



MP for Wigram

Minister of Energy and Resources

Minister for Greater Christchurch Regeneration

Minister of Housing

Minister of Research, Science and Innovation

November 2019

An open letter to electricity retailers regarding prompt payment discounts

As you all know the Electricity Price Review has completed its 13 month review into the electricity sector. When I established the Review I tasked it with investigating whether the electricity sector, as it currently sits, is delivering fair and equitable prices to consumers. I also tasked the Review to consider whether the electricity market and the regulatory framework will continue to be appropriate in the future, particularly with the emergence of new technologies and our goal of moving to a low emissions economy. Unlike previous reviews, consumer interests and concerns have had greater weighting. Consumers are at the heart of the sector and are the reason it exists.

In terms of affordability and fairness, the Review found that New Zealand's electricity prices compared favourably internationally, however energy hardship is one of the most pressing problems, and children are over represented in households experiencing this hardship.

The causes of energy hardship extend beyond the electricity sector, and the solutions require joint action by government, regulators and the industry. The industry's impact on energy hardship was highlighted when the Review looked at prompt-payment discounts (PPDs). The Review found that PPDs:

- disproportionately hurt low-income consumers
- are confusing when customers try to compare retailers' prices
- are often unrelated to the true cost of recovering an overdue bill – supposedly the reason for offering the discount
- are the single biggest factor distinguishing what consumers in the most deprived and least deprived areas pay.

I understand that retailers face legitimate costs in collecting overdue payments but what is particularly concerning is how large some PPDs are and that they obviously do not reflect the actual costs of collecting overdue payments.

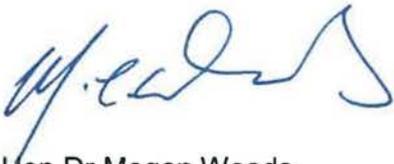
In late 2018, Meridian Energy stopped its PPDs. It estimated at the time that the move would save its customers \$5 million a year. Six months on Meridian observed no discernible difference in late payments, levels of customer debt or disconnections for

non-payment. The Review found customers in aggregate would save \$45 million a year if other retailers followed Meridian's example. I commend Meridian's approach in helping its own customers.

The Review recommended the Government prohibit PPDs, but allow reasonable late payment fees that reflect the actual cost of recovering outstanding payments.

I am considering the option of regulation, to give effect to this recommendation. However before proceeding down this track I encourage all retailers to ensure any discount offered for prompt payment reflects a reasonable estimate of the costs actually incurred by a retailer when a customer fails to pay an account by the due date.

In six months' time I will reconsider the Review's recommendation in light of any developments in PPD practices I observe in the market.

A handwritten signature in blue ink, appearing to read 'M. Woods', written in a cursive style.

Hon Dr Megan Woods
Minister of Energy and Resources