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Mitchell Shannon
Senior Adviser
Australian Energy Market Commission
Sydney South
NSW 1235

By email: mitchell.shannon@aemc.gov.au

25 June 2020

Dear Mitchell,

# Deferral of network charges rule change

AGL Energy (AGL) welcomes the opportunity to comment on the Australian Energy Market Commission (AEMC) deferral of network charges rule change request, and makes some general comments on the support the request offers compared to other COVID-19 economic impacts on the energy sector, as well as some specific comments on the questions the AEMC sought feedback on in the Consultation Paper.

## General Comments

The rule attempts to address one component of what AGL sees as the likely or potential COVID-19 impact on the energy industry. Specifically, the rule change request is focussed on cashflow relief for retailers with customers on payment plans due to COVID-19 financial distress. Deferring network costs for retailers experiencing cashflow issues caused by COVID-19 and adhering to the Australian Energy Regulator's (AER's) Statement of Expectations (SoE) will provide short-term relief.

However, AGL notes the rule does not address the likely increase in bad and doubtful debt due to the longer-term economic impacts of COVID-19.

The rule provides cashflow relief for retail customers that have taken out a payment plan to manage their energy bills during the pandemic. The rule does not address the impact on retailer bad and doubtful debts generated by many of these customers and that are under financial stress due to COVID-19. Further, the rule does not address likely retailer debt impacts from customers under financial distress who have opted to defer their electricity payments. For example, AGL's COVID-19 Customer Support Program allows AGL residential and SME customers impacted by COVID-19 to defer electricity payments until 31 July 2020. Lastly, the rule does not address the impact on retailer bad and doubtful debts generated by many retail customers under financial stress due to COVID-19 who have not actively engaged or sought a payment plan.

We are in the early stages of the economic consequences of the pandemic. In the next few months, both residential and SME customer financial distress is likely to be increased as government support such as JobKeeper and JobSeeker are phased out, and other deferred payments fall due (e.g. mortgage, rent, telecommunications, loans, and credit cards). This will be problematic for those responsible for paying the debts, and for businesses that require the payments to continue. It is impossible to predict what the level of indebtedness will be across the Australian economy generally and how this will impact energy retailers' debt levels and therefore financial resilience. Importantly, the broader economic impacts are also unknown, such as how many small businesses will return post hibernation, and how many people who receive JobKeeper will return to the same job.

AGL has had around 36,000 residential and SME customers sign up to our COVID-19 support program, with the vast majority taking up the option of deferring payment until 31 July 2020. Many of these customers have historically been classified as good payers and are not the type that would typically be expected to join hardship programs. In addition, some previously good payers have simply ceased paying their current bills, without contacting us. We consider this group of customers more at risk. A key concern is that while previously we were able to reasonably assess what percentage of customers would pay their bill, and in what part of the payment cycle they would make payment, COVID-19 financial distress has changed consumer payment behaviour.

AGL considers that the emerging issue of increased bad debt could lead to significant economic and social costs that must be managed. Options for managing these costs include:

- Allowing retailers to manage the financial stress through their pricing and financial arrangements which is likely to either lead to some retailers not being financially viable and/or energy prices increasing to cover the higher financial costs associated with higher debt levels.
- Socialising the costs through:
    - direct government payments to support retailers to manage the consequences, e.g. Queensland Government one-off bill assistance or NSW Energy Accounts Payment Assistance increases in both dollar amount and flexibility of delivery; or
    - network pricing i.e. increasing network tariffs over a period (e.g. 5-10 years) to cover the potentially large step change in the level of indebtedness caused by the COVID-19 pandemic.

We note that socialising the cost through increasing network tariffs would be consistent with the existing regulation of electricity networks (e.g. it uses a shared cost mechanism to recover the cost of maintaining and servicing the electricity network system) and would therefore be a more appropriate and least cost option than accounting for the bad debt through an intervention in wholesale markets.

## Specific comments

We acknowledge the relief offered by the networks through the Electricity and Gas Network Relief Package in NSW, Vic and SA although the inconsistent approach has caused operational inefficiencies. If the rule change is to proceed a consistent approach across networks would be preferred. We also make the following comments:

### Retailer eligibility

AGL considers that, rather than restricting access to the deferral mechanism to a certain class of retailers, the mechanism should be accessible to all retailers and subject to an interest rate on the deferred network charges at a level that dissuades more financially stable retailers from accessing the mechanism.

We note that specific retailer exclusions or preconditions for accessing the mechanism may not fully ensure that only those retailers which have a demonstratable need for the support are able to access the deferral mechanism. These targeted approaches risk disrupting normal market forces and may potentially provide a competitive advantage to certain retailers.

AGL suggests, that given each electricity retailer is structured differently, the AEMC should assess any mechanism to determine retailer eligibility with reference to the underlying ownership structure of each retailer.

### Customer eligibility

AGL suggests the deferral mechanism include all customers on payment plans due to COVID-19 financial distress. This includes C&I customers as retailers do not always hold adequate security to cover bad debt from these customers.

## Implementation

AGL strongly requests that any rules regarding the implementation of the deferral mechanism do not add costs or complexity to billing. Retailers should be free to account for network deferrals in a manner consistent with their established billing processes and AGL therefore requests that the rule should not regulate how the deferral mechanism should be operationalised. It is well established that most consumers are confused by, or do not desire, unbundled bills and we therefore request that there be no requirement for retailers to specifically itemise network deferral costs in their billing.

If you have any queries about this submission, please contact Anton King on (03) 8633 6102 or aking6@agl.com.au

Yours sincerely,

Con Hristodoulidis
Senior Manager Retail Markets Regulation