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PUBLIC SUBMISSION

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9 April 2020

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amaysim Australia Ltd (amaysim) further comments on the DMO Determination for 2020-21 given the impact of COVID-19

This submission sets out amaysim's further comments in relation to the upcoming Default Market Offer (**DMO**) determination given the developing COVID-19 situation in Australia, and its impact upon energy consumers and the operation of energy retailers. amaysim notes that under the *Competition and Consumer (Industry Code – Electricity Retail) Regulations 2019*, the Australian Energy Regulator (**AER**) is required to publish its final decision by 1 May 2020.

Background on amaysim

amaysim entered the energy market in 2017. We are a tier two energy retailer offering innovative products in competition with the major energy retailers (including gentailers), selling electricity and gas to over 200,000 residential and small business customers nationally. amaysim is pure play retailer, it does not actively own or invest in generation assets and focuses purely on great products and great service to deliver value to our customers.

Overview

amaysim welcomes the initiative from the AER to consult further on the DMO given recent developments around COVID-19. Energy is an essential service and maintaining a retail energy sector that is viable is critical to ensuring that households and businesses continue to be supplied energy through this uncertain and unprecedented period.

amaysim agrees with the AER that developments around COVID-19 will impact energy consumers and energy retailers. Given the way that the energy supply chain works in Australia, there is a real risk that retailers will unfairly shoulder the financial burden of customers who are unable to afford their energy usage. Ultimately, this may lead to retailers becoming financially stressed causing additional and unnecessary impacts on the energy supply chain at this time. The AER needs to consider the likely increase in bad debt incurred by retailers, as well as the additional operational costs that are disproportionately borne by retailers, when making their final decision on the DMO for the upcoming financial year.

Bad Debt

The regulatory landscape around hardship and financial difficulties has evolved significantly over recent years, and both industry and government have recognised that stronger protections have resulted in better outcomes for vulnerable customers. In line with these stronger protections, all retailers strive to balance the risks associated with bad debt and non-payment while ensuring that financially impacted customers continue to be supplied energy as essential service. Energy retailers have, in most cases, embraced "disconnection as a last resort" when dealing with vulnerable customers.

Managing and forecasting the risks associated with bad debt is a challenge for all retailers. For pure play retailers such as amaysim, we continue to pay network, wholesale and environmental costs when customers consume energy regardless of whether we receive payment by the customer. Therefore, variations in bad debt metrics have a real impact on cash flow within businesses such as ours. A sustained and prolonged increase in bad debt across energy retailers will cause financial stress to many retailers and will potentially threaten the viability of a number of small to medium -sized retailers. Should these smaller retailers cease operating, this will cause significant disruption and inconvenience to already impacted customers, as well as a fall in the level of retail competition within the market.

amaysim considers it inevitable that all retailers will see an increase in bad debt as a result of developments around COVID-19. This situation is not dissimilar to the challenges currently faced across a wide range of industries as a result of the developing crisis. An increase in unemployment and a decrease in economic activity will impact the ability of customers to pay for their household and business bills. We fully expect that this will increase the number of customers accessing retailer hardship programs, payment plans and deferred payment options. It will also result in retailers managing a much higher level of bad debt relative to the pre-COVID-19 environment.

The level of bad debt for residential customers is likely to be compounded by the increased usage we are expected to see as result of people confining themselves to their homes. Additionally, we are heading into winter which in some jurisdictions traditionally leads to increased energy usage and increased bills.

The most difficult aspect of understanding the impact of COVID-19 is the level of uncertainty ahead, as we currently do not know how (and for how long) the situation will unfold. This is true at both an Australian and global level. The economic impacts from COVID-19 are unprecedented and are likely to differ significantly from the other economic shocks we have experienced in the past. People who have never found themselves in financial difficulties will for the first time be without job or an income. Additionally, COVID-19 has disproportionality impacted certain sectors of the economy so the overall impact is uncertain.

In terms of the DMO price setting for the upcoming year, forecasting the bad debt provision as an element of cost to serve is difficult. We submit that the issue of customers experiencing financial difficulty as a result of COVID-19 needs to be addressed in the following ways:

- a whole of industry response where all elements of the supply chain adequately support impacted customers; and
- a response by Government that provides adequate financial support to deal with the timing aspects of the increase in bad debt.

In the absence of these two factors, the AER simply must increase the cost to serve allowance within the DMO to account for an increase in bad debt, which will result in all customers facing a higher DMO price as a result of COVID-19. The risk is that if retailers are unable to recoup their increased cost-to-serve from their customer base, then their financial viability in the medium to long-term will be significantly threatened.

Operational Impacts

Operational costs associated with bad debt and hardship programs are a necessary cost of operating a typical retail business. The resources required to administer and manage these programs touch many areas of a retail business, including across dedicated hardship teams, credit management, finance and business systems. For customers experiencing financial difficulties, it is paramount that these customers have direct access retailer representatives to ensure that they can access the whole range of programs and options available. Additionally, administering government initiatives around concessions and rebates also contributes to the cost to serve for retailers. As retailers maintain the relationship with the customer, the burden of managing and administering government initiatives often falls upon the retailers.

As a retailer, amaysim is beginning to see an increased level in customers accessing our COVID-19 financial assistance initiatives. It is expected that as the situation develops this level of customer interaction will only increase. amaysim is committed to supporting every customer in this difficult time, including extending our flexible payment options and hardship program to any customer impacted by COVID-19. However, there is an additional operational cost associated with this. It is expected that the economic environment will continue to place pressure on resourcing for energy retailers such as amaysim.

Like many other companies, during this time amaysim has needed to instruct our staff (located in three separate offices across Sydney, Melbourne and the Philippines) to work from home for the foreseeable future. Therefore, another issue for the AER to consider is the operational impact of COVID-19 on retailers, which (amongst other things) has forced retailers to in move away from a centralised operating model. Maintaining and operating a customer service centre (based in the Philippines) benefits from a centralised model, where resources and skills can be managed to effectively (and cost-efficiently) respond to customer enquiries. The current environment has dictated that businesses operate a dispersed workforce. This has led to a loss of scale across our business and increased costs to serve.

amaysim submits that the AER should include an additional operational cost allowance for the operational impact of COVID-19. This is a separate cost to the expected increase in bad debt provisions. This additional allowance should recognize the increased operational costs that will impact retailers both now, and through the remainder of the year, in administering increased customer demand for COVID-19 related programs.

Wholesale Prices

The impact of COVID-19 upon price in the wholesale market for the 2020-21 period remains unclear. It is also unclear how residential, business and industrial users' demand across customer segments will be impacted over the course of the COVID-19 period. Adding to this uncertainty is the lack of visibility on how long the current crisis will last and what the overall impact on the economy will be.

The AER should note that many retailers have locked in their forward positions on wholesale prices for the upcoming financial year, so while observed wholesale prices may have fallen in the short term as a result of COVID-19, the reality of the situation is that we are unsure of what the future holds. In fact, those retailers may see increased margin calls from hedge counterparties as a result of the drop in the forward wholesale prices, further constraining liquidity and putting smaller retailers in delicate financial situations.

Given the uncertainty of the impact of COVID-19 on wholesale prices and volumes, amaysim requests that the AER gives weight to the forward positions that retailers have generally taken to manage risk. The level of risk and volatility that retailers will be managing in the wholesale market will only increase as a result of COVID-19. amaysim does not see any major reason to deviate far from the wholesale allowance allowed in the Draft Decision for each region

Conclusion

We would welcome the opportunity to discuss our recommendations with you. Please contact me (my email address has been provided separately) should you wish to do so.

Yours faithfully

Adam Lourey
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amaysim Australia Ltd