11 Chews Lane
PO Box 10568
The Terrace
Wellington 6143
New Zealand

Genesis Power Limited
trading as Genesis Energy

Fax: 04 495 6363

27 August 2012

Peter Allport
Retail Advisory Group
c/o Electricity Authority
2 Hunter Street
WELLINGTON

By email: rag@ea.govt.nz

Dear Peter

Insights on the medically dependent and vulnerable consumer guidelines

Thank you for the opportunity to provide information to the Retail Advisory Group (RAG) on the upcoming project "Review of domestic contracting arrangements", prior to its meeting on 30 August 2012.

Our interest in domestic contracting arrangements

As New Zealand's largest electricity retailer,[1] we have a clear interest in this project. We have 54,315 customers who are currently classified as medically dependent or vulnerable,[2] and we have made substantial progress over recent years to ensure our practices align with the Electricity Authority's ("the Authority") medically dependent (MDC) and vulnerable consumer (VC) guidelines.

We have also made a number of improvements to ensure that our retail terms and conditions are consistent with the Authority's principles and minimum terms and conditions for domestic contracts. In 2011, Genesis Energy was one of

[1] As of July 2012, we have a 26.6 percent market share. As measured by connection numbers (ICPs) and includes connections served by Energy Online (a previously wholly-owned Genesis Energy subsidiary that was amalgamated into Genesis Energy on 1 March 2012).

[2] As at June 2012.

three retailers that were identified as having significantly improved their level of alignment.[3]

Useful insights into the effectiveness of MDC and VC guidelines

As part of the project, we understand the Authority has asked the RAG to consider the potential to improve the operational efficiency of the arrangements to assist medically dependent and vulnerable consumers. While not a member of the RAG, we have considerable experience with the MDC and VC guidelines that we are happy to share with the group.

We detail below a number of insights that we consider will assist the RAG as it scopes the work for this project.

<u>Need for a first principles review of the MDC and VC guidelines</u>

We consider that it is essential that the RAG undertake a first principles review of MDC and VC arrangements. It is important to clearly define the problem that the two guidelines are intended to address, so that the RAG can better understand if the current arrangements are effective. We encourage the RAG to use a similar process to that followed for amending the Electricity Industry Participation Code ("the Code").[4]

<u>The issue is broader than just the electricity sector</u>

Genesis Energy is strongly of the view that the underlying problem is a public policy health and social services issue, and the introduction of the MDC and VC guidelines have transferred the cost of this health and social services issue onto the electricity sector and all electricity consumers. We refer the RAG to our attached letter from 9 July 2012, where we discuss this issue and the cost this has placed on our company.

<u>Need to future-proof the MDC and VC guidelines</u>

We are concerned the MDC and VC guidelines are not sufficiently "future-proofed" to accommodate the full range of benefits possible from the introduction of advanced metering.

One particular example of this is customer disconnections. The VC guidelines currently require a representative to be sent out to the property when it is to be

---

[3] *Domestic Electricity Retail Contracts - 2011 Alignment Review*, Electricity Authority in collaboration with Buddle Findlay, 10 October 2011.

[4] As set out in the Electricity Authority's *Consultation Charter*, 20 December 2010.

disconnected, if no contact has been made with the customer. We consider that it will become increasingly common for disconnections and reconnections to be made remotely, as the penetration of advanced meters increases nationwide.

However, the benefits of advanced meters may not be fully realised if the VC guidelines continue to require physical site visits for disconnection when no contact can be made with the customer. To illustrate this point, we charge customers a reduced disconnection fee of approximately $10[5] if they have an advanced meter, but if a physical site visit is required, this costs us approximately $80.

We consider that the VC guidelines should accommodate the full cost reduction benefits of advanced metering, while ensuring that the interests of vulnerable customers are not compromised.

Need to consider what is in long-term interest of dual-fuel customers

Due to the understandable focus on electricity, the VC and MDC guidelines do not always easily transfer across to dual-fuel customers. For example, we note:

- the VC and MDC guidelines do not specify what an acceptable bond amount would be for a dual-fuel customer. The guidelines only specify a maximum bond of $150 for electricity; and
- the VC guidelines specify that customers should only be disconnected for non-payment of electricity services (clause 31). However, in practice dual-fuel customers that do not pay their bill for both electricity and gas, could still have their electricity disconnected.

We recommend that the focus be on "energy services" and that the RAG give consideration to what guidance may be needed for dual-fuel customers and retailers. Input from the Gas Industry Company will be needed on this process.

Concern over requirement for prepayment meters

We disagree with the requirement in the MDC and VC guidelines that retailers should offer prepayment meters as an alternative to a bond. As noted in recent correspondence with the Authority,[6] we do not offer prepayment meters as an alternate to a bond, rather we provide our customers a number of other options.

---

[5] Genesis Energy currently charges an $80 disconnection fee for standard meters but a disconnection fee of only $10.67 for an advanced meter. Refer to our schedule of special fees on our website: http://www.genesisenergy.co.nz/genesis/index.cfm?23361688-C09F-4299-6D1C-EFB7948A1652.

[6] *Update on compliance with medically dependent and vulnerable consumer guidelines,* Genesis Energy letter to the Electricity Authority, 9 July 2012.

This has led to Genesis Energy being assessed as "non-compliant" for these clauses.

We observe that not all retailers currently offer a prepayment option to their customers and as the electricity market evolves, there will be retailers for whom prepayment meters do not fit their business model. Whether or not a retailer invests in prepayment products is a commercial decision for each retailer. We recommend that the guidelines focus on retailers providing customers with "other suitable arrangements" as an alternative to a bond and remove all references to prepayment meters.

Interpretation of the MDC and VC guidelines

In addition to the insights discussed above, Genesis Energy has encountered difficulties when trying to put the two guidelines into practice. We outline below two examples where it is unclear what actions retailers should take with vulnerable and medically dependent customers.

Clarification needed on disconnection notices

The Authority's guidance is unclear on whether disconnection reminder notices must be posted, or whether it is acceptable for these notices to be emailed. From our review of the Authority's guidance, we have noted that:

- in paragraph 2.11(a) of the final principles and minimum terms and conditions for domestic contracts for delivered electricity, it provides that the disconnection notices can be provided to a physical or electronic address; while
- the VC guidelines just refer to a notice and do not specify whether it has to be sent to a postal address; and
- during previous correspondence between the Authority and Genesis Energy, the Authority has stated that it considers that a final notice should be written notice.

Clarification of this point would help retailers align their practices with the Authority's guidelines, while still ensuring that the most suitable communication medium is available for customers.

Re-verification of medically dependent consumers

Genesis Energy has concerns with the process set out for verifying a customer's medically dependent status.

From our understanding of the MDC guidelines, we are able to ask our medically dependent customers to re-verify their medically dependent status if the account is overdue and we would ordinarily send a notice of disconnection. However, it is unclear whether we are able to remove the medical dependent status on an account if a customer does not respond to any of our communications. The following example illustrates our concern:

> A confirmed medically dependent customer provided confirmation of their medically dependent status approximately one year ago. We have had no payment and no communication from the customer during that time. As part of our annual review,[7] we start the verification process over again. We send out letters and texts,[8] and if no response received, we send one of our contractors who will leave a calling card if he is unable to speak with the customer. The calling card expresses the urgency of contacting Genesis Energy about their medical dependency. The whole process would take approximately one month from start to finish.

As a company, we take this matter very seriously and go to great lengths to communicate with our customers the importance of returning confirmation of their medical dependency status. However, as noted above, the MDC guidelines do create a significant cost for retailers. We recommend that RAG give further consideration to the situations when it is appropriate for retailers to remove a customer's medically dependent status.

Welcome opportunity to discuss further

We would welcome the opportunity to discuss the insights and recommendations raised in this letter further with the RAG, if that would be of assistance to the group. We consider that it is important that views of all stakeholders are considered during the early stages of the project, as this will ensure that any recommendations from the RAG reflect the broad views of the industry and are more likely to have reach acceptance when implemented.

---

[7] Genesis Energy has chosen to take an alternative approach to that specified in the MDC guidelines. We review the status of our confirmed medically dependent customers on an annual basis, regardless of the fact that they may not have paid their invoices during that time. We consider that this is a more robust process that ensures only qualifying customers get MDC status.

[8] Genesis Energy uses an automated SMS service for customers who have provided us with cell phone numbers.

If RAG would like to set up a meeting or request further information from Genesis Energy, please contact me on 04 495 6354.

Yours sincerely

Karen Collins
Senior Regulatory Advisor

cc: Craig Evans, Electricity Authority

Encl: Copy of Genesis Energy letter to Electricity Authority, *Update on compliance with medically dependent and vulnerable consumer guidelines,* 9 July 2012.

11 Chews Lane
PO Box 10568
The Terrace
Wellington 6143
New Zealand

Genesis Power Limited
trading as Genesis Energy

Fax: 04 495 6363

9 July 2012

Fraser Clark

Electricity Authority

2 Hunter Street

WELLINGTON

By email: fraser.clark@ea.govt.nz

Dear Fraser

Update on compliance with medically dependent and vulnerable consumer guidelines

Genesis Power Limited, trading as Genesis Energy, is responding to the Electricity Authority's ("the Authority") letter regarding "Non-compliance with MDVC guidelines" dated 20 June 2012.

We outline below our solution to our minor-to-medium level "non-compliance" with the Medically Dependent Consumer (MDC) and Vulnerable Consumer (VC) guidelines. We also take this opportunity to outline our observations regarding the MDC and VC guidelines, in particular:

- we are concerned that the Authority's review[1] suggests a higher level of "non-compliance" as the Authority has not revised its statistics to reflect subsequent improvements made by retailers to address issues identified in the 2010 review;

- there needs to be a first principles review of the MDC and VC guidelines to better understand if these two guidelines best address the underlying problem. Our view is that this is a public health and social policy issue. We consider the MDC and VC guidelines have transferred the cost of this public policy issue onto the electricity sector and retail consumers. We provide

[1] *Compliance with Electricity Authority guidelines on arrangements to assist medically dependent and vulnerable consumers, Electricity Authority*, 29 May 2012.

statistics on the debt to our business arising from the introduction of the MDC and VC guidelines;

- we are concerned that the Authority is treating the MDC and VC guidelines as "de facto" regulations through its language and focus on rectifying "non-compliance"; and

- we wish to highlight the work we have done to date with a joint stakeholder group to consider customer hardship and how retailers can best coordinate with Work and Income New Zealand (WINZ).

We ask that this letter be published on the Authority's website, alongside the MDC and VC review.

Proposed solution to one area of "non-compliance"

The Authority outlined its intention to publicly release its review of retailers' compliance with the MDC and VC guidelines on 3 July 2012. This review shows one instance of minor-to-medium level "non-compliance" with the MDC and VC guidelines that relates to Genesis Energy not offering prompt payment discounts ("PPD") on bill payments made via income redirection.

At the time of the last review, we were unable to offer PPD to our customers who made payments via income direction due to restrictions with our systems. We have now developed and tested a solution that will ensure that our customers who pay their bills in full and on time, via any form of income direction, will be able to receive the PPD. We hope to deploy this solution within the next month.

<u>Level of non-compliance for Genesis Energy</u>

Appendix A of the Authority's review[1] shows that Genesis Energy had a total of six areas of "non-compliance" with the MDC and VC guidelines in 2010. We are disappointed that the Authority has not revised this table to note the improvements retailers have made since this 2010 review. We note that:

- in the Authority's 2011 follow-up review,[2] Genesis Energy had only four remaining areas of "non-compliance"; and

- following the implementation of the PPD solution discussed above, we will have only one remaining area of "non-compliance".

---

[2] *Medically dependent and vulnerable consumer guidelines*, letter from the Electricity Authority to Genesis Energy, 17 March 2011.

genesis ENERGY

The Authority has noted that we are "non-compliant" with the MDC and VC guidelines because we do not offer the use of prepayment meters as an alternate to a bond. We noted in our June 2011 letter to the Authority,[3] we do not offer prepayment meters as an alternate to a bond, rather we offer our customers a number of other options. We suggested that the Authority focus on retailers providing customers with "other suitable arrangements" and that the decision to invest in prepayment products is a commercial decision for each retailer.

It is unfortunate that any retailers' concerns with application of the two guidelines and any alternative approaches to working with medically dependent and vulnerable consumers have not been included in the review. We consider that this would have provided readers of the review a better understanding of retailers' adoption of the MDC and VC guidelines in practice.

Need for first principles review of MDC and VC guidelines

Genesis Energy considers that there would be value in undertaking a "first principles" review of the MDC and VC guidelines to better understand if these two guidelines best address the underlying problem.

<u>Work under way by the Retail Advisory Group</u>

We note that the Retail Advisory Group (RAG) has been tasked with the Domestic Contracting Arrangements project that will consider the suite of arrangements for the consumer and distributor/retailer relationship, including the MDC and VC guidelines. However, we understand that limited work has been completed to date and the project is not expected to be completed until the 2013/14 financial year.[4] In the RAG's progress update to the Authority, the Chair noted that:

> "there is some uncertainty about where accountability for the arrangements to assist medically dependent and vulnerable consumer arrangements should sit across government. The Authority is best placed to determine the extent of any legal issues associated what area of government should be accountable for what matters.........
>
> the Group also noted that there is some overlap between the minimum terms and conditions for domestic contracts and the arrangements to assist medically dependent and vulnerable consumers, and that some parties have suggested

---

[3] *Compliance with medically dependent and vulnerable consumer guidelines*, Genesis Energy letter to the Electricity Authority, 10 June 2011.

[4] *2012/13 Work Programme*, Electricity Authority, June 2012.

> there are opportunities to improve the operational effectiveness of the arrangements to assist medically dependent and vulnerable consumers."[5]

Going forward, we strongly encourage the RAG to take a first principles approach to the Domestic Contracting Arrangements project. We consider this will enable the RAG to correctly identify the core problem driving the need for the MDC and VC guidelines. Without a clear understanding of the underlying problem, it is difficult to assess the effectiveness of the measures the Electricity Authority has put in place or understand whether further or alternative measures are required.

Clearly identifying an efficiency gain or market or regulatory failure is one of the key principles from the Authority's consultation charter[6] and we encourage the RAG to follow a similar process for this project to that followed for amending the Electricity Industry Participation Code ("the Code").

<u>Issue is broader than just the electricity sector</u>

As noted in previous correspondence,[7] we understand the underlying problem is a public policy health and social services issue, and that the introduction of the MDC and VC guidelines has transferred the cost of this health and social services issue onto the electricity sector and electricity consumers.

At present, retailers carry all of the risk associated with MDCs and VCs who are unable to pay their electricity bills. From our experience, we have observed that many MDCs have ceased payment or have in fact never paid for electricity supply. As of June 2012, Genesis Energy has a total of:

- 36,180 vulnerable customers and of these customers, 3,364 have overdue accounts totaling $836,771.37; and

- 18,135 medically dependent customers and of these customers, 2,304 have overdue accounts totaling $872,448.95.

Appendix A provides two graphs that illustrate the growth in MDC and VC numbers over the past five years and the total number of MDCs who have overdue accounts and the total debt associated with MDCs.

---

[5] *Update on progress with 2011/12 work programme*, Letter from Peter Allport, Chair of the RAG, to the Electricity Authority, 17 May 2012.

[6] Principle two of the Electricity Authority's *Consultation Charter*, 20 December 2010.

[7] *Vulnerable and Medically Dependent Consumers*, Genesis Energy response to the Electricity Authority, 29 November 2010 and *Re: Medically Dependent Consumers – Debt Concerns*, Genesis Energy letter to Dr Brent Layton, Chairperson, Electricity Authority, 30 August 2011.

We note that the business costs associated with MDCs and VCs are not limited to only the value of the debt written off. There are additional costs associated with administering these customers and all of these costs are ultimately passed onto all consumers by putting upward pressure on electricity tariffs. While we try and work with our customers to reduce this level of debt, this position is not sustainable. We do not consider that it is in the overall long-term benefit of consumers to have all consumers absorb the costs associated with current MDC and VC guidelines.

Discussions with the Authority

We have previously requested that the Authority discuss this issue with both the social and health policy agencies to consider where ownership of problem rests. We have also urged the Authority to publish any advice that it provides to the Minister regarding retailers' compliance and concerns and where ownership of problem should rest. In the Authority's response to Genesis Energy in March 2011, the Authority noted that they would:

> "commence an initial analysis of this issue, to seek an understanding of the materiality of any inefficiency associated with the current policy position, and use this to prioritise any in-depth consideration of this matter." [8]

However, this work does not appear to have yet been undertaken and we have had no response from the Authority regarding our further correspondence in August 2011.[9] It is also unclear whether the Authority's quarterly collection of statistics on MDCs has informed the RAG's work to date[10] on the Domestic Contracting Arrangements project. As noted in our 2010 submission to the Electricity Commission,[11] we consider that the collection of MDC statistics provides a useful evidence base to inform and influence retailers' practices and Government's future work concerning MDCs and VCs.

We would welcome the opportunity to discuss these concerns further with the Authority and the RAG, to ensure our comments are fed into the RAG's Domestic Contracting Arrangements project.

---

[8] *Medically dependent and vulnerable consumer guidelines*, Letter from Carl Hansen, Electricity Authority to Genesis Energy, 17 March 2011.

[9] *Re: Medically Dependent Consumers – Debt Concerns*, Genesis Energy letter to Dr Brent Layton, Chairperson, Electricity Authority, 30 August 2011.

[10] We note that a draft paper was prepared but not released by the RAG - *Domestic Contracting Arrangements discussion paper* (draft), Retail Advisory Group, discussed at 22 February 2012 meeting.

[11] *Electricity Consumer Debt to Retailers*, Genesis Energy submission to the Electricity Commission, 14 July 2010.

Review of retailers' compliance

We welcome the publication of the Authority's review of retailers' compliance with the MDC and VC guidelines (subject to our comments above) and the decision that "at this stage there are unlikely to be net long-term benefits to consumers from the Authority amending the Code to mandate compliance with the MDVC Guidelines".[12]

However, as noted in our June 2011 letter to the Authority, we caution the Authority from treating the guidelines as "de facto" regulations through its focus on rectifying "non-compliance". We remain of the view that it is important that retailers have the flexibility to develop the most appropriate arrangements to deal with VC and MDCs, in a manner that is most cost-effective and suited to the customer base, rather than having to follow prescriptive guidelines. We expect that best practice for MDC and VC will evolve over time as retailers find better ways to work effectively with this group of customers.

The Authority has stated that it will not undertake a further review of "compliance" until early 2013 at the earliest.[12] We encourage the Authority to discuss this timeframe with the RAG. It would be prudent for the RAG to complete its Domestic Contracting Arrangement project before another review of "compliance" with the two guidelines was undertaken.

Our work with MSD on customer hardship

In addition to our work aligning with the MDC and VC Guidelines, Genesis Energy has been a contributor to a joint stakeholder group focusing on customer hardship. This group has involved representatives from the Ministry of Social Development (MSD), Work and Income (WINZ), the New Zealand Federation of Family Budgeting Services, the Electricity and Gas Complaints Commission and the Authority.

The group has been working to identify ways that retailers and WINZ can better coordinate their interactions over MDC and VCs to promote outcomes that are positive for the individual customers involved. The idea of a Hardship Register for the industry has been discussed and qualifying customers would be privy to differentiated terms that could include measures such as flexible payment plans or tailored cycles. The success of any initiative, however, will require more proactive engagement with the social agencies. At present, we note that there is no industry standard approach for retailers dealing with WINZ.

---

[12] *Compliance with Electricity Authority guidelines on arrangements to assist medically dependent and vulnerable consumers*, Electricity Authority, 29 May 2012.

genesis ENERGY

In March 2012, this joint stakeholder group presented to the retailers forum on its discussions to date. There was a large degree of support from the retailers present to develop a consistent approach to working with WINZ. Unfortunately, work in this area has now stalled due to a change in staff at WINZ. Genesis Energy, however, remains committed to progressing this work.

We request that a representative from the RAG attend the next Retailer's Forum to discuss the work on the joint stakeholder group and how this can be fed into its work on the Domestic Consumer Arrangements Project.

If you would like to discuss any of these matters further, please contact Karen Collins, Senior Regulatory Advisor, on 04 495 6354.

Yours sincerely

Albert Brantley
Chief Executive

cc: Carl Hansen, Chief Executive, Electricity Authority

John Rampton, General Manager Market Design, Electricity Authority

Peter Allport, Chair, Retail Advisory Group

Byron Weaver, Secretariat of the Retailers' Forum

Appendix A: Genesis Energy's MDC and VC statistics

Figure 1: Total number of medically dependent and vulnerable customers

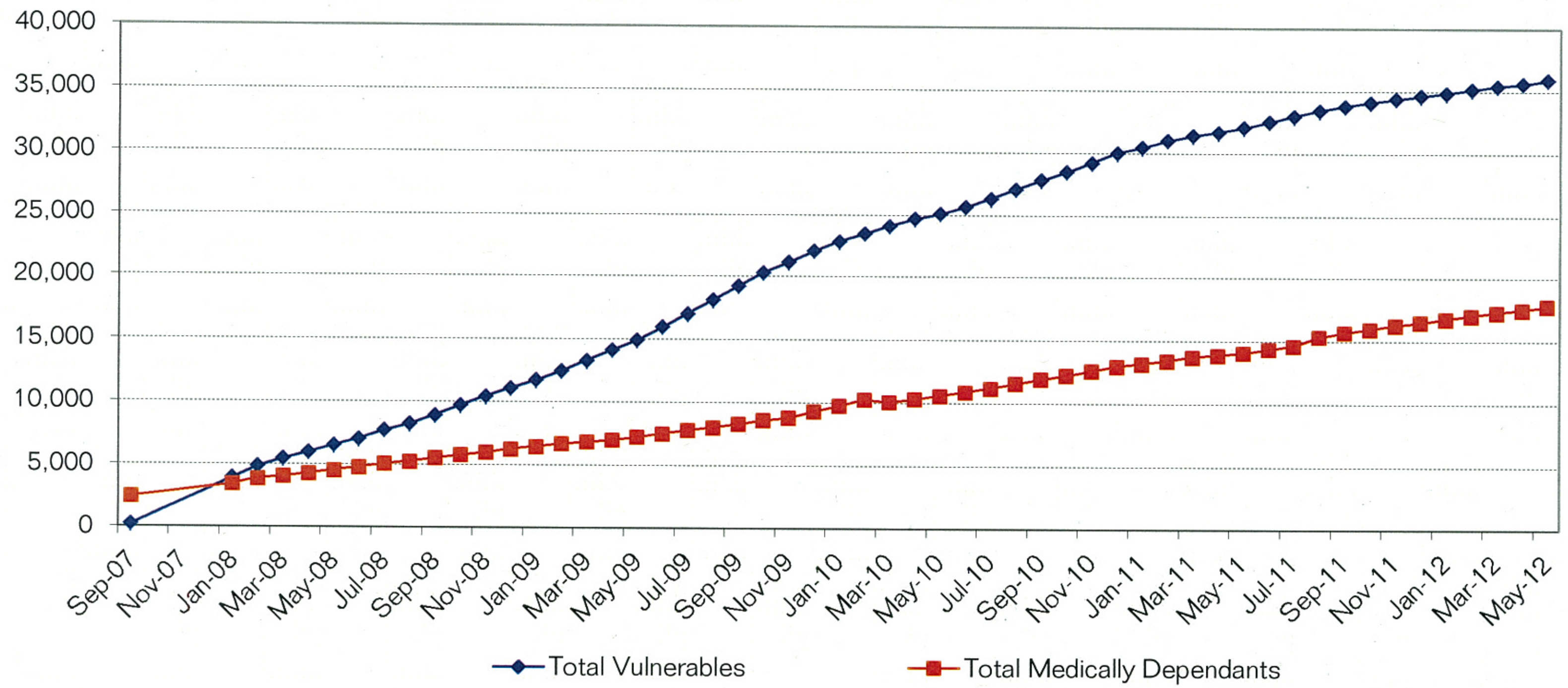

Figure 2: Overdue medically dependent customers