

23 July 2020

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

Submission via AEMC website portal

Dear Mr Davis,

Re: Consultation on 'Directions Paper: Deferral of Network Charges Rule Change'

Simply Energy welcomes the opportunity to provide feedback regarding 'Deferral of Network Charges Rule Change' as a part of Australian Energy Market Commission's (AEMC) Directions Paper (the paper) with proposed rule drafting and amendments to the National Electricity Rules (NER) for residential and small-to-medium enterprise (SME) consumers affected by the COVID-19 pandemic.

Simply Energy is a leading energy retailer with over 725,000 customer accounts across Victoria, New South Wales, South Australia, Queensland and Western Australia. As a consumer-centric organisation focused on continual growth and development, Simply Energy supports the intent of the proposal to improve and expand the options, including deferral of network charges where applicable, for residential customers, small businesses and energy retailers to ensure the competitive energy market remains viable. Simply Energy has also been working closely with the Australian Energy Regulator (AER) to ensure customers affected by the pandemic, across all jurisdictions, receive adequate support and payment options.

Simply Energy agrees that the proposal will go some way to achieving the key objective of enabling retailers to effectively support customers during the pandemic and recession, in light of the AER's Statement of Expectations. However, it does not address the longer-term risks to retailer viability from customers who are unable to pay over an extended period, which needs responses that consider the whole supply chain, rather than retailers taking all of the financial burden.

This perspective informs Simply Energy's responses to the questions raised by the AEMC in the following areas:

- Scope and eligibility of the deferral mechanism
- Deferral timeframe and implementation
- Interest on deferred network charges
- Reporting requirements
- Other considerations and next steps

Scope and eligibility of the deferral mechanism

Simply Energy considers that the impact of the pandemic and recession on all customers' ability to pay for energy use requires responses that consider the whole of the supply chain. Retailers cannot take all the financial burden of customers who cannot pay, and eligibility criteria are an artificial constraint on retailers receiving the support they may need in future. Nevertheless, Simply Energy understands that eligibility criteria are part of the current proposal. Simply Energy participated in the Energy Networks Australia (ENA) relief package and found that the strict eligibility criteria and other limitations meant that the package did not provide any material benefits to end customers overall, for the following reasons:

- The ENA relief package only applied for a limited period, whereas the impact of customers who cannot pay for energy use is expected to increase as the pandemic and recession continue.
- For residential customers, the ENA relief package was complex to implement for minimal benefits, as network charges were deferred and not rebated, and hence the cost, effort, training and messaging invested in implementing the solution outweighed the benefits.
- For SME customers, the >75% reduction in consumption criterion set by the ENA excluded a large number of SME customers who contacted Simply Energy and were put on payment plans but could not get any benefit from the ENA relief package and network rebates.

Simply Energy notes the final rule will not include prescriptive requirements about the processes participants must use to give effect to the rule. Rather, retailers and network service providers would be required to agree on such processes within one week of the commencement of the rule. To make it easier to implement and beneficial for end-customers, the AEMC should eliminate any 'network deferral specific threshold-based' criteria moving forward, applying only the annual electricity consumption statutory thresholds determined in each jurisdiction. If a SME customer has accepted a payment plan, they should be eligible for network relief. This will align with the AEMC's proposal and will allow retailers to defer the payment of network charges for customers on a 'COVID-19 customer arrangement', including customers that are on a payment plan, hardship arrangement or deferred debt arrangement at the time the statement of charges applying to that customer is issued to the retailer.

Interest on deferred network charges

Simply Energy notes that retailers will be required to pay interest on deferred network charges, but the AEMC has stated that it does not expect retailers to recover these costs from consumers. Simply Energy does not support this aspect of the AEMC's proposal, which seeks to 'keep distributors whole' while expecting retailers to take on the whole financial burden of customers impacted by COVID-19. Additionally, imposing interest charges on retailers is likely to reduce the value of the proposal, as rather than supporting retailers who need assistance it will only act as a last resort measure for a few.

Simply Energy agrees that cash flow is key to short-term retailer viability, but in the longer term the issue is profitability. Retail margins are very thin (just a few percentage points of the customer bill) and an increase in customer non-payment of that small percentage, which is certainly possible given the level of unemployment now reported at over 9%, will make retailers loss-making. Imposing additional interest charges will further reduce profitability and retailer viability.

Also, Simply Energy notes the AER's proposal that eligible customers are defined as those that enter into a payment plan, hardship arrangement or deferred debt arrangement between 1 March 2020 and 31 December 2020, and supports the AEMC's view that this inappropriately limits the support offered. Excluding customers that were already on these types of payment arrangements prior to COVID-19 and were thus already financially vulnerable, ignores the impact of COVID-19 on these customers. Evidence from the labour market indicates that the 'working poor', more likely to be already financially vulnerable than more affluent cohorts, have been more heavily impacted by COVID-19, and support needs to include them too.

Deferral timeframe and implementation

As noted in the paper, the AEMC considers that a period of six months from the commencement of the final rule is an appropriate timeframe to allow for network charges to be deferred. Simply Energy understand the desire to limit the support period, so that an eligible retailer can defer network charges incurred from 6 August 2020 to 6 February 2021 with the final due date for deferred network charges as 6 August 2021. Nevertheless, if the COVID-19 pandemic continues, and this support is needed beyond February 2021, Simply Energy expects the AEMC to follow an expedited rule change process in response to any proposal from stakeholders to extend the duration of this support.

Simply Energy notes that retailers and network businesses have to negotiate and agree on arrangements to give effect to the payment deferrals within one week of the final rule being made. In order for retailers and network service providers to agree on deferral processes within one week of the commencement of the rule, Simply Energy suggests that network service providers should streamline and simplify the proposed deferral process instead of retrofitting it into the existing network reconciliation process (NREC process), which has caused complexity in the ENA relief package implementation.

Simply Energy also notes that retailers will be required to provide a statutory declaration confirming that any payment deferral request is in accordance with the definitions outlined in the final rule. This is an unnecessary and burdensome requirement and should be removed. Simply Energy has provided letters required by network service providers under the ENA Relief Package that provide assurances that the relevant customers are eligible for deferrals. If these letters are considered to be insufficient, then a more efficient alternative than the proposal would be for retailers to provide the AER with a statement that all deferral eligibility criteria have been met.

Reporting requirements

Simply Energy notes that in order to increase the transparency of the deferral mechanism, eligible retailers will be required to report to the AER on the numbers of customers whose network payments are deferred under the scheme and the total network payments deferred under the scheme and the AER will be required to publicly report on this data. While Simply Energy supports the intent of this requirement, Simply Energy does not support the proposed approach, and suggests an alternative approach where networks provide this data to the AER directly.

Other key considerations and next steps

In closing, Simply Energy supports the intent of the rule change proposal provided some of the approaches are altered so that retailer viability risk is more effectively addressed and putting greater accountability on network service providers to provide streamlined implementation approaches, as there are a number of lessons learned from the ENA relief package implementation including the issues arising from convoluted and network-specific reconciliation processes.

Simply Energy would welcome the opportunity to engage with the AEMC, the AER as well as other key stakeholders to further explore any gaps in the current process that can be identified and worked on. Simply Energy looks forward to engaging with you on these matters. If you have any questions or would like to engage in discussions with Simply Energy, please contact Aakash Sembey, Manager, Retail Regulation, on (03) 8807 1132 or Aakash.Sembey@simplyenergy.com.au.

Yours sincerely



James Barton
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Simply Energy