

9 April 2020

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

Via email to DMO@aer.gov.au

Dear Mr Feather,

Re: Default Market Offer Price 2020-21– Letter to stakeholders – COVID-19 implications

Simply Energy welcomes the opportunity to provide a response to the Default Market Offer Price 2020-21– Letter to stakeholders – COVID-19 implications (the letter to stakeholders).

Simply Energy is a leading energy retailer with over 720,000 customer accounts across Victoria, New South Wales, South Australia, Queensland and Western Australia. As a leading retailer focused on continual growth and development, Simply Energy supports the continued development of effective tools to facilitate competition and positive consumer outcomes in the market.

Simply Energy thanks the Australian Energy Regulator (AER) for engaging with external stakeholders to understand the potentially significant impacts of COVID-19 on consumers and energy businesses alike. It is a welcome acknowledgement that, during these challenging times, further work is required to understand the impact on businesses and consumers with respect to the final Default Market Offer (DMO) determination.

In providing an overview and, where possible, an estimate of the changes in underlying costs to the AER, Simply Energy's goal is to aid the AER in setting a DMO price in the current environment. Simply Energy would urge the AER to understand that these impacts haven't fully formed at this stage and are expected to evolve over the coming months.

The most obvious challenge facing governments and the sector is the rising bad and doubtful debt, significantly higher cost to serve and additional non-commercial activities imposed upon retailers to support the public. The full effects of non-payment, the AER Statement of Expectations of energy businesses: Protecting consumers and the energy market during COVID-19' (the statement of expectations), and other general demands from governments, regulators and external stakeholders, are yet to be understood, but will only serve to increase pressure on retailers.

Given the difficulty in forecasting these costs, it is imperative that an additional risk premium is built into the final DMO determination to ensure the principle that a retailer should be able to make a reasonable profit in relation to supplying electricity in any particular region is fully considered and addressed.

The cost of serving small customers

While Simply Energy's key focus at this time is the serving of our customers varying needs, ensuring customers remain on supply and supported through times of hardship and payment difficulty, the costs associated with serving small customers as a result of COVID-19 have, in many cases, increased.

Simply Energy understands the draft determination on default market offer prices 2020-21 included a decision made by the AER which considered residual costs (including retail costs) and concluded that there were no specific adjustments warranted in that regard.

It is a challenging task to estimate the ultimate impact on the costs associated with supplying electricity to customers, given the length and severity of these impacts are largely unknown at this point in time. Simply Energy estimates that the cost of serving small customers is largely negatively impacted by the situation and that specific adjustments are now warranted. There are a number of factors resulting in the increase to costs specific to both the serving of small customers and the ability of a retailer to make a reasonable profit in relation to the supplying of electricity.

- **Bad and doubtful debt**

Simply Energy expects a steady increase in bad debt as a result of COVID-19. The statement of expectations laid out by the AER include the following expectations on energy businesses¹;

- Offer all residential and small business customers who indicate they may be in financial stress a payment plan or hardship arrangement, regardless of whether the customer meets the 'usual' criteria for that assistance.
- 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.
- Defer referrals of customers to debt collection agencies for recovery actions, or credit default listing until at least 31 July 2020.

While Simply Energy has engaged with these expectations, and understands the policy behind them, this subset of expectations from the AER will have a negative impact on bad debt. The inability of retailers to attempt to collect or disconnect customers who are unwilling to engage with their retailer will serve to increase bad debt for as long as these expectations are in place. Simply Energy has already experienced an increase in bad debt regarding small customers. Simply Energy is keen to continue engaging with these expectations, furthering the need for an additional allowance in the final DMO determination for 2020-21.

Appendix 1 provides the AER with further detail on the impacts to bad debt.

¹ Australian Energy Regulator, 2020, 'AER Statement of Expectations of energy businesses: Protecting consumers and the energy market during COVID-19', page 1

- **Onshoring and a transitioning workforce**

Simply Energy provides service to customers through a number of outsourced providers. Many of the resources Simply Energy draw from are offshore. Over the past 3 weeks, Simply Energy has incurred significant costs associated with the onshoring of a large proportion of customer service functions. The continued serving of customers to the standard both Simply Energy and our customers expect is vital.

While Simply Energy cannot comment on how the industry as a whole is dealing with this challenge, it is expected that many energy retail businesses would be dealing with similar costs, whether it be related to onshoring, closure of call centres, or to the transition of workforces to a working from home arrangement. This continued increase in cost alone, in Simply Energy's view, warrants an adjustment to the cost of serving small customers in the AER's final DMO determination.

Appendix 1 provides the AER with further detail on these costs.

- **Hardship**

Retailer hardship policies and programs will become a focus during this time. The provision of assistance to those customers who are most in need requires highly trained agents and additional time. With that assistance comes a cost, that Simply Energy estimate at around 3 to 4 times the cost of serving the average small customer. It is not unreasonable to draw a correlation between hardship and unemployment. Unemployment forecasts suggest rapid spike, for example from 5.1%² to 11% by June 2020³. While theoretical at this early stage, Simply Energy considers it reasonable to expect a corresponding increase in customers experiencing hardship.

- **Regulatory change and related communication**

Simply Energy welcomes the approach taken by regulators and governments, in the protection of energy consumers at this difficult time. The marked increase in the announcement of packages to aid the cost of energy for consumers also has also affected an increase in the volume of customers seeking information. Given retailers are the obvious and necessary focal point for customer queries, Simply Energy doesn't expect this trend to diminish in the short term.

Simply Energy considers that it is too early to assign costs to many of these changes, given the ad hoc nature and lack of detail in many cases. It must be noted that energy retailers will incur costs associated with the implementation of these changes. Retailers are also presently dealing with the closure of call centres, large proportions of their workforces transitioning to working from home and an increase in the need to service more customers in a more considered manner. These factors place strong pressure on retailers to deliver at a time when they are heavily constrained, naturally resulting in an increase to the costs of operating an energy retail business.

² Australian Bureau of Statistics, 23 March 2020 'Labour Force, Australia, Feb 2020', viewed 8 April 2020, <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6202.0>

³ Bill Evans, 2020, Westpac Bulletin 'Unemployment rate set to reach 11% by June. Economy to contract by 3.5% in June quarter. Sustained recovery not expected until Q4', page 1

Concluding remarks

Simply Energy is pleased to be able to comment on the AER's letter to stakeholders. The servicing of customers is imperative during this difficult time and results in increased cost and pressure for retailers. Specific adjustments related to these costs that the AER can build into the final DMO determination to allow retailers to successfully service their customers would be a welcome change to the draft determination, in light of the COVID-19 situation.

Simply Energy welcomes further discussion in relation to this submission. To arrange a discussion or if you have any questions please contact James Ell, Senior Regulatory Adviser, on, telephone, (03) 9617 8352 or at james.ell@simplyenergy.com.au

Yours sincerely

A handwritten signature in black ink, appearing to read 'James Barton', with a horizontal line underneath.

James Barton
General Manager, Regulation
Simply Energy