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

Email: DMO@aer.gov.au

Dear Mr. Feather

Implications of COVID-19 for the DMO Price Determination for 2020-2021

Meridian Energy Australia Pty Ltd and Powershop Australia Pty Ltd (Powershop) thanks the Australian Energy Regulator (AER) for the opportunity to provide comments on the implications of COVID-19 for the Default Market Offer (DMO) Price Determination for 2020-2021.

Powershop agrees with the AER about the significant and substantial interruption that the COVID-19 pandemic has placed on the energy industry and the community. We are united publicly with the AER in looking to comfort and care for our customers, particularly their access to energy and the safety requirements as a key priority throughout this period of disturbance.

We are especially conscious that many of our customers may now be either unemployed or working from home, or have businesses in hibernation or closed completely, which will put pressure on many household budgets. Powershop, where possible have ensured that we can maintain the adequate resources required to maintain and manage our business, including our operational generators, contact centres and effectively moving staff to working remotely from home.

As recognised by the AER, the COVID-19 developments since the draft determination, will have significant impacts on all energy consumers and retailers in particular. The DMO and how this calculated for the period starting 1 July 2020 must now be materially adjusted by the AER to effectively regard those matters referred to in your letter dated 31 March 2020. As the AER acknowledges, the scope and scale of these impacts are still uncertain and difficult to quantify. In particular, many impacts will only start to materialise during the 2020-21 period. Powershop strongly supports the AER's commitment to the continued viability of all energy businesses, noting that energy retailers carry the debt risk for the entire industry's supply chain and remain key employers in their own right.

Powershop has identified three significant impacts on our business:

- (i) Our cost to serve has started to increase and we expect will continue to increase as we seek to retain our great standard of support that is expected from our customers. We have started seeing changes in the frequency and length of customer contacts through our contact centre and by extension, many of those calls discussing and requesting our assistance options. This will only expand as our communications to customers increase and when further economic pressures expands across our customer base.

- (ii) Our bad and doubtful debts, and associated collection costs will increase and will significantly reduce our cash flow and impact our working capital.
- (iii) Our wholesale energy risk exposure and corresponding costs of managing our portfolio will increase. We have started to see changes in customer load and shape due to residential customers spending more time at home and businesses closing, hibernating and reducing their usage. It is still too early to predict the impact of these changes in customer behaviour, nor how long and how deep it will go.

However, Powershop and the DMO will need to allow for this increased uncertainty in relation to the duration of the COVID-19 lockdowns and associated changes in respective loads, the changes in customer behaviour, the changes in load factors, the uncertainty over customer forecast numbers due to changes in switching behaviour and the uncertainty about the timing and process for a return to normality.

Powershop respects the Statement of Expectations published by the AER and is applying them across our business. However, these expectations will impact our business and the DMO and requires further changes in our operations, including changes to our debt processes and network cost recovery.

Powershop has been involved in numerous conversations with various network businesses and the Energy Network Association (ENA) to discuss the ENA's relief package and to seek agreement and consistency on how the networks manage costs and operations for the best possible customer benefit. While the ENA relief package is helpful to some customers, Powershop does not agree that it achieves or aligns with the AER's expectations, especially as it does not benefit or target the customers actually impacted by COVID-19.

We would encourage the AER to discuss with the ENA on how they can ensure their members can provide assistance in a more efficient and quicker manner and direct to retailers, to enable us to provide targeted support for the impacted customers that are reaching out and identifying themselves. The alternative to this arrangement would be seeking individual agreements between the retailer and network business. This is not ideal given the costs such duplicate activities generate.

Finally, considering COVID-19 and the serious impacts it will have on customers and industry, Powershop encourages the AER to defer the introduction of a Solar and Time of Use DMO tariff. These changes can be reassessed at a later date, when all participants have time to fully absorb the impact of these changes on their business and customers. Our industry is now potentially moving from an established set and level of normalised costs of which must be assessed further by the AER in consultation with industry.

If you have any queries or would like to discuss any aspect of this submission, please do not hesitate to contact me.

Yours sincerely



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