

Submission to consultation of Electricity Authority: “Options to support consumer plan comparison and switching”

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Background

In this submission, we present our views on the first 10 of the 21 questions posed in the consultation paper of the Electricity Authority (EA) (hereafter “the consultation paper”). These are the 10 questions most relevant to the assessment of the website-related options in the consultation paper. Our response to the consultation paper is informed by our recent article on the New Zealand retail electricity market “The impact of price comparison tools on electricity retailer choices”, which we will refer to as Gibbard and Remmy (2024).¹ The views are also informed by a field experiment on Powerswitch, which is currently being undertaken by Peter Gibbard, together with Professor Stephen Knowles in the department of economics at the University of Otago. We refer to this as the Gibbard-Knowles Powerswitch project. This project is studying the switching behaviour of over 190 Dunedin residents who have responsibility for an electricity bill. The authors arranged a number of sessions – each of which typically had 10-15 participants – in which the participants undertook a search on Powerswitch. The authors assisted the participants with their searches. These sessions have all been completed, and the authors are currently monitoring the switching behaviour of the participants. In the course of running the sessions, the authors had an opportunity to observe the participants’ interactions with the Powerswitch website.

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¹See https://kevinremmy.com/research/papers/nz_switching.pdf.

Q1. 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?

The EA's consultation paper identified many of the key issues relating to supporting consumers to compare and switch. One particularly important issue highlighted by the consultation paper (section 4.4) is the ability of a consumer to identify their own plan on the price comparison tool. In the Gibbard-Knowles Powerswitch project (described in the background), frequently neither the authors nor the participants were able to identify the participant's plan by using the information on the participants' bill. This issue is particularly problematical if the participant is on a plan that is no longer offered. The most promising solution to this problem, as far as we are aware, is a policy that ensures clearer, standardised billing formats.

In describing the sources of consumer inertia, the EA's consultation paper does not discuss procrastination. One potential cause of consumer inertia in electricity is that consumers are procrastinating, either (i) perpetually delaying the decision to search or (ii) having searched, delaying the decision to switch. There is now substantial economic literature on the importance of procrastination in consumer decision-making. In this literature, procrastination has been used to explain (1) low participation rates of employees in joining retirement savings plans (2) why gym memberships are often cancelled well after the member has failed to attend the gym (3) low enrolment in health plans.

It would be useful for the EA to engage with the economics literature on procrastination. This may highlight measures that reduce procrastination, which could potentially be applied to reduce consumer inertia in retail electricity. One simple measure would be for Powerswitch to send a reminder to consumers who do not switch by, say, a month after their visit to the website.

Q2. 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?

As highlighted in Section 4.44 of the EA's consultation paper, as well as our answer to Q1, a very important challenge to price comparison is the ability of a consumer to identify their plan. One means of supporting consumers in doing so is to improve the clarity of electricity bills. The Consumer Advocacy Council (CAC) has been undertaking a project to encourage the uptake of standard, clearer bill formats. One opportunity is to align the workstreams of the EA's project with with CAC's project.

There is a second way in which CAC’s project might assist consumers in using price comparison tools. Section 4.40 in the EA’s consultation paper highlights the challenges of time-of-use (TOU) pricing. A price comparison tool is better equipped for ranking TOU plans if it receives actual data on consumption during various time periods. A well-designed bill will assist the consumer in inputting such consumption data into a price comparison tool. (Pébereau and Remmy (2023) study consumer adoption of real-time pricing tariffs in New Zealand; their findings highlight the benefits of easy comparisons of bills based on actual consumption data that the consumer can upload into the price comparison tool.²)

Q3. Do you consider it is important for the Authority to fund and support a comparison and switching website or websites? Why?

If, in fact, the website currently funded by the EA – namely Powerswitch – were ineffective, this might be one argument for not funding and supporting a comparison website or websites. However, Gibbard and Remmy (2024) find that Powerswitch is relatively effective. In particular, we find that, after a Powerswitch search, a consumer is substantially more informed than after a search not undertaken on Powerswitch. Table 3 of Gibbard and Remmy (2024) presents our key evidence for this finding. Table 3 compares switches that occur with a Powerswitch search (within three months of a Powerswitch search) to switches that occur without a Powerswitch search. We find that when a household switches with a Powerswitch search, the household is substantially more likely to switch to one of the smaller retailers. In contrast, when a switch occurs without a Powerswitch search, they are more likely to switch to one of the larger retailers. The most obvious explanation for this difference is that, when a household switches without a Powerswitch search, they are less likely to be informed about the full range of alternatives, and more likely to focus on larger retailers, on account of superior brand recognition. In contrast, a Powerswitch search tends to inform consumers of the cheapest alternatives, whether they be smaller or larger retailers. We find that the additional information obtained by households from searching on Powerswitch leads to substantial consumer benefits. In particular, we compare the current set-up to an alternative scenario where there is no price comparison website; we find that removing the price comparison website causes a cost to consumers of about NZD 14 million per annum; furthermore, smaller retailers lose market share.

²See https://kevinremmy.com/research/papers/RTP_Pebereau_Remmy.pdf.

Q4. 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?

Our answer to Q4 is incorporated in our answer to Q5.

Q5. What problems, if any, do you see with current comparison and switching websites?

Two of the key problems facing households that use Powerswitch have been highlighted in our answers to Q1 and Q2.

- Households often do not know – even if they access their bill information – which plan they are on.
- There are challenges with ranking TOU plans in the absence of actual consumption data.

As noted in our answer to Q2, these problems can at least be partly addressed if the design of comparison websites is aligned with the CAC’s work on billing formats. In particular, consumer search on a comparison website would be assisted if the design of comparison websites were aligned with billing formats in the following respects.

1. Bills should inform households what plan they are on – even if the plan is no longer offered – and the plan name on the bill should be aligned with the name on the comparison website
2. Bills should provide information about consumption that is easy for consumers to understand, and therefore easy to input into the comparison website. Bills should break down consumption by TOU and the comparison website should allow consumers to input TOU consumption data into a price comparison website.
3. In the sessions run for the Gibbard-Knowles Powerswitch project, a number of participants said they would have found it helpful if they could have entered into the website not only their monthly consumption data but also their annual consumption data. Ideally, bills would similarly not only provide monthly but also annual data.
4. In the Gibbard-Knowles Powerswitch project, a number of participants said they would have found it helpful if they could have entered into the website not only the information on their bill about the consumption but also the information on their bill about the tariff – the fixed price, the variable price per kwh (potentially broken down by TOU if the plan is TOU). This might reduce a consumer’s perceived uncertainty about the comparison website’s calculations of costs. This request was generally made when participants were unable to ascertain their plans.

For these reasons, our view is that it is essential that policies are implemented for increasing the clarity and informativeness of bills. Any reforms relating to price comparison tools will have a substantially weaker effect if they are not accompanied with increases in the clarity of bills. As noted in the consultation paper, the Australian Energy Regulator (AER) has introduced a mandatory bill guideline. If the retailers in New Zealand will not voluntarily accept to follow an appropriate bill formatting guideline, there is a strong argument for following the approach of the AER and introducing a mandatory bill guideline.

It might be thought that, in a free market, retailers would be incentivized to provide the types of bills preferred by customers. We do not, however, believe this to be the case. The reason is that, when a consumer is comparing its current retailer with other retailers, they typically only are able to inspect the bill of their current retailer, and so cannot compare the quality of their bill to the quality of rival bills. Indeed, it is arguable that retailers have the opposite incentive: there may be an incentive to create a bill which is unclear; this will make it hard for a consumer to compare retailers and thereby discourage switching.

Q6. What else should we consider when assessing the relative advantages and disadvantages of the five website-related options?

There are additional disadvantages of Option 3 (the option of accredited, externally run websites) over and above those noted in the consultation paper.

1. Presumably there will not only be an additional cost of monitoring the accredited websites but also a cost of accrediting them?
2. The consultation notes that “Facilitating private commercial services” may encourage “aggressive sales like approaches to get switches”. But, in addition, such for-profit websites may also have an incentive to distort the search results to favour retailers that remunerate them most highly. For example, in 2018, the Australian Competition and Consumer Commission found that Trivago (which runs hotel price comparison websites) had breached consumer law, a finding which was upheld by the Federal court. The illegal conduct was that, in designing the algorithm which generated its search results, Trivago placed inappropriate weight on those hotels which paid Trivago relatively high fees.

We agree with consultation paper’s specification of the disadvantages of option 2 (the retailer-run collective website), but think it would be useful to flesh them out in more detail. As the consultation paper points out,

it will be difficult for the retailers to reach agreement. Our view is that this difficulty will be heightened because of the conflicting interests of the retailers. We found, in Gibbard and Remmy (2024), that some retailers benefit from Powerswitch but some are lose. In particular, in aggregate, Powerswitch causes the larger retailers to lose market share while it causes the smaller retailers to gain market share. The reason, presumably, is that Powerswitch increases the information about retailers available to consumers; this encourages them to consider the smaller retailers with lower brand recognition. Therefore, if there were a collective website, some of the larger retailers may actually have an incentive to render the website ineffective, while the smaller retailers would have an incentive to ensure that it is effective. Given these mixed incentives, it is implausible that such a website could be effective.

Q7. Of the website-related options, which do you think would best remove barriers to comparing and switching (eg, perceptions that switching is time consuming, complex, and confusing)?

We favour options 4 and 5. Our concern with option 1 is articulated in our answer to Q3. Our concerns with options 2 and 3 are articulated in our answer to Q6. Our answer to Q3 highlights the value of the EA funding a comparison website.

Q8. What other types of website - related options, if any, should we consider to support comparison and switching and why?

We do not have any options to add.

Q9. Are there other types of technology in addition to, or alternative to, websites that we should consider?

Gibbard and Remmy (2024) distinguish between a number of different sources of consumer inertia in the New Zealand retail electricity market. One source of consumer inertia is that consumers who search but do not use Powerswitch are, on average, less informed than those who use Powerswitch; so, on average, the consumers who do not use Powerswitch will make inferior decisions to those who use Powerswitch. A second source of consumer inertia is the failure to search at all. Policies should be enacted, therefore, that encourage (1) more consumers to search and (2) of the consumers that search, more to use the government-sponsored website. The most obvious such policies are marketing campaigns advertising the

government sponsored website – this both encourages searches and also encourages the search to take place on the government-sponsored website.

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?

It is important to distinguish between two aspects of the AER’s billing guidelines. First, there are the specific provisions relating to the “best plan”. Second, there are other provisions that ensure that consumer information on bills is presented more clearly.

As stated in our answer to Q5, we strongly support the introduction of a bill guideline with the second type of provisions. Indeed, any policies to encourage price comparison will be substantially blunted if they are not accompanied by policies to improve the clarity of bills.

Regarding the first type of provisions (those specifically relating to the “best plan”), we are more cautious in our assessment. It would be useful to consult with the AER about the effectiveness of the “best plan” provisions. On the one hand, they may increase the simplicity of price comparisons. On the other hand, they may provide retailers with an opportunity to aggressively market specific plans which are beneficial to them.

Summary

Our views can be summarised as follows.

- The data analysed in Gibbard and Remmy (2024) shows that Powerswitch has been very effective in informing consumers about the menu of retailers – more precisely, the data shows that, on average, consumers who search with Powerswitch are substantially more informed than those who search by other means. In this way, Powerswitch has substantially increased the consumer surplus in NZ. Partly for this reason, we support Options 4 and 5 over Options 1, 2 and 3.
- Any policies for improving price comparison should be accompanied by policies for improving the clarity of bills. This may involve introducing a mandatory bill guideline akin to that introduced by the AER. That said, the specific provisions in the AER’s guideline relating to the “best plan”

information needs to be investigated further; it is unclear without further data whether or not they would benefit consumers.