25th June 2020

Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Lodged online: www.aemc.gov.au

Thank you for the opportunity to provide a submission in response to the 'ERC0302 – Deferral of network charges' Consultation Paper.

Momentum Energy is an energy retailer owned wholly by Hydro Tasmania, Australia's largest generator of renewable energy. We pride ourselves on competitive pricing, innovation and outstanding customer service. We retail electricity in Victoria, New South Wales, South Australia, Queensland, the ACT, and on the Bass Strait Islands. We offer competitive rates to both residential and business customers, a range of innovative energy products and services, as well as the retail of natural gas in Victoria.

I INTRODUCTION

The COVID-19 pandemic is disrupting Australian lives and businesses on an enormous scale. Throughout these difficult times, the retail energy industry has worked to support the community by ensuring continued access to an essential service. Like many businesses, retailers have had to reconfigure their operations to support their employees functioning remotely. They continue to face potential loss of sales as many business customers increasingly seek to curtail their load. And as the Australian economy deteriorates, retailers bear the growing risk that customers will be unable to compensate them for energy already consumed.

Against this background, Momentum supports the Australian Energy Regulator's (AER) proposed modicum of relief for retailers experiencing cash flow difficulties.

Momentum recognises the action taken by Energy Networks Australia to assist retailers in supporting customers and feels that formalisation of these measures, through a rule change, is appropriate to provide certainty to both consumers and investors that they will not be faced with a cliff face when current assistance measures expire.

II IMPACT OF COVID-19 ON RETAILERS

Relative to many other parts of the world, Australia has endured significantly lower rates of COVID-19 infection. Whilst this is undoubtedly a comparatively positive outcome, Australian leaders and experts in various fields warn that the trajectory of this unprecedented pandemic remains unknown. For this reason, we emphasise the importance that this deferral mechanism be designed to adjust to a range of potential scenarios. This would be a positive step towards ensuring the ability of energy retailers to manage cash flow in this climate.

Although the issue of temporary cash flow is just one of the challenges threatening the viability of the retail energy industry, all initiatives aimed at staving off potential catastrophic financial contagion should be considered in these extraordinary times.

Momentum would like to acknowledge that the efforts of network distributors have assisted retailers with this challenge.

[redacted] If these figures are indicative of the broader industry (noting of course that acquisition strategies and therefore customer mixes for all retailers are markedly different) this could amount to significant revenue across the sector. With retailers carrying the bulk of the credit risk in the energy supply chain, it is appropriate that other market participants assist in small ways to ensure that customers are protected.

Additionally, retailers are being challenged by the special protection afforded to their customers at this time both voluntarily and at the request of regulatory bodies. Retailers offer both mandatory and voluntary assistance to customers who are facing difficulty paying their bills. This assistance is generally contingent on customers engaging with their retailer to develop an appropriate assistance package. In less uncertain times, one of the key tools that retailers had to assist with driving customer engagement was collections activity and, unfortunately in some cases, the threat of disconnection.

The AER's Statement of Expectations (SoE) mandated that retailers cease collections activity entirely and cease disconnection of customers experiencing payment difficulty due to COVID-19. For these customers, that once powerful incentive to engage with their retailer is no longer. Momentum understands the AER was motivated in their approach to serve the interests of the community at this time, and we willingly comply with these expectations. However, this has undoubtedly created a cash flow and debt management issue which may lead to consumer detriment in the long term.

While disconnections only occur as a last resort, the looming spectre of de-energisation incentivised customers to engage with their retailer. Customers who are experiencing financial difficulty for the first time due to the COVID-19 pandemic may be reluctant to engage and, in the absence of any incentive to do so, will ignore the situation, unaware of their rights and the assistance which retailers can provide.

To illustrate the magnitude of this problem, the average monthly number of residential disconnections for 2018/19 was close to 6000.[1] Under business as usual conditions, this would have equated to approximately 24,000 customers for the SoE period[2] (1 April to 31 July). It is unclear how many additional customers choose to engage with their retailer and therefore avoid disconnection during this time, but it is clear that removing the incentive to do so will cause ongoing detriment for both retailers and the end consumer.

Lastly, the energy retail industry is challenged by the limiting eligibility criteria of financial assistance measures. Currently, retailers are only receiving NRP assistance in relation to their customers known to be directly impacted by the pandemic. It is now evident that additional support will be necessary, such as a deferred network payments mechanism for all customers. Without adequate financial support, retailers will turn to whatever financial options are available to them. However, given their inability to collect debt or disconnect for non-payment, they're likely to face high borrowing costs. Regrettably, without the opportunity to obtain finance, retailers may be forced to recover revenue directly from customers in an effort to stay viable. This is an undesirable outcome for the retail energy sector and consumers.

If retailers are not adequately supported, the medium to longer term outcomes for consumers will be poor. While all retailers will use whatever financing options they have available to

[1] AER (November 2019) 'Annual Retail Markets Report 2018-19', p81: average monthly number of residential disconnections is almost 6,000.

[2] Using a simple 6000 per month simple average, noting that some seasonality is likely.

manage cash flow, it seems logical that some retailers will take more aggressive steps to recover revenue directly from customers. To date, retailers have embraced the spirit of the Australian Energy Regulator's SoE and refrained from undertaking disconnection or collections activity however, in the absence of broader protections from cash flow issues this may no longer be an option for some.

We stress that we do not believe that any retailer would take such steps lightly in the current environment. Many retailers who are most vulnerable to cash flow issues however, may face high borrowing costs which could lead to further financial difficulty if a mechanism to allow deferred network payments is not established.

III RETAILER ELIGIBILITY

Momentum does not consider it appropriate to exclude particular classes of retailer from the payment deferral mechanism. The initial version of the NRP was aimed primarily at supporting small retailers, and whilst we understand the rationale for this approach, we do not believe this distinction will support the long-term interests of consumers nor the industry. Although the large customer base of larger retailers affords them better access to low cost credit, it also exposes them to a greater number of customer defaults. Additionally, they may face the sudden and significant impost of a Retailer of Last Resort (RoLR) event, this could affect their ability to access funds. The viability of these larger retailers is critical to the economic sustainability of the energy retail industry.

For this reason, we consider that the mechanism be available to all retailers as it may play a role in preventing catastrophic financial contagion across the industry. We also consider that there is a key customer equity issue at stake. The current NRP is contingent on the retailer providing support to the customer. By initially limiting elements of the package to small retailers, the networks were in effect precluding the vast majority of consumers from enjoying (temporary or permanent) relief from network charges. A similar scenario is likely to arise under this rule change where retailers who have a formal mechanism to defer network payments may be able to do so in circumstances where other retailers cannot. Unfortunately, given the structure of the retail energy markets in Australia where there is a concentration of customers with a small number of retailers, this would mean that the vast majority of consumers may miss out on assistance.

Furthermore, granting access to the deferral mechanism to all retailers will not gift it to the unsuitable. All retailers have entrenched network bill validation dispute and payment processes. The creation of a facility to defer payments under these special circumstances would require redesign of these processes and significant manual intervention. If a retailer is not facing a genuine cash flow imperative to delay payment, the cost of utilising this deferral mechanism will outweigh the benefit and those retailers will surely be deterred from doing so.

IV CUSTOMER ELIGIBILITY

As outlined above, the AER's SoE has unwittingly removed a key incentive to drive customer engagement with their retailer. As a result of this, it has become more difficult for retailers to assess which customers are facing financial challenges and which are simply avoiding their payment obligations. Imposing customer eligibility conditions may ultimately be an appropriate response. However, this would require building some form of criterion by which the types of customers most likely to be impacted by COVID-19 could be automatically determined. We acknowledge this would be difficult to do.

Nevertheless, we consider customer eligibility should be evaluated prior to the expiry of the initial deferral period, as a potential solution moving forward.

V LENGTH OF DEFERRAL PERIOD

The impacts of COVID-19 are likely to be felt across the economy for some time, and energy retailers will certainly be no exception. However, we acknowledge that it would be unreasonable to hold other stakeholders in the energy sector to the aid of retailers beyond the immediate duration of the COVID-19 pandemic. Therefore, given the AER's SoE currently restricts retailers' ability to manage customer debt for at least 4 months, and considering the cash flow impact of this will continue for some time thereafter, we believe an initial 6 month deferral period would be appropriate.

VI EXTENSION OF DEFERRAL PERIOD

As seen in Victoria recently, the situation surrounding the COVID-19 pandemic is changing rapidly. In light of this volatility, this rule change should incorporate a mechanism by which these arrangements can be extended if required. Ideally, prior to the expiration of the initial deferral period, the deferral mechanism would be reviewed. Any decision to extend would then be informed by data collected by the AER and supported by broader government statistics.

Momentum looks forward to working with the AEMC to inform the development of any such review.

VII DEFERRAL OF PAYMENT OF TRANSMISSION NETWORK CHARGES

Momentum does not hold a strong view regarding the deferral of payment of transmission network charges. As previously illustrated, we believe it is the responsibility of the entire energy supply chain to support customers at this time. We defer to the distribution network businesses on this matter and support their views.

VIII PROCESS FOR DEFERRING PAYMENT OF NETWORK CHARGES

As outlined previously, network payment deferrals require retail and distribution businesses to re-engineer and manually intervene in bill validation and payment processes. Energy industry participants were able to work together to develop a process for managing the NRP and we consider that maintaining this process would be the most efficient means of transitioning from the NRP to the mechanism established under this rule change.

If these established processes continue, retailers will still incur the cost of manual intervening in their entrenched systems. However this is preferable to expensive and significant process redesign.

IX IMPACT OF PROPOSED DEFERRAL MECHANISM ON NETWORKS

Momentum does not consider it necessary to compensate networks for the costs they incur as a result of this rule change. Network returns are set to reflect their level of risk exposure under normal circumstances. The current pandemic is of course not to be considered normal circumstances, however any allowance for cost recovery will ultimately flow through to end users and impact Australian consumers' ability to recover from this crisis. As previously submitted, each participant in the energy supply chain will need to share the impact at this time to not only ensure the viability of the energy sector, but to protect consumers.

X CONCLUSION

The COVID-19 pandemic is impacting all Australians. Many of those lucky enough not to have been directly affected by the virus, will indirectly be affected by the crippling Australian economy. Energy retailers have continued to supply energy on a post hoc payment basis to consumers with a reduced capacity to pay. This situation is not only causing retailers significant cash flow issues, it is likely to leave a legacy of increased debt throughout the retail sector lasting into the foreseeable future.

The proposed rule change will only play a small role in assisting with the viability of the retail sector as it will only provide relief in scenarios where the end customer acquits any accrued debts in full by the expiry of the deferral period. The end result of this is that the network businesses will be fully compensated, albeit slightly later than they had initially anticipated, while retailers face elevated risk of non-payment for some time to come. We believe that this approach does not materially alter the approach to risk allocation which was anticipated by the market design. In fact, if the mechanism directly assists any retailer to stay in business, it will result in the network receiving payment in a timelier manner than would be the case if a RoLR event occurs.

This submission has outlined many challenges facing energy retailers at this time. As such, this rule change provides only minor relief, but it may be the difference between retailer failure and the ability to continue to operate in the market. We believe that a generous approach across the industry, which does not hinder retailer access to deferral of network charges, will effectively enable retailers to drive competition and recover financially at the conclusion of this pandemic.

If you require any further information with regard to this submission, please contact me on (03) 8651 3565 or email joe.kremzer@momentum.com.au.

Yours sincerely

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