prices during peak demand periods are becoming more volatile.
- c) Retailers are responding to competitive pressures and 'time of use' distribution prices by offering innovative products, including night and day plans, time of day plans or plans with occasional or regular free or heavily discounted time periods.

Few consumers have the resources to be able to compare costs between different tariff structures, even if they have their past hour-hourly demand data in a suitable format. As such, Nova supports the Authority's efforts to enable consumers to make informed decisions on retail plans.

However, Nova feels that customer switching statistics are not a good measure of market competitiveness. Electricity retailers are always highly conscious of customer acquisition costs, and therefore place a high value on retaining customers. In para 4.10 (d)(i) it is quoted 47% of consumers that switch do so for better value for money, and 4.10 (a) 45% considered different providers or plans but decided not to switch. It can be taken from this there is a strong incentive for retailers to keep their prices and terms close to the competition to retain their customers.

The "Do not knock" provision in the Fair Trading Amendment Act 2021 has made it more difficult for small electricity retailers to market competitive retail electricity plans. Smaller retailers do not have the resources to advertise widely or build a brand in the market. The 'Do not knock' provisions in the law now makes it less viable to use direct sales approaches to encourage consumers to swap to a lower cost plan. The statistics presented by the Authority illustrate the challenges of getting consumers to engage on switching retailers. It is unfortunate this sales channel has been diminished, because the sales teams were equipped to compare price plans and demonstrate to consumers the plan they were selling could save them consumer money.

(Nova submitted on the "Do not knock" amendment at the time the legislation was being drafted, and sought an exemption for services such as electricity, but obviously without success. The substantial reduction in the use of direct sales teams since the introduction of the legislation has been to the direct benefit of the large incumbent retailers.)

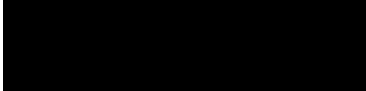
Outside such direct sales, most (non-moving) switches occur when the retailer makes a price change. This serves as a trigger for the informed consumer to seek an alternative plan, but they still need convenient tools and some knowledge of the electricity market before they can make that decision.

Nova therefore supports the work the Authority has and continues to do in promoting retail competition and protecting consumer interests.

Nova's specific responses to the Authority's questions are appended to this letter.

Nova's retail team would be happy to meet with the Authority to further discuss this submission or answer any questions you may have.

Yours sincerely

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Paul Baker

Commercial & Regulatory Manager

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Nova submission: Options to support consumer plan comparison and switching

Q No.	Questions	Response
Q1.	<p>What are your views on the key issues around supporting consumers to compare and switch, and barriers for consumers? Are there others than those outlined above?</p>	<p>The analysis provided captures many of the issues facing the retail market although it is not clear from the paper and the analysis contained within that identifies a suitable threshold or benchmark for switching that would be consistent with meeting the definition of a competitive market. Nova thinks this is necessary before any determination can be made whether customer switching is too low.</p> <p>Notwithstanding this, in Nova's view, consumers are time poor and are looking for convenient tools for making decisions. This is apparent in the use of product reviews by both magazine publishers and online retailers. In addition, not all consumers are adequately equipped to deal with the complexity of comparing electricity plans even with the assistance of a price comparison tools available. Unfortunately, electricity retail tariffs are quite complex and can be difficult to compare, and are likely to become more so with more:</p> <ul style="list-style-type: none"> • cost reflective and time-of-use pricing being mandated, • innovation by different retailers seeking to differentiate themselves and add value to the customer experience through different product offerings; and • spot price volatility. <p>Billing and CRM systems developments through time can also be expected to lead to the capability of retailers to offer more customised or tailored tariffs to meet the needs of smaller market segments.</p> <p>Nova also notes that it has become harder for retailers, and in particular smaller and new retailers, to engage in direct sales activity to overcome the information asymmetry obstacle to customer switching. Under the Fair Trading Act, it is no longer as viable for retailers to use direct marketing (door knocking) and present competitive pricing plans directly to consumers. This is a new barrier to competition that retailers will need to overcome, especially new entrant retailers who do not have benefit of brand awareness and scale to afford mass market advertising. Nova notes that the EA has recognised that consumers are not always driven by financial metrics in their decision making. This is entirely consistent with consumer behaviours to many products and services and suppliers will be seeking to add value to their product offerings in many different ways providing a choice. That is not to say there is not a place for product offerings reflecting the preferences of the more budget conscious and Nova notes that</p>

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		<p>there are a number of retailer brands that market themselves to such customers. Other brands market themselves to specific market segments including Nova (multi-utility), Octopus Energy (EV owners), etc). These are all signs of a well-functioning competitive market.</p>
Q2.	<p>Do you think we've identified the right opportunities leading us to review how we support comparison and switching? What opportunities do you consider most important?</p>	<p>There are two key elements to encouraging consumers to switch suppliers; the trigger to consider an alternative retailer's plan, and the follow through to making a switch.</p> <p>In the absence of a direct sales approach, both elements present difficulties. As identified in the paper, the priority is to make the process as simple and straightforward for the consumer as possible, but without inhibiting retailer innovation and development of a range of alternative plans.</p> <p>While in general most consumers are very capable of making the choice of supplier, Nova supports an educative approach to assist those who struggle with complexity and who may not be comfortable making switching decisions without assistance. Nova notes the existence of programs such as that offered by EnergyMate¹ in this space as an example of what can be achieved with a targeted approach.</p> <p>Some of the issues raised in the paper such as the regional price differences while concerning for policy makers are unlikely to be solved through price comparison websites and are due to more structural issues such as low customer density and inability to spread fixed infrastructure costs. The issue of low levels of competition in some regions should be investigated. One plausible reason for reduced competition in network regions with low customers numbers is incremental costs for retailers to retail in regions due to the transaction costs associated with dealing with networks when the retailer only has a small number of customers.</p>
Q3.	<p>Do you consider it is important for the Authority to fund and support a comparison and switching website or websites? Why?</p>	<p>Yes, Nova agrees with the Authority supporting a website(s) designed to provide consumers with competitive product offerings to meet their specific requirements. This is because, as noted above, consumers are looking for convenience and timeliness as well as a reliable source of information when making commercial decisions. It is simply not realistic to expect consumers to spend as much time choosing an electricity provider as they spend choosing the make and model of a new car to buy.</p>

¹ The EnergyMate programme in New Zealand is a partnership between electricity retailers, lines companies, community organisations, and the government. It aims to help households, particularly those at high risk of energy hardship, make the most of their electricity.

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		<p>Given the number of households in New Zealand (approximately 1.4m) relative to much larger size of the UK market where there are several price comparison websites it appears reasonable that NZ should only have one such website although that service, if supported by regulatory funding, should still be subject to contestable processes from time to time to ensure cost competitiveness and the service being fit for purpose through time.</p>
Q4.	<p>What do you think are the most important features a comparison and switching website should have to make it the most accessible and effective for users?</p>	<p>Any comparison website should be easy to use and understand and should with clear information.</p> <p>The critical measure will be the expected annual cost of each alternative product, but there also needs to be room for other criteria that can be important to consumers. A feature as simple as timing of automatic bill payments to coincide with receipt of income can be useful to parties who find it difficult to manage cash flows.</p>
Q5.	<p>What problems, if any, do you see with current comparison and switching websites?</p>	<p>Nova appreciates all the work Consumer Powerswitch does to provide accurate and independent pricing and comparisons. Their challenge has always been to keep pace with pricing innovation, and to guide customers through this maze of information to make informed, accurate switching decisions.</p> <p>The main challenge in the future is how to best navigate through the new time of use pricing plans – alongside the ‘flat pricing’ plans and new plans that will come out when the Low Fixed Charge Regulations ends.</p>
Q6.	<p>What else should we consider when assessing the relative advantages and disadvantages of the five website-related options?</p>	<p>By funding a single preferred supplier, the Authority is potentially suppressing innovative solutions from other parties, i.e., by effectively crowding out other options for price comparison service providers.</p>
Q7.	<p>Of the website-related options, which do you think would best remove barriers to comparing and switching (e.g., perceptions that switching is time consuming, complex, and confusing)?</p>	<p>Nova supports the Authority’s Option 4 which provides customers a simple (one site), independent source of information that would be easy for the Authority to work with, check and for retailers to deal with.</p>

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Q8.	What other types of website - related options, if any, should we consider to support comparison and switching and why?	
Q9.	Are there other types of technology in addition to, or alternative to, websites that we should consider?	
Q10.	What are your views on how retailers providing 'best plan' information could work? For example, how should they assess the 'best plan' and present/target information to consumers, and how often? What do you think of the Australian 'automated -switch' idea?	<p>Nova is concerned with the Authority's 'best plan' proposal. Nova believes the Authority needs to work through the following issues before adopting this option, namely:</p> <p>a) What is the definition of the "best plan"?</p> <ul style="list-style-type: none"> i Is "best plan" simply based on the retailers "cheapest" pricing, or best pricing based on the customers historical consumption profile? Under the latter definition, retailers would likely have to develop systems to calculate total costs under all its existing plans on offer and then select the lowest price. The lowest price offer may be tied to a fixed term contract. Would that be considered an acceptable "best price"? ii Must the "best plan" include comparison of 'flat pricing' plans with new 'Time of Day' pricing plans? Not all customers are ready to consider such plans, and they may dispute whether it is the 'best price', inevitably generating more calls to the call centre. iii Any such 'best plan' calculations can only consider the customers current consumption patterns. For many cases, the record will be less than 12 months, which adds additional complexity and room for calculation errors. What is the retailer's liability under such errors, and what if the consumer has advised the retailer that they have had a change of circumstances. Is the retailer expected to factor that into the calculation? Is the retailer liable for the difference if the plans turn out to be more expensive than projected? iv Not all customers have the same meter configurations, and there are still customers moving from legacy meters to AMI meters. Should retailers have to recommend a change of plan when the meter type or configuration changes?

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		<ul style="list-style-type: none"> v What non-pricing related factors are included in the definition? For example, if a customer is on a payment plan, should they be included in this best plan information? b) How do retailers deal with customers who are tied to a Fixed Term contract? They are unlikely to appreciate being told there is now a lower priced plan on offer. c) Has the Authority considered the extra costs adding a best plan might impose to retailers in terms of billing changes, and customer communication costs? d) The concept of an automated switch is also likely to have a number of unintended consequences. It is inconsistent with the philosophy of customer choice and self-determination and would expose retailers to legal liability risks if the 'auto switch' turned out to make the customer worse off in hindsight.
Q11.	In what form do you think the community advisers service would function best? For example, what agencies might we collaborate with? What are the best approaches?	<p>New Zealand has a range of community advisory services that each tend to reach a different audience. The existing organisations and agencies do a good job and work in well with retailers today. The best community agencies are those that work hand in hand with retailers and their customers to find the best solutions for the customer's different situations.</p> <p>Nova suggests the focus of the Authority should be to help educate and upskill those agencies to understand the retail electricity market and providing resources they can use to support and advise consumers how they can minimise their energy costs. That would achieve the highest leverage for the Authority's investment as well as providing an avenue for the Authority to gain direct line of feedback on the challenges faced by consumers and potential solutions.</p>
Q12.	What conditions or support would enable community advisers to be best able to help consumers? What barriers need to be removed to achieve this?	As above, the community advisors should provide training and support to individuals operating within existing social agencies. Nova recommends discussing these options with ERANZ and those involved with the EnergyMate program. They can provide insight and information as to the best way in which to engage with and support community agencies that are already providing advice to those that need the help the most. An important aspect of the support will be funding and by taking a targeted approach that can be managed.
Q13.	What else should we consider when assessing the relative advantages and disadvantages of the three consumer choice support options?	The critical measure for assessing the options must be the cost / benefit ratio for reducing energy costs for individuals deemed to be in energy hardship. While it might be deemed useful to help reduce the monthly energy bill for someone heating their spa pool, but that is not going to have the same level of social impact.

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Q14.	Of the consumer choice support options, which do you think would best remove barriers to comparing and switching (e.g., perceptions that switching is time consuming, complex, and confusing)?	<p>It is Nova's view that option B is the best option, so long as the emphasis is placed on providing advice and support to existing social agencies. Energy hardship is just one element of wider difficulties that low income families and individuals face, and it is better that the persons supporting them are well informed of options available and how they can assist those families reduce their energy costs. That would gain the widest benefit with the available resources.</p> <p>Options A would be problematic.</p> <p>Option C is expected to be very costly for the level of switching it is likely to induce, and more importantly, is likely to miss the most important audience, i.e. those on low incomes without the same resource to tap into websites etc.</p>
Q15.	What other types of consumer choice support options, if any, should we consider to support comparison and switching and why?	Supporting social welfare agencies as described above.
Q16.	What are your thoughts on ruling out these options? If you disagree, why should they still be considered?	Nova concurs with the Authority in ruling out these options.
Q17.	What are your views on the criteria we've chosen to assess options. Do you think some criteria should be weighted more than others as they are more important?	The measure of consumer benefit should have emphasis on reaching consumers in energy hardship as they will benefit most from any cost savings.
Q18.	Are there other criteria you think are important to help decide on the best options?	Another criterion is that the option should not impede innovation and product development by retailers. There is always the temptation to simplify product offerings to make them more comparable, but that can have significant long-term costs and be difficult to unwind once created.
Q19.	What's your opinion on the Authority's proposed 'four-pronged' approach to supporting consumer	<p>Nova supports the Authority's 'Option 4' approach for delivering a comparison and switch tool.</p> <p>The consumer support options A and C are expected to be poor value for money.</p>

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	<p>comparison and switching? What alternative approach might you support?</p>	<p>Option A will be expensive and difficult for retailers to implement, which will flow through to consumers in the form of higher prices.</p> <p>Every electricity invoice and written communication to electricity consumers already carries a reference to the Powerswitch website, so it is hard to accept that further promotional expenditure, Option C, is going to trigger more proactive switching.</p>
Q20.	<p>What thoughts do you have on our current assessment of the options against the proposed criteria in Appendix D and their scores? How might your assessment differ?</p>	<p>Nova disagrees with the systems cost to determine the best offer for existing customers. Given the complexities across 29 EDB's low user and standard users, dual fuel etc. the systems cost of determining a best price is likely to be very large and extremely difficult to achieve.</p>
Q21.	<p>Are there any other issues concerning supporting consumers to compare and switch that you would like to comment on, whether raised in this paper or not?</p>	