Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By electronic lodgement

25 June 2020

ERC0302 – Deferral of network charges Consultation Paper

Alinta Energy welcomes the opportunity to respond to the Commission's consultation paper on the AER's rule change proposal on the deferral of network charges for retailers in certain circumstances.

Alinta Energy, as an active investor in energy markets across Australia with an owned and contracted generation portfolio of nearly 3,000MW and more than 1.1 million electricity and gas customers, has a strong interest the effectiveness and viability of the competitive energy retail market.

<u>The rule change proposal</u>

The rule change proposal has the potential to mitigate some of the immediate risks facing energy retailers during the COVID-19 pandemic. In particular, increased cash flow pressure is a key challenge in the current energy retail market, impacted further by temporary customer assistance measures being provided by retailers. In addition, the introduction of the Default Market Offer and the Victorian Default Offer have diminished the ability of retailers to manage the heightened risk of non-payment from customers arising from the economic impact of the pandemic response.

However, whilst the rule change may reduce the immediate likelihood of retailer failure, it will not, of itself, prevent a retailer of last resort event occurring, and there is a danger that any broader impact on the retail energy market may be compounded at the end of the rule change period. An alternative approach would be for network businesses to cover a set proportion of the debt write-off provided by retailers to their customers.

<u>Allocation of risk</u>

Temporarily shifting some of this risk to distribution networks is an appropriate response to the allocation of non-payment risk and the current constraints on a retailer's ability to recover or limit the impact of unpaid bills. Network businesses should be able to recover unpaid amounts and the regulatory framework supports this. It is appropriate that some of the risks retailers would otherwise be able to manage through currently restricted mechanisms are socialised via network cost recovery.

With regard to the time-period for which the rule will apply, as the impact of COVID-19 on the economy becomes clearer in the coming months, other mechanisms and approaches should be considered to support the the ongoing viability of the competitive retail market.

Alinta Energy Retail Sales Pty Ltd ABN 22 149 658 300
Grosvenor Place, Level 13, 225 George Street, Sydney NSW 2000 Australia
T +61 2 9372 2600 F +61 2 9372 2610 W alintaenergy.com.au

While the recent initiative of distributors to offer relief packages is welcomed, given the cost of administering such schemes and the limited period to which they apply, they should be seen as only part of the solution for retailers also dealing with rule change triggered system changes and managing customer hardship during the COVID-19 pandemic.

Customer eligibility

Alinta Energy supports the inclusion of customers who have entered into hardship programs, a payment plan or instalment arrangement or a deferred debt arrangement as eligible customers under the rule change for the deferral of network charges. However, like the relief packages offered by distribution businesses, these criteria are too restricted and exclude customers for whom the COVID-19 pandemic has compounded existing financial pressures – for example, customers on hardship arrangements or instalment plans prior to 1 March 2020.

Consideration should be given to broadening customer eligibility in the making of a final rule. Retailers who apply for network charge deferral are likely to have significant cash flow challenges and customers unable to pay, with no recourse for the retailer to recover its costs. To the extent that a retailer seeks to defer the payment of network costs under the rule, appropriate incentives - such as the recovery of a distributor's efficient costs from the retailer and a modest interest mechanism on deferred network payments – should be applied.

Long term solutions

While the AER's rule change proposal contains provisions to extend the period of network cost deferral for eligible customers beyond December 2020, we believe there is an opportunity to examine additional or alternative mechanisms to minimise the risk of retailer failure. Changes to the determination and application of the DMO is one such opportunity, where an allowance for costs beyond the control of retailers could be included. Such changes would impose limited cost on the economy, but would contribute to the ongoing viability of retail competition in the energy sector.

There is also an opportunity for broader consideration of the extent to which network businesses should share some of the ongoing customer credit risk, given the restrictions on the ability of retailers to directly manage that risk due to imposition of the DMO and VDO, and other regulatory changes impacting the credit collection process.

Alinta Energy would encourage further discussion with the Commission on any of the matters raised in this response. Please contact Shaun Ruddy (Manager, National Retail Regulation) on (02) 9372 2653 in the first instance.

Yours sincerely,

Graeme Hamilton
General Manager, Government & Regulatory Affairs