ERM Power Limited
Level 3, 90 Collins Street
Melbourne VIC 3000

ABN 28 122 259 223

+61 3 9214 9333
ermpower.com.au

Wednesday, 22 July 2020

Mr Ben Davis
Director
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Davis

RE: Directions Paper - Deferral of network charges rule, July 2020

ERM Power Retail Pty Ltd (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) Directions Paper on the urgent rule change request for the deferral of network charges (Directions Paper).

About ERM Power

ERM Power (ERM) is a subsidiary of Shell Energy Australia Pty Ltd (Shell Energy). ERM is one of Australia's leading commercial and industrial electricity retailers, providing large businesses with end to end energy management, from electricity retailing to integrated solutions that improve energy productivity. Market-leading customer satisfaction has fueled ERM Power's growth, and today the Company is the second largest electricity provider to commercial businesses and industrials in Australia by load[1]. ERM also operates 662 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland, supporting the industry's transition to renewables.

http://www.ermpower.com.au
https://www.shell.com.au/business-customers/shell-energy-australia.html

General comments

ERM Power is deeply concerned with the AEMC's approach to network deferrals as proposed in the Directions Paper and considers that the amendments to the AER's original rule request will worsen the risks to financially stressed retailers and will lead to poorer customer outcomes. The narrowing of customer application, retailer eligibility and the charging of interest by distributors will produce an outcome of failing to sufficiently mitigate the risks of retailer defaults stemming from the COVID19 pandemic.

Unfortunately, the AEMC's Direction Paper is an endorsement that retailers shoulder the risks of the entire supply chain as a result of the pandemic, having to fund both the network deferral through interest payments and the networks' proportion of customer bad debts. As detailed in our last submission, it is unsustainable for retailers to solely absorb the shocks stemming from the pandemic. The risks from measures to provide customer assistance must be shared through the supply chain.

It is difficult to understand why the AEMC considers that networks should be immune to the financial impact and do not have a responsibility to share the burden whilst many other businesses and entire industries are being forced to

[1] Based on ERM Power analysis of latest published information.

share in the challenges from the COVID-related economic impacts. We believe the AEMC needs to rethink its approach and see that networks fairly share both the liquidity risks and customer bad debts.

We recommend that the AEMC allow for the remittance of retailer network charges to be net of network charges that cannot be recouped from customers. This approach would fairly distribute the burden of payment defaults and bad debts between retailers and networks and would ensure a more sustainable provision of relief to customers.

As stated in our previous submission, applying interest payments to the mechanism will be counterproductive and exacerbate the financial burden of retailers with the accumulation of customer bad debts. The AEMC's proposal to have networks charge interest of 3 per cent per annum could have networks financially gaining from the deferral mechanism. Financially stressed retailers will be heavily penalised from seeking network deferrals and will face compounding risks from slowing cash receipts and rising levels of consumer bad debt, leading to a lack of working capital to meet interest liabilities.

We believe the AEMC should remove the requirement for interest payments and recognise that networks, many of which have Government ownership, are in a comparably better position to tolerate the liquidity risk from customers' late payments and have a responsibility to share the financial burden from the pandemic.

AEMC's Direction Paper has sought to narrow the application of the AER's proposed rule change to now be completely irrelevant to large customers. This regrettably places retailers in the position of being the sole participants in the industry stepping up to offer and fund large customers' support. The AEMC assumptions fail to consider the inherently low retail margins of the large customer group.

We believe the AEMC should reconsider its approach and extend eligibility to all affected customers.

Recent evidence of a resurgence of COVID infections in the two most populous states have reinforced the uncertainty surrounding the full economic impact of the pandemic. We consider it may be premature for the AEMC to reject the original rule proposal that would see the AER to be granted powers to extend the provision.

Please contact me if you would like to discuss this submission further.

Yours sincerely,

[signed]

Libby Hawker
Senior Manager - Regulatory Affairs
03 9214 9324 - lhawker@ermpower.com.au