



3 March 2020

Dr. Brent Layton  
Chair  
Electricity Authority

By e-mail: [AwarenessOfUDandPS@ea.govt.nz](mailto:AwarenessOfUDandPS@ea.govt.nz)

Dear Brent,

## Improved consumer awareness of the ability to switch electricity retailer will help improve competition

Electric Kiwi welcomes the Electricity Authority's intention to try and increase consumer awareness that they have choice of electricity retailer and can save money by switching. The proposals in relation to Utilities Disputes have been less well thought through and fail, for example, to recognise: (i) there are existing requirements for electricity retailers to provide customers with details about the Utilities Disputes mechanism, and (ii) the ultimate sanction, if a customer has a complaint or is unhappy with their retailer, is to switch to another electricity retailer.

### Electric Kiwi's principle views on promoting consumer awareness

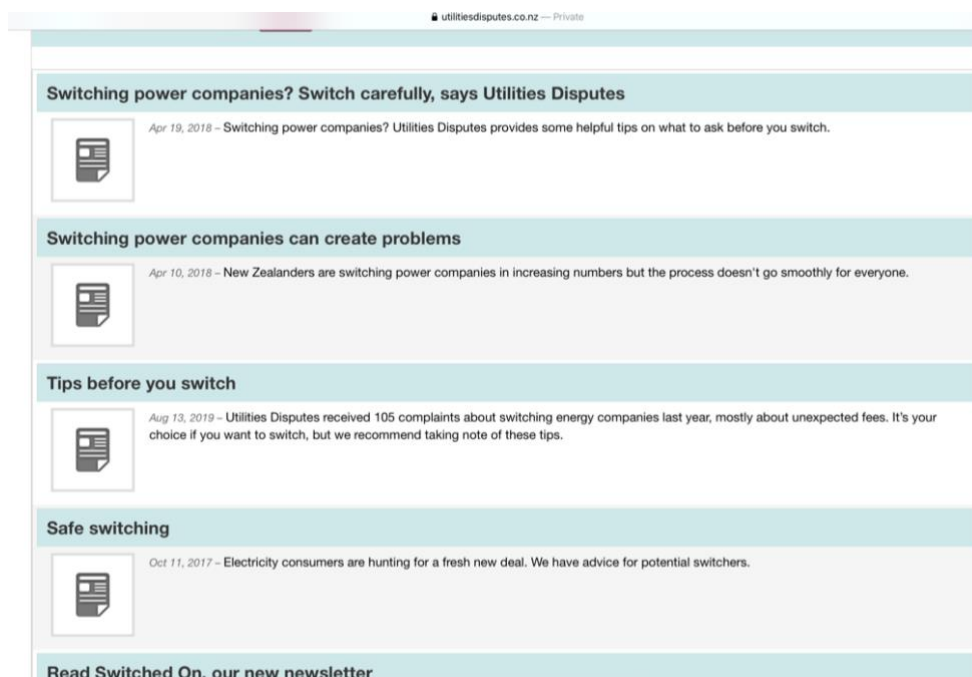
- **Electric Kiwi supports raising consumer awareness about Powerswitch and that consumers have choice more generally.**
- **The Authority should undertake further work to determine the most effective mechanisms for promoting consumer switching and awareness of consumer rights when in dispute with their retailer:** The Authority should not simply introduce sweeping and non-targeted requirements that "Each retailer must provide clear and prominent information about the dispute resolution scheme ... and the Authority prescribed electricity plan comparison website ... (a) on a website maintained by, or on behalf of the retailer; and (b) in all consumer communications (including every invoice or associated document relating to the sale of electricity)" [emphasis added].
- **The Authority and Utilities Disputes could better promote consumers choice to switch and the Utilities Disputes mechanism:** The Authority should consider what are likely to be the best and most effective ways of promoting Powerswitch and the Utilities Disputes mechanism. This may include, for example, Authority advertising and greater prominence of Powerswitch and the Utilities Disputes scheme on the Authority's website (and of Powerswitch on the Utilities Disputes website). The advertising should reflect the effective rebranding with a focus on Powerswitch rather than the esoteric marketing concept of "What's my number?".

It would be helpful if the Utilities Disputes website highlighted that if a consumer is not happy with their electricity retailer, or how a complaint has been or is being dealt with, they have the option of switching to a different supplier. The Utilities Dispute website should also include a prominent link to Powerswitch. Instead details of Powerswitch are contained in a media release



“Tips before you switch”, 13 August 2019, and the link to <https://havethepower.nz/switch-without-a-hitch/> which aren’t obvious for consumers to find.<sup>1</sup>

Much of the information on the Utilities Disputes website would be liable to discourage consumers from switching given the focus on the problems that can result from switching e.g.:



- **The Authority’s proposals are poorly targeted and fail to recognise issues with awareness about switching is an incumbent retailer problem:** The Authority, for example, has not taken into account that every customer (now well in excess of 50,000) of Electric Kiwi’s (and of every other independent retailer) is already aware they have choice of electricity retailer and are aware of the benefits of switching electricity retailer. Our customers don’t need to be told they can switch.

The issue is with the substantial subset of the incumbent retailers’ customers that have never switched, or aren’t aware they have choice of electricity retailer. Any new regulatory requirements should be targeted exclusively at the incumbents’ customers. Imposing additional regulation on new and independent retailers will do nothing to raise awareness that consumers have choice of electricity retailer.

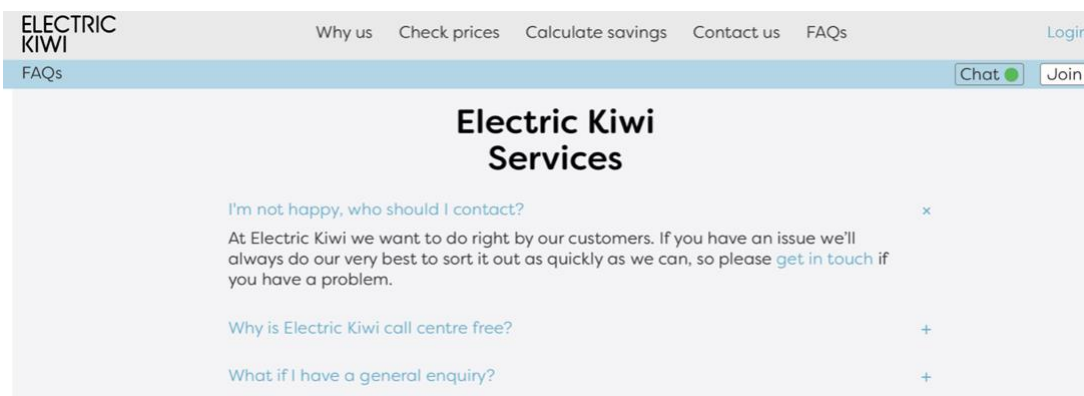
- **The consultation paper fails to take into account existing retailer obligations:** Clause 12 of the Utilities Disputes’ General and Scheme rules “PROVIDER OBLIGATIONS” requires “Each Provider must: a) promote the relevant Scheme(s) on any invoice to customers and in other relevant customer information”.
- **Switching retailer is an effective way of remedying consumer dissatisfaction with their existing supplier:** Electric Kiwi already complies with the requirement to include details of the Utilities

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<sup>1</sup> The information is also now out-of-date with reference to both [www.powerswitch.co.nz](http://www.powerswitch.co.nz) and <http://whatsmynumber.org.nz/>.



Disputes mechanism on invoices, and details of what our customers should do if they are not happy with us is easily accessible from our website e.g.:



We question whether extending the existing requirements is warranted.

The consultation paper's assessment of consumer awareness of the Utilities Disputes mechanism fails to recognise that the ultimate sanction a consumer has when they have a complaint or are unhappy with their supplier is that they can switch. This is the quickest and easiest way for a consumer to rectify any issues they are not happy about. It also provides stronger "pressure on retailers to improve their products and services" than improved awareness about the Utilities Disputes mechanism.

The Authority should undertake more in-depth analysis for the problem definition to assess how consumers deal with complaints or disputes they have with their retailer. Absent this type of analysis, the Authority's statement "There is likely to be unmet need for Utilities Disputes ... While not directly measured, the Authority is aware there is a subset of consumers with a valid complaint who are not made aware of Utilities Disputes by their provider and do not seek out this information themselves" is simply an assertion and doesn't establish whether the customer would have chosen to use the Utilities Disputes mechanism rather than, for example, switching supplier or threatening to do so if the issue isn't resolved satisfactorily.

- **The Authority should not regulate the content of the front page of our website:** Electric Kiwi does not support any requirement (or Guideline) to include details of Powerswitch or the Utilities Dispute mechanism on the front page of our website. The front page of our website is a valuable asset with a clear and exclusive focus on promoting Electric Kiwi and encouraging consumers to switch to us.
- **We don't want to end up with a back door substitute for saves and winbacks:** The Authority should also consider, more specifically, what forms of communications would be most suitable (or unsuitable) for including information on Powerswitch and Utilities Dispute rather than simply regulating that it be included in ALL communications. For example, it would not seem consistent with the Authority's pending ban on saves and short-term winbacks, for a losing retailer to provide information encouraging the customer to consider alternative supplier options while they are in the process of switching.



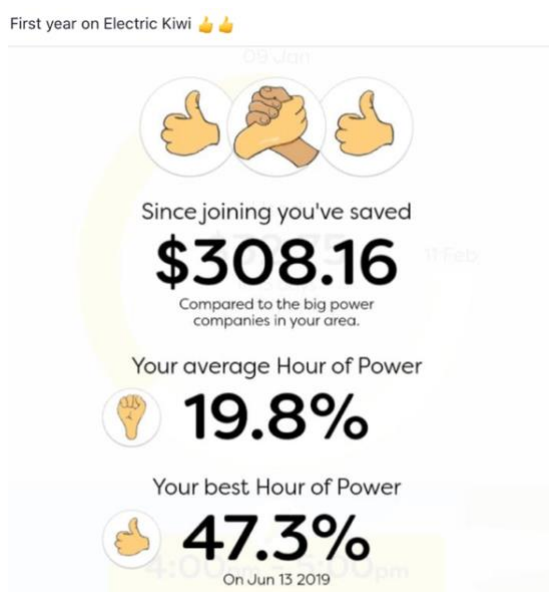
## **Improving consumer awareness about the ability to switch should be targeted at the incumbent retailer customer bases**

The consultation paper only provides a cursory discussion of the competition problem that raising consumer awareness about Powerswitch would help resolve. Most of the discussion under “Problem 2: Consumers want switching tools, but some are not aware of Powerswitch” is about the benefits of raising consumer awareness. The only real problem articulated is that there are information asymmetries (“some [consumers] are not aware of Powerswitch” and “Some consumers do not know they can switch”), though the subsequent section “Low consumer awareness impacts competition and efficiency of the electricity market” correctly implies there is a problem with the level of competition in the electricity retail market.

The starting point for the problem definition should be recognition that the electricity retail market is concentrated with strong oligopolistic characteristics. One of the issues is that there are a high number of consumers that are either unaware they have choice of electricity retailer, may be of the view that switching electricity retailer is harder or more risky than it actually is, and/or may not be aware of the benefits of switching electricity retailer e.g. they are missing out on the benefits of competition and may not be aware of the size of the loyalty tax they are paying because they have remained with the incumbent retailer in their network area.

When put in this context it should be clear that raising consumer awareness about Powerswitch is one component of the suite of reforms needed to resolve the competition problems in the electricity retail market. It potentially complements other reform initiatives such as the ban on saves and winbacks, hedge market reform (mandatory market making), enhanced information disclosure requirements etc that the Authority is required to implement as part of the Electricity Price Review reforms.

It should also be clear that the problem raising consumer awareness about switching is aimed at addressing is essentially an issue with the incumbent electricity retailer customer bases. Every customer (now well in excess of 50,000) of Electric Kiwi’s is already aware they have choice of electricity retailer (and have chosen Electric Kiwi) and are aware of the benefits of switching electricity retailer. This can be seen by a cursory look at our facebook page e.g.:



One of the implications of this is that the Authority should consider how best to raise consumer awareness that they can switch electricity retailer and about Powerswitch by targeting customers who haven't switched electricity retailer i.e. targeting the incumbent electricity retailers' customer bases. This can be done in a number of ways including the Authority advertising and requirements for (incumbent) electricity retailers to provide their customers with information about Powerswitch etc.

Imposing the requirement on all electricity retailers, rather than just incumbent electricity retailers, would be a very blunt instrument which would substantially add to overall compliance costs with little or no benefit. The incumbent electricity retailers are the source of the problem and should be targeted in the implementation of the Powerswitch consumer awareness reforms.

### **Reduction in deadweight loss is a minor element of the benefits from increased competition**

The consultation paper limits the benefits of increasing competition to reduction in deadweight loss (allocative efficiency): "A reduction in deadweight loss of \$95,000 [NPV over 10 years] for every one cent drop in residential retail price due to increased consumer awareness of Powerswitch increasing residential competition".<sup>2</sup>

Any reduction in deadweight loss is a minor element of the benefits of competition. The benefits to consumers from lower prices (wealth transfer from incumbent retailers (in particular) to consumers) will substantively dwarf the efficiency benefits.

Electric Kiwi agrees with the comments made by John Stephenson (Sense Partners) in work Sense Partners is doing for the Authority on the TPM review: "If all prices fell by \$10 then people could e.g. (a) work less and enjoy the same consumption benefits (b) save and invest in something without foregoing any of their consumption benefits (c) buy more of something else to use/consume. So even

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<sup>2</sup> Similarly, the Saves and Winbacks Decision Paper explicitly excluded consideration of the main benefit from a ban on saves and winbacks: reduction of the circa \$500m per annum 'loyalty taxes' on consumers you haven't switched from their incumbent supplier.



if they have zero elasticity in the market in question there is still scope for a substantial welfare improvement ...".<sup>3</sup>

### Concluding remarks

Electric Kiwi supports raising consumer awareness about the ability to switch supplier and Powerswitch. The proposals should be better targeted at the incumbent retailer customers who haven't switched. Telling new and independent retailers' customers that they can switch is something they already know (and have done). The Authority should also consider other options for promoting switching including new advertising based on displacement of What'sMyNumber with Powerswitch.

The Authority's work on promoting the Utilities Dispute mechanism warrants further work.

The Authority has failed to take into account existing requirements on electricity retailers to promote Utilities Disputes in invoices. The problem definition assessment of consumer awareness about the Utilities Disputes mechanism is shallow and warrants further work, which takes into account consumers have other options for dealing with disputes, including the ultimate sanction of switching supplier (which can be a quicker and easier way to resolve disputes).

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'L. Blincoe', with a long horizontal flourish extending to the right.

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<sup>3</sup> <https://www.ea.govt.nz/dmsdocument/25805-4-11-fw-fw-wealth-transfers-in-the-tpm-cba>