

22 April 2020

## Letter to electricity retailers: ongoing industry response to COVID-19

Dear ,

As an essential service, electricity has an important role in protecting and supporting business and domestic consumers through both the current lockdown and the period of economic recovery which will follow.

### Vulnerable and medically dependent consumers

On 8 April 2020 we wrote to you setting out our expectations in relation to the delivery of electricity services to medically dependent and vulnerable domestic customers. That letter recorded our expectation that every domestic consumer experiencing payment difficulty should be given sufficient time to access the support they need before any last-resort options such as disconnection are considered. We have also written to the Metering Equipment Providers advising them of our expectations in relation to these domestic customers. We acknowledge and appreciate that a number of you were already meeting or exceeding this expectation before we wrote to you.

In that letter we said we would contact you again to seek assurance that your internal processes align with the medically dependent consumer (MDC) guidelines<sup>53</sup> and the vulnerable consumer (VC) guidelines<sup>54</sup>. The Authority is now requesting that assurance from you that your company follows the processes set out in both of these guidelines, in full. Please provide this assurance to the Authority in writing or email ([marketoperations@ea.govt.nz](mailto:marketoperations@ea.govt.nz)) by no later than 5pm, 28 April 2020.

### Potential increased debt

More generally, we are concerned about the prospect that the COVID-19 pandemic will lead to increased levels of non-payment and ultimately, new bad debt as households and small and medium-sized enterprises (SMEs) default. We know this concern is shared across the whole sector.

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53 <https://www.ea.govt.nz/dmsdocument/8564-guidelines-arrangements-to-assist-medically-dependent-consumers>

*A Medically Dependent Consumer is a domestic consumer who is dependent on mains electricity for critical medical support, such that loss of electricity may result in loss of life or serious harm. For the avoidance of doubt, medical dependence on electricity could be for use of medical or other electrical equipment needed to support the treatment regime.*

54 <https://www.ea.govt.nz/dmsdocument/8565-guidelines-on-arrangements-to-assist-vulnerable-consumers>

*A Vulnerable Consumer is a domestic consumer who:*

- (a) *for reasons of age, health or disability, the disconnection of electricity to that domestic consumer presents a clear threat to the health or wellbeing of that domestic consumer; and/or*
- (b) *it is genuinely difficult for the domestic consumer to pay his or her electricity bills because of severe financial insecurity, whether temporary or permanent.*

As you will be aware, the Authority has issued an information request which seeks to improve the understanding of the size and scope of the debt issues. We encourage all participants to be active in managing the financial risks that may result from retailers carrying a higher debt burden in the short term.

### **Retailer response to COVID-19**

We are aware and pleased that a number of retailers have already responded to the pandemic with actions such as amending price plans, waiving fees and offering flexible payment arrangements, as well as providing practical support, such as assisting their domestic customers to explore income supplements and other support from Government agencies. As noted in our last letter, we expect all retailers to be taking such actions proactively. We have launched a campaign to encourage domestic electricity consumers to talk to their electricity retailers about their options.

In addition, we expect retailers, to the extent practicable, to be considering options to support SMEs facing challenges to pay their electricity bills during COVID-19 lockdown and the subsequent recovery period.

We are encouraged that some network companies are offering amended price plans and/or flexible payment arrangements to alleviate the impacts of COVID-19 on the end users of their services. While pricing is a matter for individual retailers, we support the principle that, as much as a retailer can, these COVID-19 specific adjustments should be broadly passed on to the relevant end users. We recognise this may be challenging for some retailers in the short term, but we consider this a desirable outcome for consumers in the medium term. We encourage network companies and retailers to discuss and resolve any practical issues that might be encountered in achieving this objective.

We have heard and understood interest from network companies regarding whether (and to what extent) the network charge adjustments which took effect on 1 April 2020 passed through into the retail electricity market. As part of our ongoing market monitoring it is our intention to commence a review in October 2020 of how these network pricing changes affected retail pricing.

### **Fees charged to consumers**

In addition, we have heard concerns expressed by consumer groups regarding wide variation in fees being charged by retailers during the pandemic period. We expect retailers to review all their fees – such as for disconnection, reconnection or late payment – and ensure they are justified, clearly communicated and understood. Such fees should only reflect the reasonable costs associated with the provision of the service.

Collectively these actions will ensure the sector provides much-needed support to its domestic and small business consumers.

### **Monitoring the industry's response to COVID-19**

It is our intention to formally review the industry response at the end of the pandemic period, including, as discussed above, the significant efforts retailers have already gone to in order to meet their customers' needs. The exact nature of any review will be decided in the future, but for now, retailers should assume it will consider the following:

- the extent to which retailers adhered to the guidelines that apply to medically dependent and vulnerable customers
- the arrangements retailers put in place to assist domestic consumers and SMEs
- the extent to which retailers passed on any COVID-19 related price adjustments from networks
- the fees charged by retailers to domestic consumers and SMEs in the pandemic period relative to the cost of providing the underlying services
- the increase or decrease in costs borne by retailers as a result of COVID-19.

We acknowledge that, regardless of any assistance you provide to your customers, it is likely that during and after the pandemic period you will be faced with more customers not being able to pay their bills, and this could have a significant impact on your businesses. Some retailers have asked what the Authority is doing to respond to this impact.

We are actively monitoring this situation, and seeking to assess the magnitude of adverse financial impacts on competition and reliability in our sector, including by:

- validating how widespread and urgent any cashflow or bad debt problem is for electricity retailers, or will become
- understanding the effect on electricity retailers of any Government relief initiatives to date, e.g., the Business Finance Guarantee Scheme.

We thank retailers for the data they have provided us and will continue to provide us in the weeks to come. We encourage retailers to continue to be proactive in giving us evidence that will help build an objective understanding of the business impacts of COVID-19 at an individual retailer level, and the measures retailers are adopting to promote financial resilience. This evidence will ensure we are well informed as we assess next steps for the electricity sector during this challenging period.

Yours sincerely



James Stevenson-Wallace

**Chief Executive**