

10 September 2013

Dr Brent Layton
Chair
Electricity Authority

By Email

Dear Brent

Update on progress: review of options for promoting retail competition by increasing consumers' propensity to compare and switch retailers

The Retail Advisory Group (RAG) would like to update the Electricity Authority Board on our progress with the project: *options for promoting retail competition by increasing consumers' propensity to compare and switch retailers* (post April 2014).

The RAG intended to report recommendations to the Board in September 2013. However, on 13 July 2013 Authority staff advised the RAG that the Ministry of Business, Innovation and Enterprise (MBIE) is undertaking an evaluation of the Consumer Switching Fund (CSF), with the final report expected to be available by late October 2013.

The RAG is of the view that the MBIE review could offer valuable insights into the impact of the *What's my number* (WMN) initiatives and their effect on competition in the residential electricity market. In particular the RAG considers that the MBIE review could influence the RAG's recommendation on appropriate funding levels for promoting retail competition by increasing consumers' propensity to compare and switch retailers after April 2014.

Notwithstanding the MBIE review, the RAG considers it has progressed well in developing its final advice. The following provides a brief summary of the process the RAG has followed to date along with an outline of its emerging views on options for promoting retail competition by increasing consumers' propensity to compare and switch retailers.

The RAG's emerging view

The RAG carried out a series of inquiries to guide its emerging view:

- the RAG consulted on a proposed performance measurement framework to assess the extent to which problems that existed back in 2009 continue to exist today on the basis that this would inform future programmes
- **emerging view:** The RAG found that the CSF probably performed as intended and addressed issues identified in 2009 although measurement issues significantly limited precise performance measurement. The RAG hopes the MBIE evaluation will provide further insight into performance and the CSF's impact on retail competition
- the RAG consulted on a selection of future options which ranged from discontinuation of CSF activities to maintaining current CSF funding levels

- **emerging view:** The RAG considers that increased consumer propensity might not be embedded but that the WMN campaign has matured and the brand could be maintained at lower funding levels. The RAG considers the WMN campaign, as a maturing campaign, could be maintained with less funding than is currently provided although its emerging view on optimal funding arrangements will be further informed by the outcome of the MBIE evaluation. The RAG's preliminary assessment suggests that an annual budget of \$1 million a year is the minimum amount to spend on promoting consumer propensity, but \$3.5 million a year would be quite generous
- the RAG sought expert advice on how consumer regions and consumer segments should be identified and targeted
- **emerging view:** The RAG considers that any further spending on the WMN campaign should be split about 40:60 between mass market promotion and targeted promotion respectively. The RAG has not reached a firm view on appropriate target markets although it has identified the "pre-pay" consumer market as a potentially viable target market. The RAG continues to take advice on targeting.

The RAG has enjoyed this challenging assignment and looks forward to providing the Board with an informed final recommendation as soon as practicable after considering the MBIE evaluation of the CSF.

Yours sincerely



Peter Allport
Chairman
Retail Advisory Group