

Review of options for increasing consumers' propensity to compare and switch retailers

A RAG briefing paper

30 August 2012

1 Introduction

1.1 Purpose of this paper

- 1.1.1 The Electricity Authority (Authority) has requested the Retail Advisory Group (RAG) to consider the performance of the Consumer Switching Fund (CSF) programmes and to consider what further actions the Authority can take to promote to consumers the benefits of comparing and switching retailers.¹
- 1.1.2 The CSF is a \$5 million a year fund for activities to promote to consumers the benefits of comparing and switching retailers and to improve the capability of the Consumer NZ Powerswitch website. The CSF is funded through a levy on retailers (separate to the levy funding the Authority's activities). The CSF levy and programmes end on 30 April 2014.
- 1.1.3 The Authority is examining the performance of the CSF programmes, particularly the What's My Number (WMN) campaign. The information about the performance of the CSF programmes will inform the development of initiatives the Authority could undertake after April 2014 to promote to consumers the benefits of comparing and switching retailers.
- 1.1.4 This paper has been prepared to provide the RAG with background information about the CSF programmes, outline a proposed detailed scope for this project, and proposed milestones and timeframes. The paper:
- a) suggests a process that the RAG may follow to undertake the project;
 - b) provides information about the CSF programmes;
 - c) outlines the Authority's intentions for assessing the performance of the CSF programmes;
 - d) considers how the RAG could determine whether further actions should be taken by the Authority to promote to consumers the benefits of comparing and switching retailers; and
 - e) suggests how the RAG could develop options for the actions the Authority could take to promote to consumers the benefits of comparing and switching retailers.

1.2 A suggested process for the project

- 1.2.1 A suggested process for the project is:
- a) consider and critique the Authority's measures for assessing the performance of the CSF and WMN campaign – the Authority's work on measures should be available November/December 2012;
 - b) clarify the nature of the problem – identify whether and, if so, the extent to which further actions should be taken by the Authority to promote to consumers the benefits of comparing and switching retailers – following this discussion, a more comprehensive analysis of the nature of the problem will be developed for the next RAG meeting;
 - c) develop and evaluate options for promoting to consumers the benefits of comparing and switching retailers – this work could be available for the 28 November RAG meeting;

¹ The Electricity Industry Act 2010, section 16(1)(i), gives the Authority a function to promote to consumers the benefits of comparing and switching retailers.

- d) release a discussion paper on the above – a draft discussion paper could be available for RAG consideration in February 2012; and
- e) evaluate submissions and make a recommendation to the Authority.

1.2.2 The Authority has indicated it would like to receive the RAG's recommendation by June 2013.

2 Background on CSF programmes

- 2.1.1 The CSF was established to address the concern that the propensity of consumers to switch suppliers in electricity markets was insufficient to influence supplier behaviour, resulting in retail prices being too high. New Zealand is not the only electricity market where concerns about customer switching have been raised.²
- 2.1.2 The purpose of the CSF is to promote retail electricity market competition by creating more informed and active consumers by making consumers aware of their ability to switch retailer, and the savings that they could access by switching. The intention is to put pressure on retailers to improve their offerings, and place greater competitive pressure on prices. The CSF programmes target residential and commercial consumers.
- 2.1.3 The CSF programmes delivered by the Authority are:
- a) the What's My Number campaign. The WMN campaign provides information to consumers about their ability to switch retailers, the ease of switching and the potential savings consumers can make on their power bills by switching.
 - b) a switching tool for small to medium-size businesses (SME) – an online tool has been developed to help the SME community shop around for power.
 - c) contracting with switching facilitators:
 - i) Citizens Advice Bureau (CAB) – assists consumers to compare and switch power suppliers by explaining to them the benefits of comparing and switching power suppliers and, if required, taking them through the What's My Number and Powerswitch websites; and
 - ii) Vendor Sales Support Limited – have been engaged to train nominated budget advice centres on how to assist their clients to compare and switch power suppliers.
- 2.1.4 In addition to these programmes being delivered by the Authority, the CSF allocates funds for upgrading and promoting Consumer NZ's Powerswitch website.
- 2.1.5 The CSF programmes are intended to increase competitive activity by retailers by increasing the propensity of customers to switch. This is expected to help to create sustained competitive pressure on retail electricity prices by ensuring that suppliers have limited ability to increase prices above competitive levels, and that suppliers search out the lowest cost ways to provide the services that customers want.

² For example, OFGEM has a workstream that is examining proposals to make it much easier for consumers to identify who is offering the cheapest tariff. Refer <http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Pages/rmr.aspx>.

2.2 What's My Number Campaign

- 2.2.1 The WMN campaign was launched on 29 May 2011 and is the central programme of activity for the CSF. It is a mass market multi-media campaign to provide consumers with information about the ability to switch power suppliers, the ease of switching and the potential savings consumers can make on their power bills by switching. WMN encourages consumers to shop around for power.
- 2.2.2 WMN includes the www.whatsmynumber.org.nz website which allows consumers to see how much they may be able to save on their power bills by switching retailers. A simple calculator, provided by Consumer Powerswitch, helps consumers assess their potential savings. Users can then click through to the Powerswitch website to allow them to see details of the different offers available and decide whether to switch.
- 2.2.3 The Authority conducted a review of the WMN campaign and of the broader CSF, focusing on the first seven months of activity from 1 June 2011 to 31 December 2011. The full report is available at on the Authority website at <http://www.ea.govt.nz/document/16344/download/consumer/csf/>. The review found that, during the period of the WMN campaign, there was a significant increase in switching rates compared to the year before, consumers were more aware that they could switch and more aware of the potential savings, and that retailers had changed product offerings due to increased switching. A chart showing switching rates for the years 2009 to 2012 is provided at Appendix A.
- 2.2.4 Key statistics for the WMN campaign for the first 12 months of operation are set out in Table 1 below.

Table 1 Key statistics for WMN for the period 29 May 2011 to 30 June 2012

Statistic	
No. of visitors to WMN website	800,315
No. of unique visitors	628,524
Average time spent on the website	2 minutes & 26 seconds
Switches completed in June 2011 - June 2012	396,688

Source: Electricity Authority

2.3 Contracting with switching facilitators

- 2.3.1 The Authority has contracted with Citizens Advice Bureau to assist consumers without internet access or otherwise seeking information about managing electricity expenses.

2.4 Small and medium enterprise (SME) switching tool

- 2.4.1 The Authority has contracted with Switchme.co.nz to provide an online tool to assist small to medium sized businesses to make more informed decisions about their electricity retailer. The tool uses a request for quote model to allow businesses to request comparative offers from different retailers to meet their specific business needs. Retailers can then respond with their pricing details and other benefits for the business to compare. The tool has been designed for

businesses that are not on a time of use electricity plan. The online tool is accessed through the WMN website and became available on 20 August 2012 after extensive testing.

3 Assessment of performance of CSF programmes

- 3.1.1 The Authority's focus is on the retail market writ large and how it is performing in terms of competition and efficiency. The Authority is using a basic framework to measure competition—Structure, Conduct and Performance. This framework has been outlined in the two information papers published by the Authority on its approach to measurement.³
- 3.1.2 Consequently, the Authority is developing methods for measuring the structure of the retail sector through measures like HHI and number of entrants. Conduct measures may include switching over the year, large changes in market shares for individual retailers, and domestic consumption by region. Performance measures could include price by region, and this could be compared with the level of competition and spot prices in each region.
- 3.1.3 Therefore, the Authority's approach is indicator based. With the right indicators, the Authority can determine whether there is a correlation between actions like WMN and responses in the retail market. However, determining causality and measuring the costs and benefits of that action is harder.
- 3.1.4 Work undertaken for the Authority in early 2012 to assess the WMN campaign indicated that it is difficult to identify the costs and benefits of the program on the retail market due to difficulty in separately identifying the individual contributions and interaction of asset swaps, hedge market development and other initiatives to promote retail competition. The Authority expects that a greater propensity to switch would lead to lower average prices and to more efficient retailers. However, there are many influences on these variables and isolating a particular influence is difficult even if efficiency and price could be measured accurately.
- 3.1.5 As a consequence the Authority has yet to decide on how to measure the effect of WMN but evaluating it over the longer term is more viable than trying to discern its short term effect. However, in the short term, the Authority intends to repeat the survey done around the 2011 campaign to determine whether consumers are affected by WMN.

4 A suggested approach to the project

4.1 Defining the problem

- 4.1.1 Some questions the RAG could ask when considering its approach to this project are: Why should the Authority promote customer switching? What are the benefits of promoting customer switching? What are the gains to be made? What are the costs of the status quo? How does it fit in with the Authority's objective? What measures of success are available and should be used?

³ Refer Industry and market monitoring: competition and Industry and market monitoring: reliability and efficiency, available at, <http://www.ea.govt.nz/industry/monitoring/reports-publications/>.

- 4.1.2 Research undertaken in 2010 indicated that initiatives to promote the benefits of comparing and switching retailers were needed because:⁴
- a) customer 'stickiness' in the New Zealand electricity market means that incumbent retailers generally charge prices that are above the most competitive offer; and
 - b) there are both financial and behavioural barriers to achieving an efficient level of switching.
- 4.1.3 The 2009 Ministerial Review of the electricity industry estimated that residential consumers could save on average \$100 a year (or \$150m a year in total across all consumers) by switching to the cheapest available retailer. It also noted that "consumer switching puts real pressure on retailers to improve their offerings".
- 4.1.4 The Authority estimates that for the 2010 calendar year, the average annual household savings available was \$150, and the national savings total that could be achieved if all consumers were to switch to the cheapest retailer in their region was \$240 million. For the 2011 calendar year the Authority estimates that the average annual household savings available is \$165 and the national savings total that could be achieved if all consumers were to switch to the cheapest retailer in their region is \$280 million.

4.2 Developing options

- 4.2.1 Some questions the RAG could ask when considering the options for promoting to consumers the benefits of comparing and switching retailers are:
- a) To what extent is customer stickiness in the electricity sector a problem compared to other sectors? What can the Authority do about stickiness?
 - b) Is there the potential to increase customer switching? Is there a "desired" rate of switching?
 - c) Retailers wanting to acquire customers will want customers to be less sticky while retailers wanting to keep customers will want to make them sticky. What factors influence the propensity for consumers to switch? What factors influence switching rates? What are the factors the Authority can influence? Which factors does it want to influence?
 - d) How can the Authority influence the propensity for consumers to switch or the rate of switching? What are the options?

Options are to be consistent with the statutory objective

- 4.2.2 The RAG is required to provide advice and recommendations that are consistent with the Authority's objective of promoting competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.
- 4.2.3 The Authority has a function to promote to consumers the benefits of comparing and switching retailers. However, the Authority is not constrained in how it undertakes this function. Nor is the Authority bound to do anything if the costs of an initiative outweigh the benefits of promoting to consumers the benefits of comparing and switching retailers.

⁴ Report for the Electricity Authority by Castalia strategic advisers, November 2010, Customer switching fund research report, available at: <http://www.ea.govt.nz/document/12094/download/consumer/csf/>.

4.3 Making a recommendation

4.3.1 Some questions the RAG could ask when considering making advice to the Authority include:

- a) What other initiatives are related or influence the same factors? Internal and external initiatives?
- b) When should the Authority undertake initiatives to promote to consumers the benefits of comparing and switching retailers? How would they be sequenced with other initiatives?
- c) Is it better to look at WMN or other options as part of a package? For example, switching rates during 2011 will have been influenced by retailer/generators rebalancing their retail books following the Government mandated generation asset swaps.

Appendix A Switching statistics at July 2012

A.1.1 The following figure shows completed switches for the years 2009 to 2012. Since the CSF was initiated, there have been 470,955 completed switches.

