

September 15, 2020

Submissions
Electricity Authority
PO Box 10041

Wellington 6143

By email to debtdeferralscheme@ea.govt.nz

Re: Consultation Paper - Authority's Proposal to close the retailer debt deferral scheme¹.

Dear Electricity Authority,

The Electricity Networks Association appreciates the opportunity to give feedback on your September 2020 consultation: "COVID -19 Retailer Debt Deferral Scheme".

The Electricity Networks Association, which represents the collective interests of its 27 member companies, strongly supports the proposal to close the deferral scheme earlier than its intended end-date of February 20, 2021.

In the interests of brevity, ENA sees no need to state reasons for supporting your proposal, as the Authority and other interested stakeholders will already be aware of ENA's views on the May 20 Code amendment, the closure of which is the subject of your consultation.

ENA challenged the basis of the May decision, in particular highlighting unfairness on distributors. We've said that the Authority mis-used its ability to urgently change the Code and should not have done so without natural justice through consultation.

There is therefore little to be gained in reproducing in detail ENA's reasons for opposing the May Code change, now it looks set to be removed. But we'd like to repeat a point made in our letter to the Authority of June 11, 2020, in regard to promoting a strategic response to future economic shocks.

Most would agree that the pandemic was an extraordinary situation, but there will inevitably be another unexpected adverse event which causes a global and economic shock, domestic recession,

¹ Electricity Authority. Covid-19 Retail Debt Deferral Scheme feedback on proposal to close. 1 September 2020.

and payment difficulties leading to possible increases in retailer bad debt. Economic shocks could stem from war, terrorist attacks, banking collapses, bursting economic bubbles, foot-and-mouth disease outbreaks, and human pandemics.

When the next shock comes, the Authority, assuming it wants to again intervene through an urgent Code change, must be better prepared.

Industry participants have to be prepared: they have pandemic and crisis management plans, and they stress tests these regularly. The Authority should build a policy response that could be taken quickly off the shelf, adapted, and implemented. This policy development should clearly define the problem, consider options, obtain feedback, and put forward solutions

The Authority's view – and it's one ENA would agree with - seems to be that the problem of consumers being unable to pay power bills is an income issue for Government to address². Presumably this means the Authority *and the Government* accept that, in the event of a future severe recession, there is high risk of, after income and mortgage support measures fall away, significantly more disconnections.

Logically, either the Government steps up with more income support, or it tolerates a larger pool of consumers experiencing periods without power. If this is not the clearly accepted position between the Authority and MBIE/Government, then industry faces ongoing risk of the regulator developing another rash and, ultimately, unsupported response to address a foreseeable issue. That would be a poor outcome.

Returning to forward-looking solutions, these might include widening the Authority's levy-making powers to fund options such as direct relief for customers or retailers, or establishment of a bad retailer or retailer of last resort.

Another alternative is to follow the example set by Australia, where the Australian Energy Regulator requests information on financial capability when new retailers apply for an authorisation to sell energy. In applying for an authorisation, nascent retailers must provide costings which "take into account circumstances where your cash flow is put under short term pressure, for example, by high wholesale prices. You should have sufficient reserves to meet such cash peaks."³

Another option is for central government to replace the Winter Energy Payment with a better targeted version of income support that is tied to energy poverty and must be spent on energy.

The point here is that industry can positively support the Authority to develop a solution that works coherently with existing market and risk allocation arrangements.

Finally, one pressing issue highlighted by recent events is the inadequacy of the current prudential and trader default arrangements for managing financial risks facing EDBs from retailers defaulting on payment. The thresholds for an EDB to initiate the trader default process severely constrain EDBs' ability to take efficient and prompt risk management around retailers defaulting on payment. This imposes unnecessary, additional costs on consumers for the commercial benefit of under-capitalised retailers and their shareholders.

ENA would like to work positively with the Authority to review the current prudential and trader default arrangements. Responding to an Authority suggestion in a letter to the ENA on July 7, 2020,

² Acknowledging the important context of guidelines on medically dependent and vulnerable consumers

³ Australian Energy Retailer. Retailer Authorisation Guideline – December 2014.

ENA has been preparing an application for a Code change to improve the currently deficient prudential arrangements for distributors. This will be lodged before the end of the year.

ENA's responses to your seven questions in the consultation paper are below:

1. Do you think the Scheme is currently needed to protect retail competition, or may be needed to protect competition prior to its expiry on 20 February 2021? Q2. NO
2. Do you think the Scheme should be closed early? YES
3. Do you agree with the objective of the proposed amendment? YES
4. Do you agree the benefits of the proposed amendment outweigh its costs? YES
5. Do you agree the proposed amendment is preferable to the other options? YES
6. Do you agree the Authority's proposed amendment complies with section 32(1) of the Act? YES
7. Do you have any comments on the drafting of the proposed amendment? NO

Once again, thank you for the opportunity to comment. While ENA disagreed with the Code change, ENA members sincerely appreciate the Authority taking action to withdraw it a few months early.

Your faithfully



Graeme Peters

Chief Executive

Electricity Networks Association