9 April 2020

Mark Feather
General Manager, Policy and Performance
Australian Energy Regulator
Via email: DMO@aer.gov.au

Dear Mark,

Implications of COVID-19 for the DMO price determination for 2020-21

Thank you for the opportunity to comment on the impact of COVID-19 on the AER's Default Market Offer (DMO) determination for 2020/21. This combined submission is signed by;

- a private equity business that invests in clean energy in the UK, the US and Australia, Quinbrook Infrastructure Partners (www.quinbrook.com),
- a NEM connected baseload renewable energy generator, Cape Byron Power (www.capebyronpower.com),
- an electricity retailer that prides itself on not gouging customers and who just won the 2020 Finder Award for best electricity retailer in Australia, Energy Locals (www.energylocals.com.au), and
- an embedded network business that prides itself on helping customers save costs by taking control of their energy needs, Energy Trade (www.energytrade.com.au).

We believe this combined approach, across different levels of the industry, provides a straight talking, balanced "whole of industry" opinion and solution.

COVID-19 INCREASES COSTS FOR ELECTRICITY RETAILERS AND EMBEDDED NETWORKS

COVID-19 is increasing costs in our business in two key areas.

Customer service costs

We have seen an increase in the volume and duration of customer communications across all channels. Customers are uncertain about what COVID-19 means for their supply and, most importantly, seeking payment and hardship arrangements due to being made unemployed or other COVID-19 related reasons. Customer service workloads and costs have increased significantly.

During the week ending 3 April relative to an average week in March, Energy Locals saw:

1. A 5.3% increase in inbound call volumes
2. A 56% increase in email correspondence
3. A 76% increase in live chats

4. A 366% increase in new hardship cases

Comparable increases were observed at Energy Trade. The increased communication typically focuses on customer uncertainty about COVID-19 impacts and financial distress impacting ability to pay bills.

Our businesses have also faced a direct impact as a result of switching to work from home arrangements for businesses. They chose to do this ahead of government requirements and bear the additional set up cost. Every member of their retail teams are now able to work remotely, with the customer bearing no additional cost or delay in service times which we understand are commonplace across many industry providers.

In our recent discussions with the AER, there has been the suggestion of increased compliance requirements being placed on retailers (both broadening the scope of reporting and increasing the frequency). We would stress that our customer service teams are already working on secondary, home-based systems whilst also facing significantly higher workloads. Increasing compliance burdens on retailers at this time will put additional pressure on the most exposed set of market participants. We would suggest that distribution networks, as the entities that receive applications to disconnect[1] and which are responsible for physical disconnection, are better placed to meet any increased reporting requirements on disconnections.

Increased bad debt

On 27 March the AER announce a statement of AER expectations of energy businesses during COVID-19.[2] The most critical expectation is that retailers “do not disconnect any residential or small business customers who may be in financial stress, without their agreement, before 31 July 2020 and potentially beyond”.[3] As highlighted above, COVID-19 has already increased the number of customers claiming hardship and/or financial stress and seeking payment arrangements as a result of hardship as a result of COVID-19. The rate of these claims has increased as the community has become more aware of the AER expectation that retailers not disconnect customers that cannot or will not pay their electricity bills.

We expect a significant increase in bad debt over 2020 as a result of COVID-19. Whilst retailers and embedded network owners collect 100% of final bills, they only keep ~15% of this money having already paid for wholesale energy and network charges in advance of the customer billing cycle. This leaves retailers and embedded network owners highly exposed to bad debt. Minimal increases in bad debt can quickly exceed available working capital and result in business failure.

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[1] Our understanding is that retailers will continue to submit disconnection applications under the rules noting that they will not be carried out by distribution companies. Retailer submission of these notices acts as an important trigger point to cap retailer liabilities.
[2] AER: (accessed 9 April 2020).
[3] Ibid.

Initiatives to date, such as commitments by some networks[4] to rebate network charges for a very qualified and selective segment of hardship customers are welcome, but in practice are not well targeted to COVID-19 related bad debt. The networks' proposal therefore does not alleviate the COVID-19 bad debt burden. The networks' announcement to the media was unhelpful as it immediately put pressure on our businesses to answer questions from customers that the networks had not even contemplated answering. Furthermore, retailers are expected to pay network bills in full, immediately give customers the benefit of the networks' relief proposal and then provide evidence which networks may or may not accept before providing partial credits to retailers in September 2020.

The networks' proposal is at best a highly limited mitigation of the bad debt issues faced by retailers and at worst is counterproductive and adding additional business risk to retailers through increased administration and cashflow strain. We do not believe that the networks' relief proposal is equitable in that the relief is: only for pre-existing hardship customers (pre-April 2020) which excludes most newly unemployed; is subject to network discretion; and, results in payments in September 2020, a time by which many retailers may already have failed.

With an increase in the working from home population and more workers at home due to unemployment, it is predicted that residential usage will increase significantly during COVID-19 further increasing the debt burden on retailers for residential customers who cannot or will not pay.

A COMPETITIVE MARKET IS CRITICAL

The failure of Tier 2 retailers would be a disaster in terms of competitive retail market outcomes. The retail component of the electricity supply chain has the lowest barriers (although successful retail market entry remains challenging) to entry and drives competition across the sector. Competitive retail markets have consistently been identified as a critical and necessary component of a competitive electricity sector.[5] Tier 2 retailers play a critical role in applying competitive pressure to Tier 1 retailers as well as driving market innovation. Tier 2 retailers are also a major demand segment in wholesale contract markets, which supports smaller generators and competitive wholesale market outcomes.

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[4] ENA COVID-19 relief package: https://www.energynetworks.com.au/miscellaneous/covid-19-electricity-and-gas-network-relief-package/ (accessed 6 April 2020).

[5] For example:

Effective competition between retailers is crucial for maintaining downward pressure on costs throughout the supply chain, and for passing through the benefits of cost reductions to consumers.

ACCC, Retail Electricity Pricing Inquiry—Final Report, June 2018, p 134.

Outcomes for consumers in contestable retail electricity markets improved this year. Increased competition led to decreases in prices and reductions in market concentration in all markets except Tasmania. New and emerging retailers are driving lower prices and the market is starting to shift towards simpler and more comparable pricing structures, and greater product innovation.

AEMC, 2019 Retail Energy Competition Review, 28 June 2019, pp i-ii.

COVID-19, if it causes Tier 2 retailers to fail, could result in a lasting reduction in competition in both retail and wholesale electricity markets to the long-term detriment of customers and participants.

NOT THE TIME FOR PRICE RISES

Despite the risk that COVID-19 leads to the failure of a significant number of retailers, harming competition and customers into the long-term, we jointly believe that now is the not the time for price rises. COVID-19 represent a unique health and economic shock to the Australian economy. Raising prices for essential services into such a crisis is not in the best interest of customers nor the industry.

The electricity sector is not alone is this dilemma. Related sectors provide both positive and negative examples. A number of private health insurers[6,7,8], have deferred scheduled premium increases, which has been well received. Conversely, Transurban proceeded with contractual toll road price increases on 1 April 2020, which was poorly received in the community.[9]

We suggest that there should be no perception of electricity prices rising during the COVID-19 crisis. We do not support the increase of the draft DMO decision that would result in higher electricity prices for customers.

GOVERNMENT POLICY DELIVERED WITH GOVERNMENT SUPPORT

The root cause of business failure risk to retailers is the Government's direction to cease disconnections to 31 July 2020[10] (and possibly longer). As highlighted by the AER, pausing disconnections and other new requirements "add to the risks and costs facing energy businesses" with the AER "particularly concerned about the continued viability of energy businesses". [11]

We propose that retailers should be directly supported to cover payment shortfalls arising from customers unable to pay due to the COVID-19 crisis. The natural and simplest counterparty to such an arrangement is the Commonwealth Government. We propose that the government should establish an assistance fund to cover this liability. Quite simply the current policy restricting a private business from disconnecting a

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6 Medibank Private: https://www.medibank.com.au/health-insurance/info/coronavirus-update/
7 BUPA Australia: https://www.bupa.com.au/health-insurance/covid-19?s_intcid=homepage:findout:link:coronavirus
8 NIB: https://www.nib.com.au/covid19/
9 The Australian, Aussies won't forgive Transurban for toll hike, https://www.theaustralian.com.au/nation/coronavirus-aussies-wont-forgive-transurban-for-toll-hike/news-story/0f39e0c1cf01a0e35cd672e1e21e9971 (accessed 6 April 2020).
10 Department of Industry, Science, Energy and Resources: https://www.energy.gov.au/energy-sector-response-novel-coronavirus-covid-19/information-australian-households (accessed 6 April 2020).
11 AER: https://www.aer.gov.au/publications/corporate-documents/aer-statement-of-expectations-of-energy-businesses-protecting-consumers-and-the-energy-market-during-covid-19 (accessed 6 April 2020).

customer that cannot or will not pay for a service such as electricity supply is a social security policy. Social security policies are the responsibility of the government to fund, not private business.

POWERKEEPER ASSISTANCE FUND

The key elements of a government assistance fund would be:

- Retailers and Embedded Network owners would be obligated to establish a register of hardship customers that are legitimately affected by COVID-19. This would involve an extension of existing hardship program criteria. The AER could provide a set of guidelines to ensure consistency across the industry. The retailer and embedded network owner would report weekly on the number of customers that are legitimately affected by COVID-19.
- Retailers and EN owners would continue to supply electricity to customers legitimately affected by COVID-19. Instead of recovering monies from the customers, the Retailers would then apply to the Government for payment of the electricity bill to these customers.
- The government should conduct spot checks and robustly audit outcomes to ensure support is provided only where needed.

Based on 15% unemployment, all unemployed customers qualifying for support, an average annual bill of $1500, and 6 months of payment coverage from the Government, the cost of this support would be $1.1bn. While we appreciate that no additional cost to the Government is welcome right now, we do point out that this cost is as a result of stated Government policy. Furthermore, we believe that this is a reasonable cost to maintain supply for all customers (affected by COVID-19 or not) while ensuring that all customers can benefit from competitive retail electricity markets post-crisis.

We believe it is critical to support Australians and Australian businesses through this crisis. The best form of assistance is targeted support by government to ensure the community bounces back rapidly from this crisis.

We would be happy to discuss with you or your team.

Yours Sincerely,

Brian Restall
Senior Director
Quinbrook Infrastructure Partners

Gerhard Laubscher
Chief Executive Officer
Cape Byron Power

Julian Duggan
Managing Director
Energy Trade

Adrian Merrick
Chief Executive Officer
Energy Locals