

## **Submission to the Electricity Authority from David Close**

### **Draft Consumer Care Guidelines**

#### **1.0 Introduction**

1.1 I helped to facilitate the development and introduction of the original Guidelines when I was a member of the Electricity Commission. I have heard that the Guidelines have been helpful to people who act as advocates for vulnerable consumers, but I agree that it is time that they were reviewed and revised.

1.2 I have read the draft Consumer Care Guidelines and supporting documents. There was surprisingly little statistical information provided as a background to the proposals. I did, however, glean three significant statistics:

- Domestic consumers total 1,800,000
- Disconnections for non-payment run at 1500 a month. (This equates to 18,000 a year, precisely 1% of the total number of consumers.)
- There are 36,000 pre-pay meters, 2% of total consumers.

1.3 It would have been helpful to know:

- how many consumers were disconnected more than once in the year
- where disconnections were located (presumably low socio-economic areas of cities)
- the rates of disconnection of the ten major retailers
- what retailers charge for disconnection and reconnection
- which retailers provide pre-payment meters
- whether those retailers that provide pre-payment meters have lower rates of disconnection
- how much extra consumers pay for electricity charged through a pre-pay meter
- the satisfaction level of consumers with pre-pay meters.

1.4 I note that the recommendations in the Guidelines are “based on industry consensus” (Explanatory Note, Draft Proposal, page 2). I note also that work on updating the Guidelines by the Electricity Retailers Association of New Zealand was “subsumed into the Authority’s guidelines project” (Consultation Paper, page 4). It is claimed that the proposed guidelines are “assiduously consumer-centric” (Consultation paper, page 15). This is true of the aspirational principles of the guidelines, but not in their application, which, in my opinion, is assiduously retailer-protective.

## **2.0 The inadequacy and unsatisfactory nature of the proposed Consumer Care Guidelines**

- 2.1 I appreciate the sincere intentions and dedicated work of those who have participated in the preparation of the draft proposal, and I agree with the overarching principles and with most of the suggested practices, but I find the Draft Proposal fundamentally unsound. For reasons that I will explain, I consider that the Draft Proposal should be abandoned and a fresh start made.
- 2.2 The document is too long. It runs to about 30 pages and is over-detailed, wordy and repetitive. It will be difficult for the staff of retailers to comply with the numerous sections and sub-sections, and it will be difficult for the advocates of vulnerable consumers to ascertain whether the guidelines are being observed.
- 2.3 The key instrument in the implementation of the Consumer Care Guidelines is a Consumer Care Policy which each retailer is recommended (not required) to develop and publish. This is an example of industry self-regulation, a model discredited (to give extreme examples) by the leaky buildings crisis and the Pike Mine disaster. A vulnerable consumer is unlikely ever to read a Consumer Care Policy and even the most ardent advocates of vulnerable consumers would struggle to cope with 20 different documents from 20 retailers. The many valuable points in the Minimum Recommended Actions proposed for a Consumer Care Policy cover most of the ground of the Draft Guidelines. If there is to be a Consumer Care Policy, the Authority, for the sake of efficiency, should write it, and, for effectiveness, enforce it.

## **3.0 Disregard of the recommendations of the Electricity Price Review Panel**

- 3.1 The Electricity Price Review Panel recommendation to the Government stated that *the current voluntary arrangements do not provide vulnerable and medically dependent consumers with sufficient protection and should be replaced by a formal, consistent and enforceable set of standards. Formal protection will become even more important as innovation in business models and technology leads to the emergence of new providers that may not give priority to voluntary standards.* (Consultation paper, page 38.) The Minister is quoted as saying: *I support this recommendation and propose to report back to Cabinet with proposals for public consultation in the near future, with a view to regulate minimum standards in 2020.* (Ibid.)
- 3.2 Why has the Electricity Authority totally disregarded the recommendation of the Electricity Price Review Panel and its endorsement by the Minister? This disregard is reason enough to abandon the proposed draft guidelines

and replace them with a formal, consistent and enforceable set of minimum standards. The Consultation paper (page 4) refers to a recommendation of the EPR to strengthen voluntary arrangements as part of developing and mandating minimum standards, but surely the Minister's intention to regulate minimum standards in 2020 negates the intermediate step of strengthening 'voluntary arrangements'.

3.3 As I have already said, I agree with the principles and most of the practices in the draft guidelines, but compliance with the laudable principles and practices is voluntary in all respects. Retailers have always been opposed to regulation and it appears to me that the Draft Guidelines are an attempt by retailers to frustrate or delay the move to an enforceable set of standards envisaged by the EPR. It is perfectly rational for retailers, as profit-seeking companies, to resist regulation, but it is naïve for the Electricity Authority to assume that guidelines developed in 'a collaborative approach' with the industry (Consultation Paper, page 6) will be effective in protecting the retailers' vulnerable consumers. It is entirely appropriate for the Electricity Authority to adopt a consultative, collaborative approach with the industry on the many technical matters with which it deals, but it is clearly inappropriate to allow retailers a dominant voice in a matter where they have a conflict of interest.

3.4 The electricity industry is replete with regulation. Transpower as grid owner and system operator is regulated, so are lines companies. Generators are strictly regulated in the wholesale market, as are retailers. Retailers are regulated as to the content of consumer contracts. The EPR and the Minister agree that it is time for mandatory minimum standards for vulnerable consumers. No reason is given in the Consultation Paper for the Authority's adherence to voluntary compliance except the specious argument that regulation would discourage retailers from giving a consumer more than the regulated minimum.

#### **4.0 Electricity as an essential service**

4.1 The supply of electricity has become an essential service in modern society but it also has the nature of a commodity that is bought and sold. This means that the consumer must be supplied and the retailer must be paid. In the vast majority of cases, the mutual obligations of supplier and supplied are managed satisfactorily, but in a minority of cases the obligation to pay is not met and the obligation to supply is set aside in response. Given that most consumers are dependent on electricity for light, heat, cooking and operation of domestic appliances, the loss

of electricity supply results in, at best, extreme inconvenience, and, more often, hardship.

- 4.2 The current procedures which retailers use for debt recovery are satisfactory for consumers with a modicum of education and social skills who live 'organised' lives. The procedures do not work in the case of 'difficult' people who may have a number of disadvantages (weak literacy and cognitive skills, addictions, multiple debts, personal crises, etc.). It is not in the least surprising that these people do not respond to written warnings and are not contactable by phone. Disconnection adds a disconnection fee to their debt, plus the problem of how to obtain reconnection.
- 4.3 In my view, electricity retailers have a social and moral obligation to maintain supply to all consumers, to adopt non-punitive methods of debt recovery and to accept the additional cost of servicing vulnerable consumers as an overhead business cost. No company is obliged to retail electricity, but any company that chooses to do so should accept that it entails the cost of servicing the people in our society who struggle.

## **5 The advantages of pre-pay meters**

- 5.0 I first became aware of pre-pay meters in the 1990s when Southpower (formerly Christchurch City MED) purchased a small number as an alternative to disconnecting consumers who were in arrears with payments. To the surprise of Southpower, the company was inundated with calls from consumers asking for the new meters. 'Power Manager' was the name given to the new meter because it enabled consumers to pay off arrears at an affordable rate, monitor consumption from day to day, buy electricity on a weekly instead of monthly basis, and have the peace of mind of knowing that they would never again face an impossibly large bill. The sense of empowerment more than compensated for the modest charge for the Power Manager.
- 5.1 Other options offered by retailers, such as Smooth Pay by automatic payments, have advantages over pre-pay meters, but for consumers who have accumulated a large debt for electricity they provide a way forward.

## **6 Submission**

- 6.0 That the Draft Consumer Care Guidelines be set aside and replaced with an enforceable set of minimum standards in accordance with the recommendation of the Electricity Price Review Panel.
- 6.1 That the enforceable set of minimum standards be based on the following principles: That all retailers be required:
- (i) to accept that electricity supply is an essential service and that it is their responsibility to adopt user-friendly payment options and

- non-punitive debt recovery methods for low-income and vulnerable consumers
- (ii) to accept that they should not expect the Ministry of Social Development and charitable agencies to subsidise the less profitable part of their customer base
- (iii) to offer consumers the tariff best suited to their consumption patterns
- (iv) to offer consumers payment options such as 'smooth pay' to help them manage their payments
- (v) to give their consumers access to pre-payment meters
- (vi) to install pre-payment meters as an alternative to disconnection for non-payment
- (vii) not to disconnect any consumer for non-payment until an offer has been made by direct contact with the consumer to install a pre-payment meter.

#### 6.2 That the Electricity Authority:

- (i) publish a code for operation of pre-payment meters, to ensure, inter alia, that power is not cut-off outside of hours when top-ups can be made.
- (ii) set a maximum charge payable for the use of a pre-payment meter, the charge to be based on cost-recovery
- (iii) stipulate that, when a pre-payment meter is used for debt recovery, the surcharge on new purchases of electricity shall be a maximum of 30%.
- (iv) stipulate that no charge may be made for disconnection for non-payment
- (v) require all retailers to send to the Authority each month a list of consumers disconnected for non-payment with an explanation of why actions to avoid disconnection were unsuccessful.

### 7 Medically vulnerable consumers

7.0 I have not referred to medically vulnerable consumers for two reasons. The first is that I consider that, in many cases, they are a subset of economically vulnerable consumers. The second reason is that I have not had direct experience of dealing with such people.

7.1 One matter, however, which drew my attention in the Consultation Paper was the concern expressed by retailers about how to verify whether a particular consumer was medically vulnerable. A medical certificate from a GP may be the best option. There is a simple system in operation for a GP to certify an elderly driver as fit to drive. I recall that the fee is about \$50. It seems to me that it

would be necessary for the consumer to meet a portion of the fee, say, \$10, and for the retailer to meet the balance. This could be a cost-effective option for the retailer in view of the saving in staff time.

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