

Introduction

The Energy Users Association of Australia (EUAA) is the peak body representing Australian energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and expect to see all parts of the energy supply chain making their contribution to the National Electricity Objective.

With regards to this rule change, the EUAA's perspective is one of an organisation representing larger electricity users. We are not privy to individual financial circumstances of our members and so do not know if any have sought COVID-19 relief from their retailer. Equally we are unable to comment on the financial position of retailers or networks.

Therefore, our comments focus on the AEMC's questions around eligibility, length of deferral period and implementation issues. Overall, we support the concept of the proposed payment deferral, but with a very targeted approach to strike an acceptable balance between the need for retailers to meet their obligations and the need to ensure a continuing level of competition in the retail market when the economy recovers from the COVID-19 impact.

We are also conscious that economic recovery from the COVID related shutdown is highly uncertain. While we have not observed a sharp increase in payment defaults at this point in time, we are particularly concerned by a situation where economic assistance from governments is withdrawn too soon, resulting in a wave of payment defaults and bad debts towards the end of 2020 and into 2021. Given this high level of uncertainty, we think the AER needs to remain flexible to alter aspects of this rule if considering an extension beyond 31 December 2020.

AER's Rule Change Proposal

The Australian Energy Regulator (AER) argues that the COVID-19 induced economic downturn has reduced the ability of some consumers to pay their electricity bills. This in turn puts retailers under cash flow pressure. The AER's proposal is that retailers be allowed to defer the payment of network charges for the period 1 July 2020- 31 December 2020 in respect of certain customers impacted by COVID-19 to assist them in their cash flow management.

The customers covered would be any customer who, after 1 March 2020, entered into:

- a payment plan or instalment arrangement
- any arrangement as a hardship customer
- any "deferred debt arrangement"

Under this proposal, retailers would be required to pay the network charges in full at the end of the deferral period, meaning network businesses would remain entitled to recover the full amount of their regulated revenues as determined by the AER.

We recognise that the rule change is not asking networks to rebate any additional network costs than they might be under the current Network Relief Package that operates in NSW, Victoria and South Australia. The rule change is about whether networks should have up to a 1-6 month delay in receipt of a proportion of their network charges from retailers in the instances of payment default by customers.

EUAA Position

As the Consultation Paper notes, electricity retailers carry the cash-flow risks of the entire electricity supply chain. This is appropriate as they are the party best placed to manage that risk. Importantly, the failure of a customer to pay a bill does not relieve the retailer of the obligation to pay the network charges. Therefore, retailers need to have sufficient lines of credit available to cover their obligations e.g. high wholesale prices. If a retailer cannot meet its obligations then the nature of the competitive market is that they will exit and the Retailer of Last Resort will ensure continuity of supply to customers.

In addition to these business as usual requirements, we appreciate the requirement that retailers have under the AER's Statement of Expectations to support customers who are unable to pay their bills. The AER have also discouraged retailers from disconnecting customers for non-payment of accounts. If instances of non-payments were to significantly escalate this would clearly put additional, non BAU pressure on retailers that needs to be considered if the scheme were to be extended beyond 31 December 2020.

While the Consultation Paper suggests the possibility of financial contagion e.g. if the RoLR measures cannot cope with a rolling retailer failure, it does not provide data to help understand the risk of that occurring. Based on the suggested criteria outlined below for a retailer to be qualified, the AER data¹ suggests that qualifying retailers might total, at most, 5-6% of the NEM market.

While the EUAA supports the AER's rule change proposal in principle we argue that the application should be confined according to a range of measures outlined in our responses to the specific questions asked.

Question 2 – Retailer Eligibility

- (a) Is it appropriate and/or necessary to expressly exclude certain classes of retailer from deferring the payment of network charges under the proposed rule change? If so, please provide reasoning to support your position.*
- (b) If the onus is placed on retailers to show they have a legitimate financial need to access the proposed deferral mechanism, what eligibility criteria should apply?*
- (c) What would be an appropriate and efficient process for the verification of information provided by retailers under the approach described in (b) above?*
- (d) Do stakeholders have views on how the deferral mechanism could be designed to incentivise only those retailers that legitimately require immediate financial support due to COVID-19 to access this mechanism (including allowing DNSPs to charge interest on deferred payments)?*
- (e) Do stakeholders have views on whether any of the approaches outlined above (or a combination of each) would be preferable?*

Our answer to this is yes. We think that eligible retailers should only be those that face a material liquidity risk if the network charges are not deferred.

¹ AER "Annual Retail Markets Report" November 2019 Table 1.2 p.20

https://www.aer.gov.au/system/files/AER%20Annual%20Retail%20Markets%20Report%202018-19_0.pdf

We defer to the AEMC for how this may be defined, but we expect exclusions would include Tier 1 retailers in the respective jurisdictions, retailers whose ultimate ownership includes the Federal or State Governments, RoLR retailers, retailers that are owned by any of the former or by a much larger credit worthy parent.

Retailers that fall outside those parameters would need to apply to the AER to be considered for inclusion with that based on similar considerations to those recently put in place in New Zealand. The AER would then certify compliance with those conditions. The AER would publish, subject to reasonable confidentiality provisions, its reasoning in accepting or rejecting an application from a retailer.

Any deferred payment would be charged an interest rate equal to the relevant network WACC for the six months form 1 July – 31 December. The qualifying retailer would then assess if they could raise any required working capital at a lower rate. If they could provide proof that they cannot to the AER then they would qualify for participation.

Question 3 – Customer Eligibility

(a) Do stakeholders have views on the types of customers that should be captured by the proposed deferral mechanism and how these customers can be clearly defined in the NER? Is it appropriate and/or necessary for this mechanism to include large commercial and industrial customers?

We have no information on the prevalence of larger customers on the books of those retailers that would qualify for participation applying our proposed criteria above. However, we see it as equitable that the proposed measures should cover all customers, not just residential and small business.

This inclusion should be conditional on:

- the retailer having exhausted any existing security or other credit support arrangements these large users have provided their retailer, and
- having had a significant reduction in electricity consumption compared to the corresponding period in 2019 e.g. similar to the current Network Relief package requirement for small business of at least a 25% reduction in electricity consumption.

Question 4 – Length of Deferral Period

(a) Is a six-month deferral of the payment of network charges an appropriate timeframe, having regard to the potential cash flow impacts of COVID-19 on the retail electricity market in the second half of 2020? Alternatively, would a shorter deferral timeframe be sufficient to allow retailers to overcome the financial pressures posed by the current environment?

(b) What are the implications (if any) of a six-month deferral period for NSPs, compared to a shorter or longer deferral period?

We support limiting the period to the proposed 6 months period. It is too early to judge how seriously the impacts may linger beyond that period. If an extension were to be considered we believe that a review of retailer and customer eligibility would be appropriate.

Question 5 – Extension of the Deferral Period

(a) Is it appropriate and/or necessary for the AER to have the ability to extend the deferral period if this is considered necessary? If so, what conditions, considerations and/or consultation requirements should reasonably apply to the exercise of this power?

We would support the measures extending as long as the retailers meet the criteria proposed above for the six month period. Again, the AER should publish, subject to reasonable confidentiality considerations, the reasons for a retailer's continuing qualification.

Question 6 – Deferral of payment of transmission network charges

(a) Is it necessary and/or appropriate for DNSPs to be able to defer the payment of transmission charges to TNSPs under the proposed deferral mechanism? To what extent would this change the overall impact of the proposal on DNSPs? What would the impact of this approach be on TNSPs?

(b) Do stakeholders have views on how the deferral of payments from DNSPs to TNSPs would be implemented in practice? What issues would need to be addressed in the regulatory framework to facilitate this?

We support the principle of DNSPs being able to withhold the portion of the deferred retailer network payments that are due to TNSPs. TNSPs would be paid their outstanding charges when the DNSPs recover deferred payments from retailers.

We leave the networks to propose how this might work in practice if a retailer defaults on payment.

Kind regards



Andrew Richards
Chief Executive Officer