Appendix C Evaluation of costs and benefits

Assessment of the costs and benefits of mandating the proposed Consumer Care Obligations

18 July 2024

concept consulting

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1 Executive summary

We assess that the Electricity Authority's (Authority) proposed changes to, and mandating of, the Consumer Care Guidelines (Guidelines) into the Consumer Care Obligations (Obligations) are highly likely to have positive net benefits. These proposed changes (the proposal) reflect Option 4 in the Authority's consultation[1] and decision paper.[2] Benefits accrue principally to residential consumers, with retailers facing some additional compliance costs and some cost savings. Other cost impacts (e.g. on the Authority or on distributors) are unlikely to be material relative to retailer costs.

Due to data limitations, our assessment is primarily qualitative.

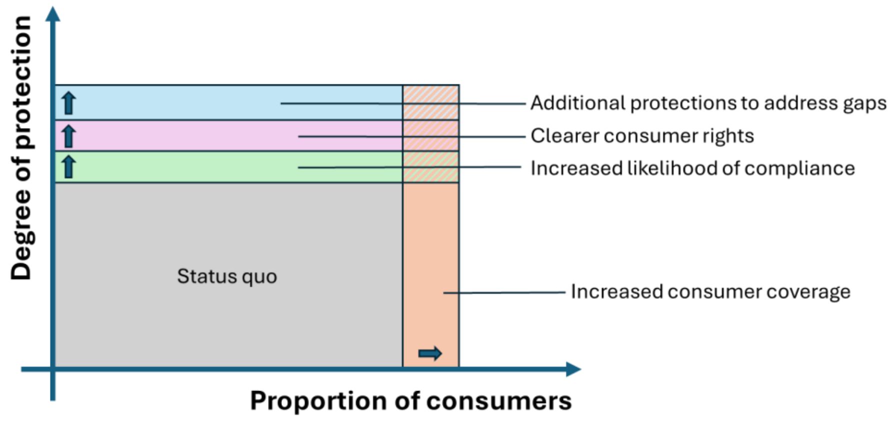
1.1 Consumer benefits from the proposal are likely to be high

The primary benefits of the proposed changes are from a higher degree of consumer protection for a greater proportion of consumers.

These come from:

- **increased consumer coverage** as the Obligations become mandatory for all retailers
- **increased likelihood of compliance** as the Obligations become enforceable
- **clearer consumer rights** as drafting improvements are made to the Obligations
- **minor additional consumer protections** from specific clause changes to address unintended gaps.

Figure 1: Changes to consumer protection[3]



Increased consumer protection translates into substantial consumer benefits because:

- the Obligations protect customers' access to electricity, the value of which is particularly high for:
  - medically dependent consumers, as they rely on electricity to keep them healthy, and in some cases, alive
  - consumers facing financial difficulties, as there is a large number of households experiencing energy hardship
- the Obligations provide broader consumer protections (i.e. not necessarily related to protecting electricity access/preventing disconnections) that cover interactions over the entire customer-retailer relationship and provide convenience and dignity benefits to consumers
- the flow-on effects of increased consumer protection (including increased trust in retailers and confidence in the electricity market) provide wider economic benefits through making the electricity market more competitive and stable.

[1] 2023 consultation paper – [Options to update and strengthen the Consumer Care Guidelines (ea.govt.nz)]
[2] 2024 decision paper – [Updating and strengthening the consumer care guidelines (ea.govt.nz)]

[3] We note that this graph (as well as Figures Figure 2Figure 4 and Figure 5) are illustrative only. particularly the relative sizes of increases and decreases to consumer protection and compliance requirements, which are likely to be substantially different from one impact to another.

1.2 Retailer compliance costs are likely to increase

We expect retailer compliance costs to increase, but that this increase will be much smaller than the increase in consumer benefits.

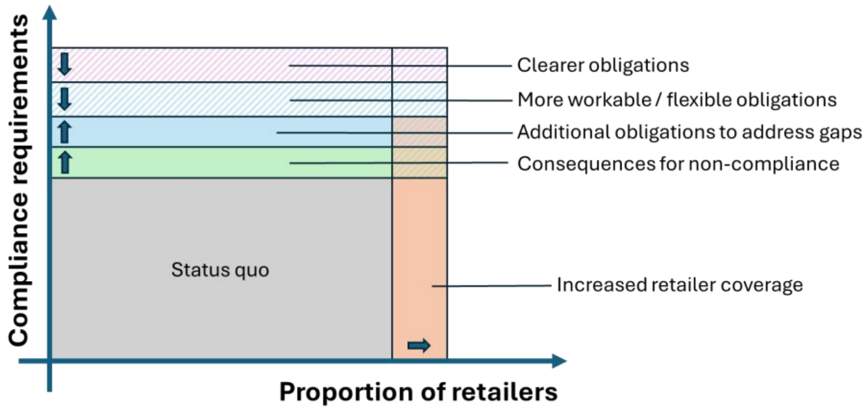
The primary costs of the proposed changes come from:

- **increased retailer coverage** as the Obligations become mandatory for all retailers
- **consequences for non-compliance** as the Obligations become enforceable
- **additional obligations** created by specific clause changes to address unintended gaps.

These increased compliance requirements are offset to some degree by:

- **clearer obligations** due to drafting improvements made to the Obligations
- **more workable and operationally flexible obligations** created by specific clause changes.

Figure 2: Changes to retailer compliance requirements



More onerous compliance requirements for a higher proportion of retailers translates into increased compliance costs (both substantive compliance costs and demonstrative reporting costs – although we note that some substantive compliance costs relating to debt management, etc. will reduce over time, as the customer-retailer relationship improves).

1.3 Net benefits will increase over time

The net benefits of the proposal are likely to increase over time because:

- the level of consumer protection is likely to improve (and compliance costs are likely to fall) as retailers become more familiar with complying with the Obligations and the Authority becomes more familiar with enforcing them
- the number of electricity consumers protected by the Obligations will likely increase as New Zealand's population grows
- the proportion of consumers requiring protection under the Obligations is likely to grow as New Zealand's population ages (likely resulting in more medically dependent consumers)
- the value of protecting consumers' access to electricity will likely rise as electrification and digitalisation increase consumers' reliance on electricity
- costs will rise with increased consumer numbers (both generally population growth and more medically dependent consumers and those experiencing energy hardship), but this growth is likely to be lower than the increase in benefits.

1.4 The proposal produces higher net benefits than other options

We have considered how we expect the costs and benefits would be different in several sensitivity cases:

- We expect improvements to the drafting of the Guidelines only (Option 2 from the Authority's consultation document) will still result in net benefits relative to the status quo, but to a lesser extent than the proposal.
- We expect codification of Parts 2, 6, 7, and 8 of the Guidelines only (Option 3 from the Authority's consultation document) would also result in net benefits relative to the status quo, but also to a lesser extent than the proposal.

1.5 The net present value of the proposal is likely to be positive

We expect the net present value (NPV) of the proposal to be positive. This means we expect total benefits across 10 years, discounted at a rate of 7% per annum, to outweigh total annual costs.

Because many compliance costs will be incurred immediately, while benefits will be spread more evenly over time, the average annual benefits need to be around 25% higher than average annual costs to achieve a positive NPV. We expect this to be the case.

2 Context and background

In 2020, the Electricity Authority (Authority) reviewed existing guidelines for retailers on arrangements to assist medically dependent and vulnerable consumers. This led to the formation of the current Consumer Care Guidelines (Guidelines) in 2021.

The Guidelines encouraged retailers to set up processes and policies that protect consumers,[4] particularly those that are experiencing financial difficulties or are dependent on electricity for medical reasons. However, the Guidelines are voluntary (with willing retailers self-reporting their alignment through annual alignment statements) and are being applied inconsistently from retailer to retailer.

In 2023, the Authority consulted on various options to improve the Guidelines so that they better deliver the policy objectives intended by the Guidelines' overarching principles,[5] and to ensure better alignment with the Authority's additional statutory objective.[6] This consultation included consideration of four options:

1. Maintain the status quo (i.e. the Guidelines would remain voluntary).
2. Keep the Guidelines voluntary but clarify interpretation issues in some areas. This option could be undertaken on its own or alongside Option 3 or Option 4.
3. Codify (i.e. make mandatory) Parts 2, 6, 7, and 8 of the Guidelines as Consumer Care Obligations. These parts provide key consumer welfare protections around financial difficulty, disconnection, and medically dependent consumers.
4. Codify Parts 1 to 9 of the Guidelines as Consumer Care Obligations.

In February 2024, the Authority decided that codifying Parts 1 to 9 of the Guidelines (Option 4)[7] would best achieve their policy and statutory objectives. This option had broad support from consumers and consumer representatives.

[4] We use the terms "consumers" and "customers" to refer to persons who use energy at least in part for domestic purposes – i.e. residential, not commercial of industrial.

[5] These are that electricity is important to the health, wellbeing and social participation of people and whānau in communities (overarching principle A), respect and constructive engagement underpin the consumer and retailer experience (overarching principle B) and retailers have a right to be paid for services delivered and competition and innovation should be supported (overarching principle C).

[6] The Authority's main statutory objective is to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers. The Authority also has an additional objective to protect the interests of domestic consumers and small business consumers in relation to the supply of electricity to those consumers.

[7] This includes clarifying interpretation issues (Option 2). Part 10 of the Guidelines was not included in the four options originally, because the Authority was considering improvements to information disclosure and monitoring in a separate project on improving the collection of retail data. The proposed Code amendment does however include a compliance framework, as discussed in section 4.2.2 of this paper.

3 Analysis of proposed changes

This report qualitatively assesses the costs and benefits of the Authority's proposal (proposal) to mandate the Guidelines[8] together with the clarification of interpretation issues (Option 4) as the Consumer Care Obligations (Obligations). These costs and benefits are assessed relative to a counterfactual based on the status quo (Option 1).

3.1 What does the status quo look like?

Currently, the Guidelines are voluntary and, while most retailers report being aligned[9] or partially aligned with the Guidelines, a minority of retailers do not align or have not responded to the Authority's enquiries. This means that their customers likely do not benefit from some, or potentially all, of the processes and other consumer protections set out in the Guidelines.

As of June 2023 (i.e. the date of the most recent alignment statements) the retail market consisted of:

- six large retail brands (≥100,000 ICPs)
- eight medium-sized retail brands (10,000-99,999 ICPs)
- 43 small retail brands (<10,000 ICPs). The Authority identified another 17 retail brands, but their eligibility (i.e. whether they supply electricity to domestic consumers) was unclear.

The most recent alignment report[10] show full alignment with the Guidelines reported by:

- all six large retail brands
- six out of eight of medium-sized retail brands (with the remaining two reporting partial alignment)
- over 80% of small retail brands who provided self-assessments (noting that 31 out of 43 eligible retail brands provided responses).[11]

Overall, 95% of residential consumers are with retail brands that reported full alignment with the Guidelines. This has increased from the previous set of alignment statements from June 2022, where this figure was only 67%.[12]

In addition, because alignment with the Guidelines is voluntary, with no significant consequences for non-alignment or incorrect reporting, some retailers may be applying insufficient rigour to their self-assessments, and reporting full alignment when they are only partially aligned.

3.2 What do the proposed changes look like?

There are many specific changes being proposed to clauses in the Obligations. However, there are three key policy changes that underly most of these specific changes:

- The Obligations will be **mandatory** – this means they impose obligations on all retailers, and therefore provide protection to all consumers. It also ensures that obligations are on retailers directly (i.e. to take active steps to protect consumers, not just to have policies or systems in place).
- The Obligations will be **enforceable** – this means retailers can face consequences for not complying with the Obligations. This improves the incentive for retailers to fully comply with the Obligations relative to the status quo and enables the Authority to act to address non-compliance.

[8] Note that, other than the purpose statement, Part 1 is not being codified per se, because it includes overarching principles and intended outcomes which are explanatory only and do not need to be included to mandate the Guidelines. Aspects of Part 10, which relates to information disclosure and monitoring, are also proposed to be codified in clause 11A.4.

[9] Note that we use the term 'alignment' when referring to adherence to the voluntary Guidelines, and the term 'compliance' when referring to adherence to the mandated Consumer Care Obligations.

[10] See alignment report for year ended June 2023 – [2022/23 Consumer Care Guidelines Annual Alignment Statement report (ea.govt.nz)]

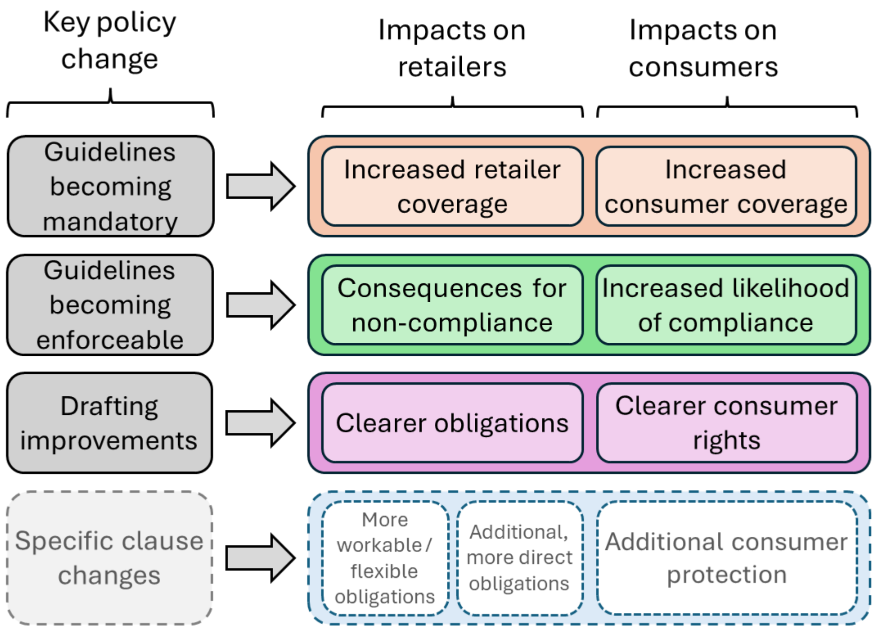
[11] Representing 71% of small retailers' ICPs.

[12] See alignment report for year ended June 2022 – [Summary of Retail Brands' self-assessments of alignment with the Consumer Care Guidelines (ea.govt.nz)].

- There have been **drafting improvements** to the Obligations – this makes retailers' obligations clearer, making it easier for retailers to comply, as well as making it easier for consumers to understand their rights and the remedies available to them. It also involves removing obligations that are already covered elsewhere in the Obligations or in other legislation or regulation.

The impacts of these three key policy changes, as well as the impacts of more clause-specific changes, are set out in Figure 3 below.

Figure 3: Impacts of key policy changes



Specific clause changes include:

- several **new obligations** on retailers to address existing gaps and better reflect the policy intent of some clauses – for example, additional information that retailers must provide their customers, or additional procedural steps they must take, such as reminding customers that are experiencing payment difficulties of the retailer's consumer care policy
- making obligations **more workable** – tweaking obligations so as to not require retailers to do things that are outside of their reasonable control. For example, the obligation on retailers to satisfy themselves that a new customer has reviewed their terms and conditions becomes a more workable obligation to ensure they have the opportunity to do so
- removing prescriptions to provide retailers with **more operational flexibility** with how they achieve the policy intent of the obligation – this includes less prescriptive wording (e.g. no prescribed statements that retailers must include in their consumer care policies), and broadening categories of information that retailers are required to collect (e.g. collecting information about "any other matters which may be relevant to engaging with that customer", rather than specific requirements about disabilities).

3.3 Our assessment methodology

We have reviewed policy documents from the Authority that outline the proposed changes and reasoning for each clause and sub-clause of the Guidelines, as well as drafts of Appendix A (new Code Provisions) and Appendix B (clause-by-clause summary of changes) of the Consultation Paper.

As part of this process, we have qualitatively assessed the impact of key changes on both consumers and retailers and assigned a rating indicating the expected change in net benefits or costs as outlined in Table 1 below.[13]

Table 1: Rating legend

Rating	Explanation
🟢🟢🟢	Significant increase in net benefits or reduction in net costs
🟢🟢⚪	Moderate increase in net benefits or reduction in net costs
🟢⚪⚪	Small increase in net benefits or reduction in net costs
⚪⚪⚪	No material impact on net costs or benefits (including similar countervailing costs and benefits, or no material impact at all)
🔴⚪⚪	Small reduction in net benefits or increase in net costs
🔴🔴⚪	Moderate reduction in net benefits or increase in net costs
🔴🔴🔴	Significant reduction in net benefits or increase in net costs

[13] We note that the ratings in this report are based on qualitative judgements of the cost and benefits for different parties. As such, ratings in one table are not necessarily perfectly cumulative or perfectly scaled to ratings in other tables.

4 Assessment of costs and benefits

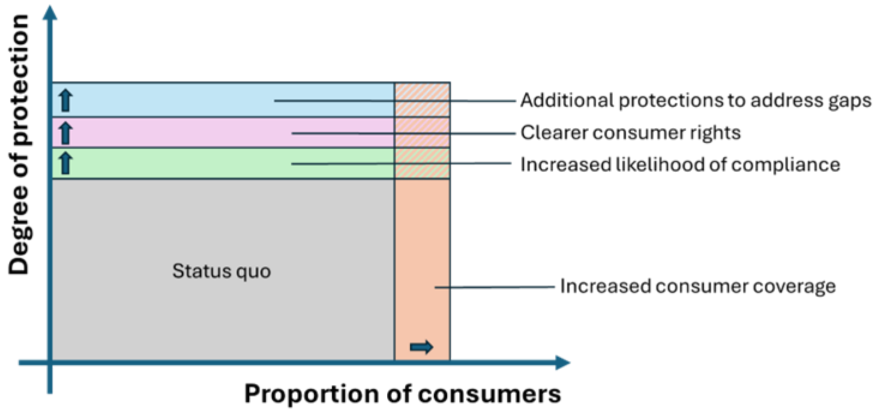
We consider how the proposal affects different parties, and the net costs or benefits they face.

4.1 Net impact on consumers

4.1.1 Increased consumer protection

The proposal will provide a higher degree of consumer protection for a greater proportion of consumers.

Figure 4: Changes to consumer protection



We expect the majority of this increased consumer protection will come from the Obligations being made mandatory and enforceable:

- **Increased consumer coverage** – by making the Obligations mandatory, all retailers will have to comply with them. This means that all consumers will be served by retailers that are required to ensure minimum standards of consumer protection (i.e. coverage will expand to include the 5% of consumers whose retailers are not aligned with the Guidelines).
- **Increased likelihood of compliance** – by making the Obligations enforceable, there will be consequences for retailers for not complying. This means that retailers who previously self-reported as being fully aligned with the Guidelines will likely apply a higher level of rigour to ensure that they are fully compliant with the Obligations, which will increase the likelihood of full compliance.

Further consumer protection may also come from drafting improvements and specific changes to the Obligations, although likely at a smaller scale:

- **Clearer consumer rights** – by improving the clarity of the retailers' obligations, consumers are more likely to understand what they are entitled to under the Obligations. This (combined with further efforts by the Authority to educate consumers about the Obligations) will help consumers to identify when their rights may have been infringed upon and the remedies available (such as raising the issue with the retailer, and if this unsuccessful, making a complaint to Utilities Disputes Limited, or alleging a breach with the Authority).
- **Minor additional protections** – there are some new consumer protections to address unintended gaps in the specific changes to the Obligations, for example a time limit of five business days for retailers to make a referral to financial support service (where the customer has given consent for them to do so under a previous clause).

4.1.2 Benefits of increased consumer protection

The size of the benefits of consumer protection depends on a range of factors, as outlined below.

Consumer benefits = Degree of protection × Number of consumers × Proportion of consumers requiring protection × Benefits from consumer protection

As indicated by Figure 4, the proposal will increase the degree of protection, as well as the number of consumers covered by the protections. However, to estimate the benefits of the proposal it is also necessary to consider:

- the proportion of consumers requiring protections
- how these consumer protections translate to benefits.

Proportion of consumers requiring protection

It is likely that all consumers will derive some benefit from the Obligations, by having improved engagement with their retailers. However, we expect that the bulk of benefits will be derived from those consumers that are particularly reliant on the Obligations, particularly:

- **consumers experiencing energy hardship** – there are a substantial number of consumers that may be facing energy hardship and are therefore particularly likely to benefit from the mandating of the Obligations. According to research by MBIE,[14] 110,000 households reported that they could not afford to keep their homes adequately warm in the year ending June 2022.[15]
- **medically dependent consumers** – the number of these consumers is presumably low, however the health implications of not being able to access electricity (see below) are very high.

Benefits from consumer protection

The proposal aims to impose a set of minimum standards on retailers, requiring them to:[16]

- adopt behaviours and processes that foster positive relationships with residential consumers
- help residential consumers maximise their potential to access and afford a constant electricity supply suitable for their needs, and
- help minimise harm to residential consumers caused by insufficient access to electricity or by payment difficulties.

To monitor the impacts of the Obligations, the Authority will assess the following key outcomes:

1. All residential consumers receive care and respect in every interaction with their retailer.
2. Customers receive a consistent minimum level of care from their retailer, ensuring equitable treatment across the electricity sector.
3. Customers are on the most suitable plan for their circumstance.
4. Customers experiencing payment difficulties are connected and supported, with retailers only using disconnection as a last resort measure.
5. Medically dependent consumers are not disconnected.

We consider that the most beneficial aspect of mandating the Obligations is that it will improve access to electricity (for consumers that rely on the Obligations), by improving engagement between retailers and their customers and reducing the number of consumer disconnections (Outcomes 4-5). Not having access to electricity comes with substantial costs (more so than in the past). This is because electricity is vital for many general and specific functions, including:

- **medical care** – without access to electricity, medically dependent consumers may not be able to run equipment that is vital to their health, risking serious medical harm or even death. The economic cost of such a high-impact low-probability event can be very high.
- **heating** – many households use electricity for heating. A lack of heating can result in cold and damp living conditions, leading to poor health outcomes, particularly for children and the elderly. The Energy Hardship Expert Panel Report to the Minister in 2023 noted that “in 2017, damp or mouldy housing in New Zealand led to 6,276 hospitalisations, representing a cost of $36 million”.
- **other general functions** – electricity is also used for lighting, cooling, and powering appliances and electronics.
- **other utilities** – some utilities can rely on electricity. For example, without electricity some gas heating will not be able to start and some rural water supplies may not be able to pump water. Crucially, electricity is also necessary to power the equipment used to access the internet, including the infrastructure to connect

[14] See Report on Energy Hardship Measures – year ended June 2022 (mbie.govt.nz).

[15] Considering the average New Zealand household comprises 2.7 people, this equates to approximately 297,000 people, noting that this is likely a lower bound as “this does not account for ethnic or cultural variation, for example, one third of Pacific peoples live in extended family situations”. See the 2023 Energy Hardship Expert Panel Report to the Minister – Energy Hardship: The challenges and a way forward (mbie.govt.nz).

[16] See clause 11A.1 of the proposed Code amendment.

a home network to the fibre or copper network, as well as cell phones and other devices that connect to mobile networks. Without this connectivity, consumers may miss out on services that are increasingly provided and coordinated online (including health and education), as well as losing the ability to work from home.

As shown above, our qualitative assessment of the costs of not having access to electricity indicates that the avoided costs (i.e. benefits) of improving consumers' access to electricity are substantial.

Other benefits (not related to a consumer's access to electricity) include:

- **consumer convenience and dignity benefits** – the Obligations should improve engagement and communications between all consumers and their retailers (Outcomes 1-2). While hard to quantify economically, there are inherent consumer benefits from reduced frustration or confusion and being treated fairly and compassionately.
- **innovation benefits** – we expect improved engagement between retailers and customers to make it easier for consumers to use and benefit from new and innovative technologies and arrangements (e.g. residential demand response trials, establishing vehicle-to-grid arrangements, etc.)
- **competition benefits** – the Obligations could give some consumers more confidence to switch retailers if they want to (as they know they would still be protected), help ensure that consumers are on an appropriate electricity plan (Outcome 3), and improve the transparency of retailers' processes. This could lead to improvements in retail competition, which provides broader economic benefits to the electricity market and consumers
- **market stability benefits** – we expect the Obligations will lead to increased trust in retailers and confidence in the electricity sector as a whole (Outcomes 1-5). This should result in a more stable electricity market, reducing the likelihood of more intrusive and costly interventions which can be disruptive to consumers.

In summary, we expect consumer benefits to be high because the proposal will result in a substantial increase in the degree of protection, the number of consumers protected, the number of consumers that rely on this protection, and the costs the protection will avoid.

Present value

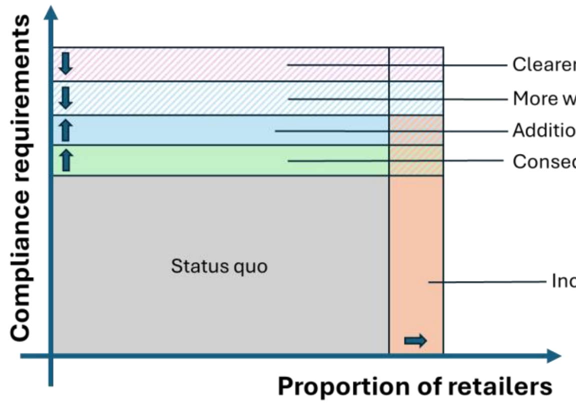
We expect these benefits to accrue from the first year following implementation, and to endure into future years at a relatively constant rate (excluding the impact of macro trends as discussed in section 5). This means that their present value is not affected by the profile of the benefits over time.

4.2 Net impact on retailers

4.2.1 Increased compliance requirements

Retailers will likely incur net costs from the proposal because of higher compliance requirements for a greater proportion of retailers.

Figure 5: Changes to retailer compliance requirements



As with consumer benefits, we expect most of the additional retailer compliance burden will come from the Obligations being made mandatory and enforceable:

- **Increased retailer coverage** – by making the Obligations mandatory, all retailers will have to comply with them. Currently, two medium retailers and a number of small retailers have not been fully aligning themselves with the voluntary Guidelines. They are therefore unlikely to be fully complying with the mandated Obligations, so will be required to take additional steps to comply.

- **Consequences for non-compliance** – by making the Obligations enforceable, there are now consequences for retailers for not complying. As such, retailers will want to be more certain that they are fully complying with the Obligations before they certify that this is the case. This is likely to require them to allocate more resources towards compliance and develop a more robust assurance process.

Some specific changes have also resulted in increased compliance requirements for retailers, but to a lesser degree:

- **Additional obligations to address existing gaps** – there are some additional obligations on retailers that will require them to take further steps or invest further resources. For example, when a customer falls behind in their repayments, there is now an explicit obligation on retailers to tell the customer that they have fallen behind and inform them of next steps if repayment is not made. We expect that most of these additional obligations will require minimal changes to most retailers' current practices, so the compliance burden is likely to be relatively low.

We expect drafting improvements and some specific clause changes will reduce compliance requirements to some degree, but not enough to outweigh the increased compliance burden from the factors above.

- **Clearer obligations** – drafting improvements give retailers a better understanding of exactly what their obligations under the mandated Obligations are. This means that they can more efficiently target resources at the specific areas and issues outlined by the Obligations. For some retailers, this may also reduce the resources spent trying to ascertain the extent of their obligations.
- **More workable and operationally flexible obligations** – some obligations on retailers have been removed to make sure compliance is practical and workable, and to give retailers more flexibility in their operations, while still requiring them to achieve the policy objective of the Guidelines. For example, retailers no longer have to inform customers of the retail offerings available from their competitors, and prescriptive wording requirements have been removed. Some changes also give retailers flexibility to provide greater consumer protections (i.e. a minimum standard, rather than a fixed one), which could also result in increased consumer benefits.

Overall though, we expect the increase in retailer compliance requirements from increased retailer coverage, consequences for non-compliance, and additional and more direct obligations to outweigh any reductions from clearer and more workable/flexible obligations.

4.2.2 Cost of increased retail compliance

We expect these increased compliance requirements will manifest as increased economic costs to retailers through:

- substantive compliance costs
- reporting compliance costs

Overall though, we expect the increase in compliance costs to be low relative to the increase in consumer benefits.

Some non-aligned retailers may exit the market if the cost of complying with the Obligations is too high for them. While this may be efficient, it could impose some switching costs to consumers. However, we consider the risk/cost of this is likely to be vastly outweighed by the benefits to consumers of this change.

Substantive compliance costs

These costs include the increased resources that need to be directed to certain areas of the retail business to ensure that area is complying with the Obligations, such as more training for representatives, new IT systems for recording information, etc.

These costs are likely to be very low for the majority of retailers who are already fully aligned with the Guidelines. While they will be higher for non-aligned retailers, in those cases they are the costs necessary to bring about the behaviour changes that create a large proportion of consumer protection benefits.

Improving the relationship between customers and their retailers may also reduce some substantive enforcement costs for retailers by reducing debt collection costs and the level of bad debts.

Reporting costs

These costs include the costs of *demonstrating* compliance with the Obligations, such as through reporting, certification, etc. These costs will exist for all retailers, regardless of whether they are already aligned with the Guidelines or not (although voluntary alignment statements will no longer be required, so many retailers will now avoid the cost of preparing these).

However, we consider that these compliance requirements have been designed to minimise unnecessary reporting costs, for example:

- Retailers are required to provide a compliance report on an annual basis. We consider this strikes a fair balance between ensuring retailers are continuing to comply with the Obligations while not imposing undue reporting costs.
- Compliance reports can be certified by a chief executive (not just be a director). As a member of the management, the chief executive is likely to have a greater working knowledge of the retailers' compliance activities, so will require less assurance (and the costs of demonstrating this) before they are comfortable with certifying the report.
- Retailers (and distributors, as the case may be) are required to provide further information to demonstrate how they have implemented processes and policies to comply with Objectives on request from the Authority, rather than including this in their annual reports. This reduces compliance costs for retailers who the Authority does not have concerns about.

Present value

We expect these costs to be somewhat front-loaded. This is because some substantive and reporting obligations may be met more efficiently by setting up systems and processes that help automate and facilitate compliance. This will result in a proportion of these costs being one-off costs that occur predominantly in the first few years after the Obligations are mandated (noting that these new systems will still require some ongoing costs, as well as additional costs when they reach end of life).

Assuming that 50% of compliance costs are incurred in the first year following implementation, this will result in a present value of total costs that is around 25% higher than if the costs had an even profile (assuming a 7% discount rate and a present value across 10 years).

Pass-through of increased compliance costs

Assuming a competitive and efficient market, we note that over time increased compliance costs for retailers can be expected to be passed on to consumers in the form of higher retail prices. The extent to which this occurs in practice is difficult to predict, and a function of the broader cost environment and competitive dynamics.

Regardless of whether increased compliance costs are reflected in higher retail prices or not, the conclusions in this report remain the same. This is because:

- our focus is on the overall net economic benefits of the proposal (i.e. the primary indicator of whether the proposal should go ahead)
- we expect the value of the increased consumer protections the proposal would create to have greater value than any price impacts (to the extent they are identifiable), because submissions to the Authority's consultation on mandating the Guidelines implied a willingness from consumers to pay more increased consumer protections.

4.3 Other impacts

We expect net costs/benefits on other parties to be relatively immaterial compared to the impact on consumer and retailers, however we address them below for completeness.

4.3.1 Net impact on distributors

Only a small section of the proposal (relating to medically dependent consumers) affects distributors. The most significant change for distributors under the proposal is that retailers' obligations to coordinate with distributors now extend to distributors also, to make the obligation workable.

Depending on the current practices of different distributors this could introduce new compliance costs on distributors. Our assessment is that the new requirement on distributors may require some additional processes and controls but is unlikely to result in significant additional cost. It is also likely to result in a corresponding decrease in compliance costs for retailers as it makes their obligations more workable.

4.3.2 Net impact on Authority

The Authority will likely face increased monitoring costs by making the Obligations enforceable. However, making compliance mandatory and more standardised and consistent could reduce these costs.

Overall, we do not expect the impact on the Authority to be material relative to the impact of consumer protection benefits or retailer compliance costs.[17]

4.3.3 Net impact on support agencies

We expect the proposal will result in some costs and benefits to social agencies who are indirectly involved in the electricity retail sector through their assistance of financially vulnerable consumers.

Costs may be associated with an increase in referrals, due to the Obligations for retailers to offer to refer their customers who are experiencing payment difficulties or have been disconnected.

On the other hand, by improving the clarity of the Obligations, we expect these third parties to realise efficiency gains – for example, community organisations should find it easier to assist vulnerable consumers with energy hardship issues as their rights will be more clearly set out. Overall, we expect the net impact on support agencies to be relatively minor compared to the proposal's other impacts.

[17] While we note that the Authority's costs may increase as more consumers engage directly with it, we consider that these costs will result primarily from other activities the Authority is choosing to undertake that will raise the profile of the Obligations (such as producing fact sheets, engaging in targeted advertising, setting up a phone line, etc.) rather than resulting directly from the proposal.

4.4 Summary of assessment

We summarise the effects of the key policy changes on the net present value of consumers' and retailers' costs and benefits in the table below.

Table 2: Key policy changes

	Effect on consumers	Effect on retailers
Guidelines becoming mandatory	All consumers will have the protection of the Obligations, no matter who their retailer is. This leads to increased consumer protections (and the associated benefits) because: • consumers served by retailers currently partially or non-aligned with the Guidelines will benefit from all the consumer protections in the Obligations • consumers will be able to switch retailers confident they will continue to be protected by the Obligations.	Retailers who are partially aligned or not aligned with the current Guidelines will now likely incur moderate to substantive compliance and reporting costs. Retailers who are already aligned with the Guidelines will face lower net substantive compliance and reporting costs, as they are already likely incurring many of these under the status quo.
Guidelines becoming enforceable	Due to their mandatory nature, when retailers certify that they have complied with the Obligations they will need to take extra care to ensure that this is in fact true or risk enforcement action. As a result, it is likely that the actual level of consumer protections (not just the self-reported level) will	Retailers need to able to verify compliance with a higher degree of confidence, and to explain any non-compliance and resulting remedial action (increasing reporting costs). Consequences for non-compliance may also incentivise retailers to allocate more resources to

	improve, which results in increased benefits for consumers.	consumer care to ensure they are compliant, increasing substantive costs.
Drafting improvements	●○○ Improved clarity will make it easier for consumers to understand their rights and the remedies available to them, increasing consumer protections and the associated benefits.	●●○ Obligations on retailers are significantly clearer, allowing retailers to be more flexible with operations and confident in ascertaining whether or not they have achieved compliance, reducing the need to incur further costs just to be sure.

We also summarise the effects of the specific clause changes. As indicated below, these tend to have more muted net costs or benefits than the key policy changes outlined above.

Table 3: Specific clause changes

	Effect on consumers	**Effect on retailers**
New obligations to address existing gaps and better reflect policy intent	◐○○ Ensures that previous gaps in consumer protections which were not intended are now filled.	◐○○ Minimal changes to most retailer's current practices, so the substantive compliance burden and associated costs are likely to be relatively low.
Making obligations more workable	○○○ No material impact on consumers.	●○○ Reduces costs incurred by retailers to try and understand and comply with obligations in ways that may not be practical.
Removing prescriptions to give retailers more operational flexibility	◐○○ In some cases, this may allow retailers to apply a higher standard of consumer protection.	●○○ Allows retailers to implement consumer protections in more suitable or efficient ways, which may reduce substantive compliance costs.

5 Trends

This section looks at trends in various drivers that underly the costs and benefits of the proposal.

5.1 Consumer impacts over time

As outlined at section 4.1.2, the benefits of increased consumer protections (achieved through mandating the Obligations) depend on a variety of variables. Based on these variables as they are now, we have assessed that the present value of consumer benefits over ten years to be substantial.

However, as these variables change over time, so will the consumer benefits from the proposal. We expect all of the variables to increase over time, further reinforcing out conclusion that the proposal will have substantial benefits in present value terms.

Table 4: Summary of consumer benefit trends

Factors	Expected trend	Rationale
Degree of consumer protection	Increase	Expected improvement in effectiveness and enforcement
Number of consumers	Increase	Expected increase in population
Proportion of consumers requiring protection	Increase	Expected increase in number of medically dependent consumers and number of consumers experiencing energy hardship
Benefits of consumer protections	Increase	Expected increase in electrification and digitalisation
Overall	**Increase**	**Expected increase in all key factors**

5.1.1 Degree of protection

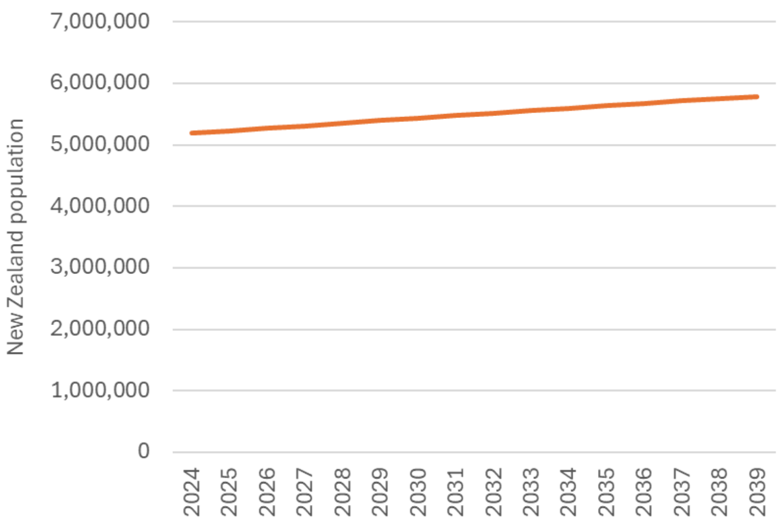
The protection the Obligations afford may increase going forward as, even if the Obligations themselves do not change:

- retailers should become more familiar with the Obligations
- the Authority will likely become more experienced at enforcing the Obligations.

5.1.2 Number of consumers

New Zealand's population is expected to grow by around 12% over the next 15 years, meaning there will be more electricity consumers that are protected by the Obligations. As such, the benefits to consumers from mandating the Authority's proposal can be expected to rise over time (as the mandated Obligations cover all retailers supplying residential consumers).

Figure 6: Population growth



Source: Statistics New Zealand – [National population projections: 2022(base)–2073 (stats.govt.nz)]

5.1.3 Proportion of consumers requiring protection

As previously mentioned, some consumers will rely on the protections in the mandated Obligations more than others.

Energy hardship trends

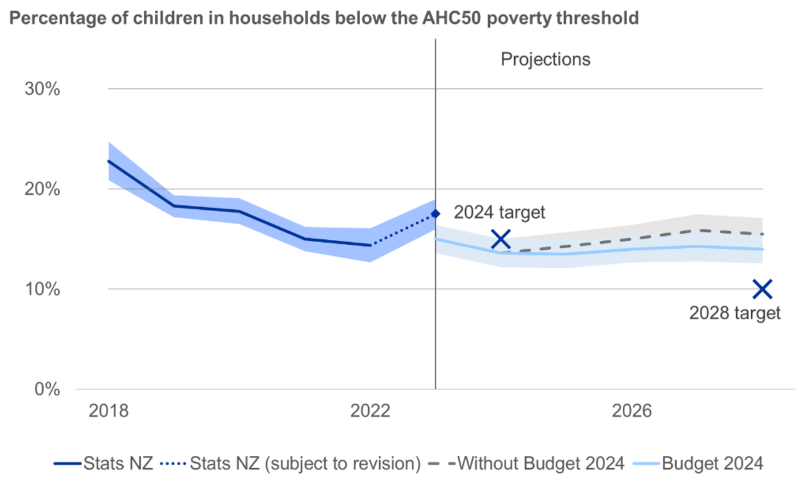
Energy hardship depends on both electricity prices for residential consumers and consumers' ability to pay these prices.

The Commerce Commission has estimated that household's electricity bills are likely to rise over the rest of the decade, with this increase being particularly steep over the next two years – i.e. around $15 per month ($180 per year) from April 2025.[18] This is due to a range of factors, including:

- high inflation
- interest rate increases
- higher levels of investment required in transmission and distribution infrastructure, leading to the Commerce Commission increasing the revenue cap for Transpower and distributors to allow them to afford this investment.

The Treasury forecasts that the number of households falling below the AHC50 child poverty measure will remain roughly constant, despite targets to reduce it.[19]

Figure 7: After-housing-costs child poverty forecast



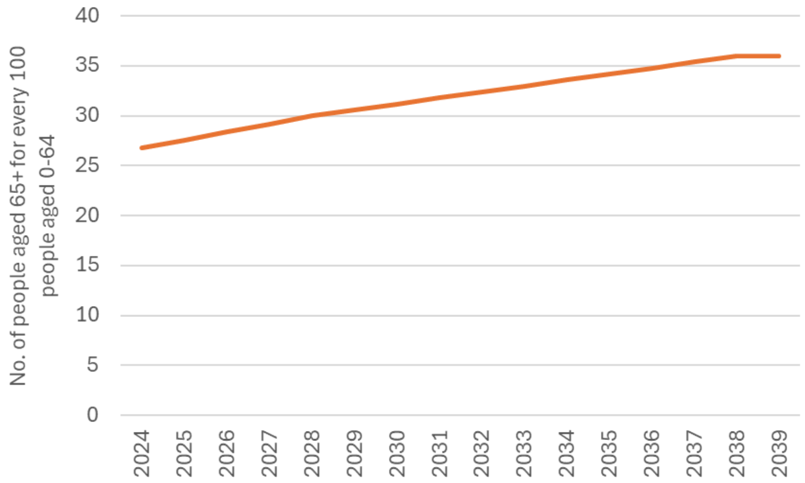
Source: The Treasury – [Child Poverty Report 2024 (budget.govt.nz)]

Overall, these trends suggest that the proportion of consumers facing energy hardship is likely to increase over the next few years (noting that it is difficult to estimate the degree of change or to forecast this metric over a longer period of time).

Medically dependent consumer trends

While expected future trends in the number of medically dependent consumers in New Zealand are unclear, New Zealand's population is aging. Older persons tend to be more likely to be suffer from conditions that require electrically powered equipment such as respirators to keep them healthy, or even alive. As such, we use the change in aged population dependency ratio (the number of people aged 65 and over for every 100 people under 65 years of age) as a proxy for the change in the number of medically dependent consumers.

Figure 8: Population dependency ratio



Source: Statistics New Zealand – [National population projections: 2022(base)–2073 (stats.govt.nz)]

[18] See slide 20 of presentation to stakeholders and media – [Draft revenue limits and quality standards for electricity lines companies for 2025-2030: Transpower RCP4 and EDB DPP4 draft decisions (comcom.govt.nz)].

[19] This measure is based on answers to the question *"how many households have very low incomes relative to previous years, after considering housing costs and increases to the cost of living?"*

This figure is expected to rise by around 34% over the next 15 years, indicating that New Zealand is likely to have more medically dependent consumers going forward. While we note that medical advancements could improve the health of older persons and reduce their reliance on electrical equipment to keep them healthy, we consider this is unlikely to be a substantial impact over the next 15 years.

5.1.4 Benefits of consumer protection

Electrification trends

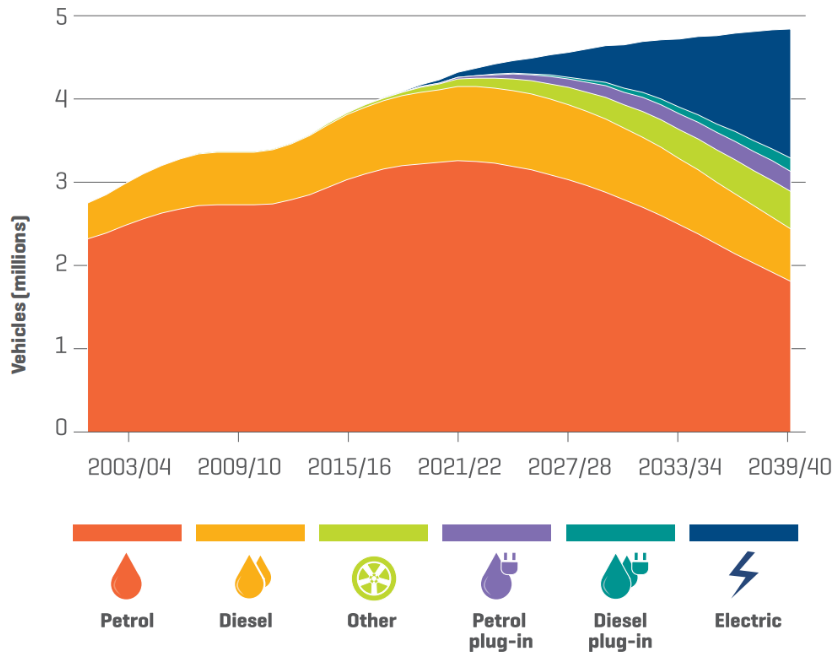
Currently, without access to electricity, some consumers can still cook with gas, heat their homes with wood-burners, and fill their cars with petrol.[20] However, these are increasingly being replaced by electrified alternatives because of broader electrification trends driven by:

- consumer awareness of the importance of decarbonisation (and other health impacts from some of these alternative fuels)
- increasing costs of alternative fuels
- reducing costs of electrified alternative appliances, vehicles, etc.

This trend towards electrification makes the cost of not having access to electricity increase.

As shown in Figure 9, the uptake of electric vehicles is likely to increase dramatically over the next decade. We expect similar trends in other electrification technologies.

Figure 9: Projected number of vehicles by fuel type



Source: Ministry of Transport – [Transport Outlook: Future State (transport.govt.nz)]

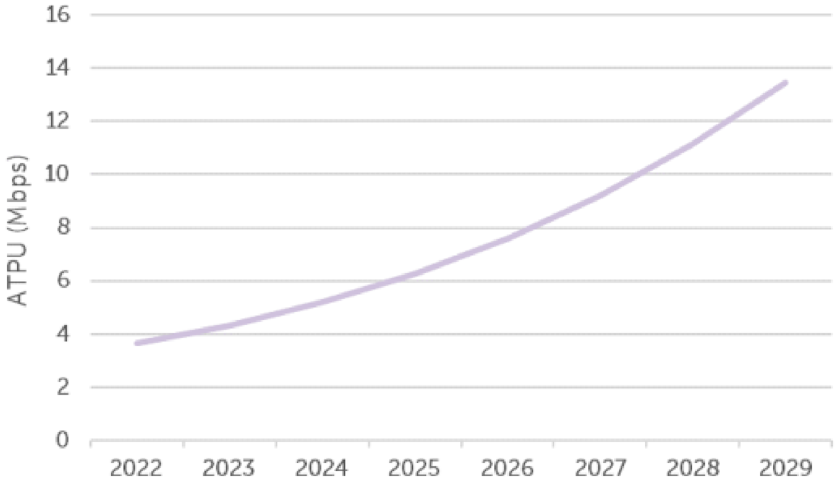
Digitalisation trends

As previously discussed, internet access (which requires access to electricity) is already extremely important for modern life. However, we expect this importance to grow over time with a greater penetration of smart devices, wider use of artificial intelligence, and increased digitalisation generally.

[20] While there are many other functions that use fuels other than electricity, as mentioned previously we note that some of these still require electricity to function (e.g. some forms of gas heating).

Chorus publishes forecasts that support this expectation, predicting a sustained increase in bandwidth demand (20.6% per year) until 2029.

Figure 10: Forecast average throughput per user



Source: Chorus – [Our Fibre Plans (comcom.govt.nz)]

5.2 Retailer impacts over time

These costs may decrease over time as retailers become more familiar with the Obligations.[21]

On the other hand, as the number of electricity consumers increases (see section 5.1.2) as well as the proportion of consumers relying on the Obligations (see section 5.1.3), some direct compliance costs will increase. For example, the costs from the additional procedural steps that now need to be taken before disconnecting a customer will be incurred more frequently (as there are likely to be more instances of customers defaulting on invoices). However, we expect that the increase in costs from these macro trends will be matched by the increase in benefits as discussed above.

Overall, we expect the change in retailer costs over time to be relatively immaterial compared to the increase in consumer benefits.

[21] Compliance costs will also decrease after the upfront investment has been made. However, this is due to the profile of the compliance costs (rather than due to any ongoing trends) so it is discussed at **Error! Reference source not found.** when c onsidering the net present value of the compliance costs over ten years.

6 Sensitivity analysis

6.1 Sensitivity 1: Improved drafting only

If the Authority went with Option 2 from the consultation paper (i.e. to improve the drafting of the Guidelines but keep the Guidelines voluntary rather than mandating them in the Code), then we expect net benefits to still be positive, but lower than the Authority's proposed solution. This is because:

- consumer benefits would be higher than the status quo (as consumers would benefit from clearer consumer rights) but lower than the proposal (as they would not have the additional protections of enforceable obligations that are mandatory for all retailers)
- compliance costs would be slightly lower than the status quo (as retailers would have clearer obligations), which is lower still than the proposal[22] (as there would be no additional costs from consequences for non-alignment or from the Guidelines applying to all retailers).

6.2 Sensitivity 2: Mandating Parts 2, 6, 7 and 8 only

Option 3 from the Authority's consultation paper is to mandate just Parts 2, 6, 7 and 8 of the Guidelines, which provide key consumer welfare protections relating to payment difficulties, disconnection and medically dependent consumers. Compared to the Authority's proposal, this means not codifying Parts 3, 4, 5 and 9, which cover more business-as-usual operations.

We expect this approach would still result net benefits, but again that these would be lower than the Authority's proposed solution. This is because:

- consumer benefits would be higher than the status quo (as some of the most important consumer protections would become mandatory and enforceable) but lower than the proposal (as not all consumer protections would become mandatory and enforceable)
- compliance costs would be higher than the status quo (because retailers would have mandatory and enforceable obligations in respect of some consumer protections), but lower than the proposal (as other obligations remain voluntary)
- there may be additional compliance costs for retailers or reduced consumer benefits from having a two-tiered system of consumer protections, where some are codified and some are voluntary. This can result in a lack of clarity and certainty.

[22] Noting that the reduction in benefits relative to the proposal is greater than the reduction in compliance costs.

7 Conclusions

Overall, we expect the Authority's proposal to yield net benefits (in present value terms, over a period of 10 years). This is because, as outlined in the body of this report, we expect:

- average annual benefits of the proposal (accruing mostly to consumers) to be substantially higher than the average annual costs (incurred mostly by retailers). This is because the benefits of improved consumer protection (including access to electricity and wider economic benefits) can be extremely high in some cases, and the Authority has designed the proposal to minimise unnecessary compliance costs on retailers
- the net present value of the proposal to be positive (i.e. despite the fact that costs are largely incurred in the first few years and benefits are more evenly spread over time, it is likely that benefits are higher than costs to a sufficient degree that the present value of benefits after discounting outweighs the present value of costs)
- macro trends will cause consumer benefits to rise more quickly than retail compliance costs over time, as there are some trends (namely increasing electrification and digitalisation) that will increase the value of consumer protections, but not the compliance costs of providing them.

We also expect that the proposal is likely to result in higher net benefits than the other options the Authority has considered.