INFORMATION

Final determination for deferral of network charges rule change

Final determination and rule published

The Australian Energy Market Commission (the Commission) has published a final determination and rule that introduces a mechanism to allow some retailers to defer the payment of network charges to distribution network service providers (DNSPs) for customers impacted by COVID-19 for six months.

Final rule

The Commission has made a rule to allow eligible retailers to defer the payment of network charges to DNSPs incurred between 6 August 2020 and 6 February 2021 for residential and small business customers on a payment plan, hardship arrangement or deferred debt arrangement. These payments will be deferred for a period of six months. The final rule balances the need for a framework to provide immediate cash flow relief to retailers to help the market manage the impacts of COVID-19 while ensuring that the impact of the deferral mechanism does not pose additional risk for DNSPs. This relief will assist retailers in supporting customers that are impacted by COVID-19.

The key features of the deferral mechanism are:

- Retailers that are government-owned or registered as a Retailer of Last Resort (RoLR) are not eligible to access the deferral mechanism.
- Eligible retailers will be required to pay interest on any deferred network charges at a rate of 3 per cent per annum.
- DNSPs will be able to defer the payment of a proportionate amount of transmission use of system charges to transmission network service providers.
- Retailers and DNSPs are required to negotiate in good faith and agree on processes to give effect to the deferral mechanism under the final rule as soon as practicable, and in any case no later than 10 business days after the commencement date.
- Retailers will be required to report monthly to the AER on the number of customers whose network payments are deferred under the scheme, the total network payments deferred under the scheme and the latest due date for payment of those network charges. The AER will also be required to publicly report on this data each month.

Rule change request

The Australian Energy Regulator (AER) submitted a rule change request in May seeking to help mitigate the cash flow impacts of COVID-19 on the retail electricity market and help retailers to continue to support vulnerable customers having difficulty paying their bills. The AER considered that these cash flow pressures could potentially lead to multiple retailer failures in the NEM and thereby undermine the operation of the retail electricity market. As such, the AER requested that the rule change be expedited as an urgent rule under the NER.

The impact of COVID-19 on the electricity sector

The impacts of, and restrictions associated with, COVID-19 are likely to increase consumer energy debt and in turn reduce retailer revenue over the next 6 to 12 months. Electricity retailing is a high volume, low margin business. Incremental increases in customer debt may therefore have a significant impact on the financial viability of many retailers, in particular smaller retailers operating in the NEM. The retail margin earned by smaller retailers is considerably lower than that earned by large retailers, meaning that small

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retailers are likely to be disproportionately impacted by increases in customer debt.

In addition to the above issues, retailers are currently having to manage a change to their risk profile and the actions that would normally be available to them to manage issues relating to non-payment by customers as a result of the AER's *Statement of Expectations of energy businesses: Protecting customers and the energy market during COVID-19*. The AER has stated that it expects retailers not to disconnect any residential or small business customer who may be in financial stress up to (and potentially beyond) 31 October 2020 where that customer has contacted the retailer or is accessing any retailer support. This increases the risk borne by retailers, as they are expected to continue supplying customers (and incurring the associated supply chain costs) even where a customer has not paid their bill, which creates a potential divergence in cash inflows and outflows.

Benefits of the rule

The implementation of a deferral mechanism with the design features discussed above is a necessary and proportionate response to the impacts of COVID-19 on the electricity market. The issues identified above heighten the risk of multiple retailers exiting the market as a direct result of the unique circumstances caused by the COVID-19 pandemic, which do not reflect normal competitive market forces. The Commission considers that multiple retailer failures would not be in the long-term interests of consumers as this would reduce retail competition, which may lead to sub-optimal consumer outcomes.

The final rule addresses these issues while achieving a number of key objectives, including:

- allowing retailers to continue to support vulnerable customers while managing the inability to disconnect some customers for non-payment in light of the AER's *Statement of Expectations*
- providing a framework to help manage potential increases in customer non-payment in the second half of 2020 and early 2021
- providing cash flow relief to those retailers that are more likely to be in financial distress, thereby giving them the opportunity to adjust their operations as required to respond to the pandemic and reducing the likelihood of those retailers exiting the market in the short term.
- incorporating a number of limitations compared to the AER's original proposal, which will allow the impacts of COVID-19 to be shared across parts of the electricity supply chain without imposing an overly detrimental financial burden on network businesses.

Implementation of the deferral mechanism

It is important that the deferral mechanism be implemented promptly to ensure a framework is in place to manage expected increases in customer debt. As such, the period in which retailers can defer network charges for eligible customers commences on 6 August 2020 and expires on 6 February 2020. Participants are required to implement processes to give effect to the deferral mechanism within 10 business days of commencement.

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