

# Flick's position on Powerswitch

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Further enquiry  
Final report

23 August 2016



# 1 Flick's position on Powerswitch

- 1.1 In October 2015, the Electricity Authority (Authority) completed an enquiry into the electricity price forecasts used to rank Flick Energy Limited (Flick) on the Powerswitch website (Powerswitch) operated by Consumer New Zealand (CNZ). The enquiry was initiated by a claim by Electric Kiwi Limited (Electric Kiwi).
- 1.2 The Authority assessed the electricity price forecasts and concluded that there is nothing anti-competitive about a diverse range of forecasting approaches in a market, and the price forecasts in question did not systematically favour Flick. A link to the Authority's report on the enquiry is available here: <http://www.ea.govt.nz/monitoring/enquiries-reviews-and-investigations/2015/flicks-position-on-powerswitch/>.
- 1.3 After the Authority published its report, Electric Kiwi provided the Authority with additional information in a report that claimed there were large differences between the report author's estimate of a potential Flick customer's annual electricity costs and the estimate on Powerswitch.
- 1.4 As a result of this additional analysis provided by Electric Kiwi, the Authority requested further information from CNZ and Flick and examined the data.

## The Authority's role

- 1.5 This is a report on a Market Performance enquiry, and our process is set out on our website here: <http://www.ea.govt.nz/monitoring/enquiries-reviews-and-investigations/our-three-stage-process/>. As set out on the webpage, we publish our Market Performance enquiries if the results of the enquiry are likely to be of interest to consumers or industry participants.
- 1.6 It is noteworthy that the annual electricity cost estimates on Powerswitch are only estimates. Actual electricity costs can differ from the estimates on Powerswitch for a range of reasons, including the possibility of a forecast error. This enquiry focuses on a subset of forecast error, ie, errors in the process of calculating an annual cost for use on Powerswitch for spot price plans—in this instance those plans offered by Flick. Consequently, this enquiry should not be construed as an audit of Powerswitch's overall accuracy or forecasting performance.

## The Authority identified two errors

- 1.7 The Authority identified two errors with the calculations that convert electricity price forecasts to the annual electricity cost estimate on Powerswitch.
- 1.8 The first error involved a scaling factor Flick applied to the price forecasts it was supplied. In 15 of the 16 months we looked at, this scaling factor effectively reduced the electricity price forecast because of the way the calculations in Flick's spreadsheets were done.
- 1.9 The Authority questioned Flick on the rationale for this scaling factor. Flick advised that the idea behind the scaling factor was to ensure consistency between the two price forecasts that were supplied to Flick each month; the hourly and monthly electricity price forecasts. The reason for this being that monthly forecasts are widely used by the industry, but Powerswitch uses hourly forecasts to calculate the estimated annual electricity cost to Flick's consumers, and it was desirable that these two forecasts were consistent.

- 1.10 While this is a reasonable objective, the Authority considers that the scaling should have been done differently. The use of the scaling factor is no longer a part of the process of calculating the annual cost of spot price plans on Powerswitch.
- 1.11 The Authority estimates that removing this scaling factor will increase the electricity costs used to rank Flick on Powerswitch by \$30-\$40 per annum. We cannot be precise as to the impact since CNZ changed its processes in May 2016 and it was only possible to do a like for like comparison between the old and new methods for April 2016. However, we calculated the percentage figure over 16 months from June 2014 to September 2015 and over that period the scaling factor lowered the electricity price by an average of five per cent, compared with having no scaling factor. This represents an error of about two per cent of the total annual cost.
- 1.12 The second error concerned how CNZ calculated electricity costs during the day and night periods in areas where day and night lines company charges apply. CNZ agreed that this was an error and undertook to change it. The Authority estimates that correcting this error will increase the electricity costs used to rank Flick on Powerswitch (in applicable regions) by approximately \$25 per annum (in addition to the effect of the scaling factor), all else being equal.

### **Impact on consumers**

- 1.13 The rankings of retailers on Powerswitch are influenced by a number of factors including consumers' attributes (such as location and annual consumption) and the month in which a consumer uses Powerswitch. However, the Authority considers that the two identified errors could have influenced Flick's ranking on Powerswitch for some consumers, and therefore the decisions made. This view is based on our latest survey of consumers, which showed that price comparison websites are the most popular source of information for switching consumers, and that price is the most important consideration. The survey is available here: <http://www.ea.govt.nz/about-us/what-we-do/whats-my-number/annual-review-of-the-whats-my-number-campaign/>.
- 1.14 The discussion in this enquiry concerns Flick's ranking on Powerswitch, as opposed to whether consumers who relied on the ranking were financially disadvantaged.
- 1.15 Our findings do not show that consumers who switched to Flick gained or lost value relative to staying with their previous supplier.

### **The two errors have been addressed**

- 1.16 Since May 2016 the annual electricity costs estimates have included changes that correct the problems. In addition, CNZ has changed its processes to ensure consistency in the assumptions it uses to rank retailers which offer spot price products on Powerswitch.
- 1.17 The Authority considers that CNZ has responded appropriately by reviewing and changing its processes for calculating estimated electricity costs for spot price plans. Ultimately it is CNZ that is responsible for Powerswitch's content. The Authority took over the funding of Powerswitch in June 2015 from the Ministry of Business, Innovation and Employment. As a condition of continued funding, the Authority requires CNZ to certify the accuracy of estimates on Powerswitch.