9 April 2020

Att: Mark Feather
General Manager, Policy and Performance
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

By email: DMO@aer.gov.au

Dear Mr Feather

Covid-19 Impacts on the DMO Determination

This is iON Holdings Limited's response to the AER's request for stakeholder views on COVID-19 impacts that could be taken into account in making the Default Market Offer (**DMO**) determination for 2020-21. iON Holdings Ltd is grateful for the opportunity to respond to this request.

iON Holdings Limited is the parent company to a group of four established second tier electricity retailers operating in the NEM; being QEnergy, Mojo Power, People Energy and Sanctuary Energy (**iON Group**). The iON Group retails electricity to customers in Queensland, New South Wales, Victoria, South Australia and the Northern Territory and specialising in providing competitive retail electricity to small businesses and residential customers. The iON Group is not vertically integrated.

The AER's *top down* approach to pricing is premised on the underlying assumptions that market conditions will remain reasonably stable over the pricing period, that an electricity retailer should be able to make a reasonable profit in relation to supplying electricity in the region. It is debateable whether the approach allows for significant market perturbations. Covid-19 is clearly having a massive impact in every market, including retail electricity. The draft DMO determination was set based on market conditions that no longer apply. It is our submission therefore that the underlying methodology needs to be reconsidered.

One of the most significant cost impacts of covid-19 on small electricity retail businesses is the increase in aged debts and bad debts, and we expect this impact will grow with the requirements arising out of the AER's *Statement of Expectations of Energy Businesses* in relation to *Covid-19*. Whilst the iON Group supports these measures at this time, for the purposes of the DMO determination, they will have a significant impact on the relevant principle in making the determination.

It is our submission that this is a material issue for this current DMO pricing determination, as bad debts are likely to increase despite various concessions from government and industry. This shortfall is being borne predominantly by electricity retailers.

Aged debts impact cashflow as iON Group is required to post prudentials, pay network bills, fund market fees and meet environmental obligations as the FRMP to a customer; even if that customer is late paying its bills. As the timing of funding an operating retail electricity business and receipt of payments from customers our working capital requirements increase. Working capital is generally funded through equity and this expense cannot currently be recovered under the DMO.

Operating costs are also increasing as a result of:

- meeting increased customer service requirements with our entire workforce working remotely and requiring additional infrastructure;

- the additional compliance cost forthcoming from rapid regulatory changes resultant of Government *COVID-19* responses; and

- wholesale prices are predicted to increase on the back of less generation being installed as a result of COVID 19.

Environmental costs are likely to be sustained or possibly increase rather than decrease (as in the draft DMO Determination[1]), as:

- reduced investment in renewable energy generation as a result of covid-19;

- the recently announced AER policy for connection of renewable energy generators;

This is especially pronounced for smaller retailers who don't have the benefit of long term contracts.

Capital markets are focused on preservation and not investment. Australian banks are not inclined to invest in businesses. They prefer leveraged debt, such as mortgages, therefore, it is mostly private equity meeting the requirements of cashflow timing/shortages and this is an expensive form of capital that we must compete for against other higher return investments.

We are also observing that the import of equipment for power stations and HV equipment is increasingly difficult and developers are deferring investment decisions. The current value of the AUD is delaying investment in new assets, which could eventually put a strain on existing infrastructure. This is exacerbated in the current environment when the evening peak demand is firming due to increased household air-conditioner consumption.

More broadly, as a group of small retailers, the iON Group's thin margins are being squeezed and cashflows are being delayed as a result of covid-19. Our working capital requirements are increasing, and we have no way to recover this with the DMO capping our usual reflective pricing recovery mechanism. If small/medium retailers have rising costs and capped revenue; the DMO will eventually crowd them out and they will exit.

We appreciate that these are unprecedented times for consumers, businesses and regulators. This makes the DMO determination process particularly challenging at this time. We appreciate the tight time frame that the AER has in making its determination and would be pleased to discuss any of the matters raised in this submission in more detail directly.

Yours Sincerely

Warren Murphy
Managing Director
iON Holdings Limited

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[1] AER Draft Determination Default Market Offer Prices 2020-21 10 February 2020 pg. 40