

Our Ref: EWOQ/14/0127



3 December 2014

Ms Meredith Mayes
Director
Australian Energy Market Commission
www.aemc.gov.au

Dear Ms Mayes

Project reference code: ERC0172

Thank you for the opportunity to lodge a submission on the consultation paper on the National Electricity Amendment (Retailer insolvency events – cost pass through provisions) Rule 2015

The Energy and Water Ombudsman Queensland (EWOQ) provides a free, fair and independent dispute resolution service for small electricity and gas customers across Queensland and water customers in south east Queensland who are unable to resolve a dispute with their supplier.

The comments made below are based on our experience in dealing with residential and small business customer complaints and the impact the proposed rule change may have on these customers if the Distribution Network Service Providers (DNSPs) pass through costs to their customer base in the event of retailer insolvency.

We note that the proposed rule change if effected will not apply in Queensland until 1 July 2015, and that the Australian Energy Market Commission (AEMC's) assessment of the rule change request must consider whether the proposed rule promotes the national electricity objective as set out under s.7 of the National Electricity Law (NEL).

Section 7 of the NEL states:

"The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to -

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system."

We also note that the options in the consultation paper for the DNSPs recovery of the costs (lost revenue) in the event of retailer insolvency are as follows:

- (a) Recovery through credit support between retailer and distributor
- (b) Recovery through the regulatory determination process
- (c) Recovery under the cost-pass through mechanism (this option being the specific option of the rule change request).

EWOQ understands the option for recovery of lost revenue proposed by the rule change request being option (c) would reallocate the retailer credit risk from the DNSP to the DNSPs customers under the

regulatory framework. This would enable the DNSPs to recover the revenue forgone in the event of retailer insolvency from their customer base. As such some customers may pay for services they have already paid for, while other customers may be paying for services that have not been supplied to them. The result may be a significant impact on customers in particular vulnerable customers who can least afford an increases in their electricity bills.

During the 2013-14 financial year there was a slight decrease in the number of complaints received by EWOQ, however, the number of credit cases involving customers experiencing difficulty paying their bills jumped significantly by 80 per cent. The growth in the number of these complaints has been a recurring theme for several years and no doubt one of the factors contributing to this rise is the increasing cost of electricity.

Whilst EWOQ appreciates the credit risk the DNSPs are exposed to, with the increasing number of second tier retailers entering the market, we do not favour the reallocation of the risk from the DNSPs to their customer base, due to the increasing difficulty customers are having paying their bills. We would like to propose that an alternative approach for the proposed rule change be considered, whereby the DNSPs will only recover the lost revenue from the insolvent retailer's customer base. This would reduce the impact to the entire DNSPs customer base and is a more equitable approach for the DNSPs to undertake to recover their lost revenue in the event of retailer insolvency.

However, we consider the cost pass through option to recover lost revenue should be a last resort for the DNSPs and the alternative options of 'Recovery through credit support between retailer and distributor' and 'Recovery through the regulatory determination process' are more appropriate and in line with the national electricity objective.

I trust this information is of assistance to you. Should you require any further information, please contact Ms Ilona Cenefels, Manager Policy and Research on (07) 3087 9455.

Sincerely



John Jones

Acting Energy and Water Ombudsman