

11 June 2013

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## **SUBMISSION ON RETAIL ADVISORY GROUP PAPER ON DOMESTIC CONTRACTING ARRANGEMENTS**

- 1 Orion New Zealand Limited (**Orion**) welcomes the opportunity to comment on the Retail Advisory Group (RAG) paper “Review of domestic contracting arrangements” issues paper (the **paper**) released by the RAG in April 2013.

### **Introduction**

- 2 Our submission is in two parts:
  - General comments on the paper, and
  - Responses to the paper’s specific questions as an appendix.

### **General comments on the paper**

- 3 The paper seeks comments on three distinct areas:
  - Whether to develop minimum terms and conditions for conveyance arrangements
  - Whether to more closely monitor retailers’ contracts for compliance
  - Possible improvements to the operational arrangements regarding medically dependent and vulnerable consumers
- 4 We respond regarding each of these in turn.

### **Conveyance arrangements**

- 5 We think that important context is missing from this section.
- 6 Firstly, It appears Vector is moving away from a conveyance arrangement for its Auckland consumers. Obviously if this happens, the 20% of consumers currently covered by conveyance will reduce dramatically. We should at least wait until the Vector position is clearer before progressing any further work in this area.
- 7 Secondly, we believe most distributors offer conveyance arrangements as a choice, at least for larger customers. Where there is choice there should, we submit, be less regulatory concern or interest. However, since these types of consumers tend to be larger and non-domestic we assume they are out of scope anyway?
- 8 Thirdly, there doesn't seem to be any evidence that there are any material issues currently? The EGCC advice cited indicates no such issues. Moreover, the statement in para 3.2.4 of the paper is somewhat vague as to source, and it is not possible to tell whether this is based on isolated or widespread examples?
- 9 Finally, we note that retailer terms and conditions reflect, or should reflect, a number of distributor terms and conditions as contained in the UoSAs between retailers and distributors. We would be surprised if the distributor terms offered in a conveyance arrangement were materially different to those offered under interposed.

### **Monitoring retailer contracts**

- 10 We do not believe the Authority should increase regulatory activity in an area where there is no identified material problem, and none is identified in the paper. If as stated, retailer's terms and condition are reasonably well aligned with the Authority's minimum terms and conditions then surely the regulatory box can be ticked? The EGCC is quoted as advising that there "...are no obvious issues..." .
- 11 This does not mean that no consumers have contractual issues with their retailers. However that would have to be at a materially worse level than that experienced in other comparable markets (for example banking, insurance, telecommunications) before further intervention is contemplated.
- 12 We note that one of the dimensions presented by Powerswitch in its retailer comparisons is customer satisfaction as surveyed by Consumer NZ. To the extent that contractual arrangements are a material part of customer satisfaction these sorts of surveys should pick up widespread dissatisfaction.

### **Medically dependent and vulnerable consumers**

- 13 At the risk of being pernickety, we do not think that Figure 3 depicts the situation completely accurately. Two definitions of vulnerable consumers (VCs) are given:

one relates to the threat to health and wellbeing from disconnection - and medically dependent consumers are clearly a subset of that group - but the second is clearly an income test, and medically dependent consumers (MDCs) are not necessarily suffering from severe financial insecurity. We make this point to reiterate that electricity supply is not 100% continuous or guaranteed, and MDCs must be able to deal with supply interruptions from whatever cause, whether or not the cause is related to ability to pay. If most MDCs are in fact able to pay, then the greatest risk they face is supply interruption for other reasons. Retailers should be able to advise whether the proportion of MDCs that get into credit difficulties is more or less than the proportion of non MDCs.

- 14 We appreciate the confidentiality requirements relating to Figure 4, but an overall indicator across all retailers of the trend in the number of consumers reporting as MDC would be helpful. If there is an overall increasing trend this requires some explaining.
- 15 Regarding the stated operational issues in section 5.5 of the paper:
  - The comment about remote disconnections is interesting, however some numbers for context would help. For example nearly 90% of connections on the Orion network already have remote disconnect capability, but we do not know if retailers currently do remote disconnects for non-payment on our network, and if they normally do, how many they do not do due to the MDVC guidelines. We also recall there have been safety issues with remote reconnection, and we are not sure if these have been resolved?
  - Regarding dual-fuel consumers, we agree that some clarification of bonds would assist. We note however that the appropriateness of \$150 has never really been established, and moreover the figure has not changed for many years so its value in real terms will have reduced materially. On the other hand we presume that gas supply significantly offsets electricity consumption and associated retailer exposure, so \$150 (or some other single number) may be reasonably appropriate for both electricity only and dual fuel customers.
  - We support clarification around the circumstances when VCs do not pay in dual fuel situations.
  - We have two comments about pre-payment options:
    - (a) They go beyond metering, viz Mercury's 'Glo bug' solution, so it is well past time the industry stopped referring to pre-pay **meters**.
    - (b) Pre-pay solutions are, nevertheless, inappropriate for VCs as they simply hide the level of ability-to-pay related disconnections. We acknowledge that some VCs, and many non vulnerable consumers, may still struggle to post a bond and maintain electricity supply under a post-pay arrangement, but we submit there may be more

appropriate interventions to address this than concealment of the problem.

- The approaches to delivering disconnection notices need to be consistent and permissive. We note that NZ Post has indicated that it may reduce the frequency of physical mail delivery, and this may have implications for these and other electricity industry customer communications.
  - Retailers should be able to remove the MDC status if the customer does not respond to reasonable attempts at communication.
  - The Registry should not be used as a means of recording MDC status, because MDC status is a customer attribute, not an ICP attribute. Orion does not monitor MDC status, and thus we do not take this into account in planned outage management. We reiterate: **MDCs must be able to deal with interruptions to supply from whatever cause.**
  - It is hard to disagree with improved coordination, but in the end, to the extent that VCs or MDCs financial position leads to disconnection for non-payment, we believe primary responsibility rests with social agencies to address this. Retailers cannot be reasonably expected to provide free electricity.
- 16 One further operational ‘opportunity’, which we suggest further thought be given to, is whether the overall risk of adverse consequences of MDC disconnection needs to be revisited. It may be that all aspects of the process work much better now - in particular the information provided to MDCs by health providers - and no medically dependent consumer is under the misapprehension that supply will be continuous and they have therefore either:
- made arrangements to deal with supply interruption, from whatever source, or
  - not been released into the community in a condition where they are in fact medically dependent on supply.
- 17 Perhaps some consideration of the Christchurch earthquakes would help here. After the February 2011 event, a significant portion of the MDCs on the Orion network will have been without power for extended periods – some for up to several days. While we have done no formal research, we were not made aware of any cases where, one way or another, MDCs were unable to make satisfactory arrangements and suffered harm as a result. And this was in the context of emergency services and other options (staying with neighbours) being much less available than normal. Perhaps some more formal research could be done on this?

**Concluding remarks**

- 18 Thank you for the opportunity to make this submission. Orion does not consider that any part of this submission is confidential. If you have any questions please contact Bruce Rogers (Pricing Manager), DDI 03 363 9870, email bruce.rogers@oriongroup.co.nz.

Yours sincerely



Bruce Rogers  
**Pricing Manager**

## Appendix: Responses to specific questions

	<b>Question</b>	<b>Response</b>
1	Do you agree with the issues described above? Please provide reasons for your view.	This looks like a reasonable list of <i>potential</i> issues, but evidence they are <i>material actual</i> issues appears scanty.
2	What would be the benefits of developing minimum terms and conditions for conveyance arrangements to clarify the nature of the relationship between distributors and consumers, where they have a direct relationship?	We believe the benefits will be limited, particularly in the light of reported developments in Vector's approach.
3	What would be the costs?	We doubt the costs would be very high, but they could still well exceed the benefits. We see no identified reason for haste in this area.
4	Are there any other issues in respect of the relationship between distributors and consumers under conveyance arrangements? Please provide a description of the issue and supporting evidence.	We are not aware of any. The cases alluded to in the paper could have been better spelt out. We presume the scope here is limited to domestic consumers?
5	What would be the benefits of the Authority monitoring retailers' compliance with their domestic	We doubt they would be material given the lack of evidence of material problems in this area.

	<b>Question</b>	<b>Response</b>
	contracts?	
6	What would be the costs?	The costs could be significant.
7	Is the Authority the best party to provide information on the service quality of retailers, or can consumers seek this out from other sources?	No.  It is already readily available from other sources, eg Consumer NZ (directly and via Powerswitch). Perceptions of overall service quality is a better comparator than contractual compliance, as the consumer contract will, we believe, be unread in most cases.
8	Are there any other issues in respect of monitoring retailers' compliance with their domestic contracts that the RAG should consider?	We cannot think of any.
9	Do the arrangements to assist medically dependent and vulnerable consumers work? If not, which aspects don't work?	We cannot recall any reported cases of death or serious harm due to disconnection for non-payment since the death of Mrs Muliaga. By this measure the arrangements seem to work.  However we also note that we have not noticed any reports of death or serious harm from interruption to supply for reasons other than non-payment, and most particularly in Christchurch following the interruptions caused by the February 2011 earthquake.
10	What are the alternatives to the current arrangements to assist medically dependent and vulnerable consumers?	As noted in the body of our submission, it is perhaps time to review the risk of serious harm or death arising from supply interruption. See also our response to question 9 above.

	<b>Question</b>	<b>Response</b>
11	What are the benefits of the Authority undertaking a review of the medically dependent and vulnerable consumer guidelines?	The potential benefits would be reduced compliance costs for retailers around MDCs, and more transparent treatment of VCs in terms of appropriate interventions (income support versus retailer credit forgiveness), inappropriateness of pre-payment for VCs (and MDCs for that matter.) It may be worth an early piece of analysis to establish the size of these costs currently (if not already known).
12	What would the costs likely be?	We are not really in a position to quantify them, but a large number of organisations have an interest in this area, and we recall that earlier consultations were quite time consuming and resource hungry.
13	How comprehensive should such a review be?	It rather depends on retailer and other agencies' responses to this paper.
14	Do you agree with the issues described above? Please provide reasons for your view.	All seem relevant and important.
15	Are there any other issues in relation to the medically dependent guidelines or the vulnerable consumer guidelines the RAG should consider?	As noted above, it is worth reviewing whether the risk of death or serious harm remains given experience with supply interruptions resulting from causes other than disconnection for non-payment.
16	If you are a retailer, how many non-payers have there been each calendar year (for the past five years, if possible) in each of the medically dependent and vulnerable consumer categories?	Orion is not a retailer.

	<b>Question</b>	<b>Response</b>
17	If you are a retailer, how many medically dependent and vulnerable consumers have been disconnected each calendar year (for the past five years, if possible)?	Orion is not a retailer.
18	Are you aware of other issues with the domestic contracting arrangements adversely affecting operational effectiveness? Please describe the issue and provide evidence.	No.