

Mark Feather
General Manager, Policy and Performance
Australian Energy Regulator
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Melbourne VIC 3001

Submitted by email to: DMO@aer.gov.au

9 April 2020

Dear Mr Feather,

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

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to the Australian Energy Regulator's ('AER') call for stakeholder views on the *Implications of COVID-19 for the DMO Price Determination for 2020-2021*.

The AEC is the industry body representing 23 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

To ensure compliance with the Competition and Consumer Act, the submission below provides only high-level comments on the implications of COVID-19 for electricity retailers and the retail market as it relates to the setting of the 2020-2021 Default Market Offer ('DMO'). Our members will provide more detailed views on the individual impacts COVID-19 has had on their retail business.

COVID-19 has caused substantial disruption to the operation of Australian businesses, as well as the lives of workers and consumers. As an essential service, electricity retailers acted quickly to ensure the supply of electricity was maintained while upholding the safety of their staff and broader community. Most staff are now working from home and, in some cases, new staff have been recruited and trained to replace staff located in international call centres, which are unable to continue working.

Likewise, the customer's relationship with their electricity retailer has been affected. For some customers, working from home means their daytime electricity usage is increasing and are concerned about the impact this will have on their bills. For other customers, COVID-19 has led to reduced income or even unemployment and are now facing financial vulnerability. While retailers are taking all possible steps to maintain the provision of electricity to all customers, COVID-19 is creating new challenges, some of which are unprecedented in scale and significance.

Implications of COVID-19

Costs to serve will increase

The DMO has, as a core policy objective, to allow retailers to recover their efficient costs of providing services to the customer.¹ These efficient costs have increased as a result of the impacts of COVID-19. From the retail side, requirements for staff to work from home has created new operational and technical challenges that are taking time to adjust to. Compounding this is the closure of international

¹ Australian Energy Regulator, 'Draft Determination: Default Market Offer Prices 2020-2021', 10 February 2020, p25.

call centres, which has required some retailers to rapidly bolster its onshore capabilities at significant cost. This adjustment period is taking place as calls from customers increase alongside the duration and complexity of the calls. Customers, both residential and small business, are understandably responding to the payment assistance services retailers have offered to those who have indicated financial stress, leading to increases in calls about payment difficulty, hardship and/or broken payment plans. These types of calls require more intensive engagement compared to the average customer, increasing the costs to serve. As unemployment increases like it is expected to, the number of customers calling about hardship and payment difficulties will continue to grow.

Bad and doubtful debts to increase

Retailers anticipate a large increase in bad and doubtful debts as a result of more customers experiencing financial vulnerability. The retail regulatory framework ensures that customers receive comprehensive assistance from retailers when they are in hardship, but for customers not in hardship and who do not pay their bills, disconnection exists as a last resort measure for a retailer to encourage engagement and minimise debt buildup. In line with the AER's Statement of Expectations, retailers are currently absorbing these costs and will continue to do so to the maximum extent possible. However, these costs are not insubstantial and the delay in receivables combined with the expected increase in bad debts will have a major financial impact on all retailers.

The AEC expects compliance with the Statement of Expectations, in particular the AER's interpretation that a customer (including a vacant site or occupier customer) should be considered to be in financial stress absent any communication with the retailer and thus is unable to be disconnected, dramatically increases a retailer's exposure. Individual retailers will provide further detail on the magnitude of this risk, however the AEC expects bad and doubtful debts to increase significantly during the period the Statement of Expectations is in force.

Energy efficiency schemes

The combination of businesses closing down, restrictions on non-essential activity and social distancing rules means it is almost impossible for providers to perform energy efficiency activities. This is affecting the supply of certificates, which will likely result in higher certificate prices and higher compliance costs being imposed on retailers.

High levels of regulatory intervention

Governments at all levels have responded to COVID-19 by implementing a range of relief measures to financially support businesses and customers impacted by the crisis. In addition to these announcements, Energy Networks Australia has unveiled a complex relief package which relies on administration from retailers to be effective, while the AER has laid down its Statement of Expectations. These initiatives come on top of the assistance packages that individual retailers have offered to their customers. The AEC welcomes all efforts to support businesses and customers in financial difficulty, but notes that they carry a cost of delivery for retailers, which serve as the customer-facing actor. These costs manifest in different ways:

- It requires educating staff, from home, in the administration of these packages/principles
- Increase in call volumes as customers enquire about their eligibility for utility relief
- Calls growing in length and complexity, as retail staff are working through the administration of these packages for the first time
- Adjusting systems to streamline access to these protections for small business customers

The AEC notes that government intervention is set to continue over the coming months as we grapple with the fallout of COVID-19, meaning these costs are unlikely to be temporary and could increase if conditions worsen. Given the uncertainty that lays ahead, the AEC sees value in the AER inserting a

mechanism to review the DMO determination for 2020-2021 if COVID-19 further substantially disrupts the retail market.

The AEC looks forward to continuing working with the AER to ensure the DMO is set in a manner that provides retailers and customers with some certainty during this challenging period. It is critical that the DMO is set in a manner that continues to meet its objectives of providing a reasonably priced safety net for customers who do not engage with the market, without impacting the benefits of the competitive market.

Any questions about this submission should be addressed to Rhys Thomas, by email to Rhys.Thomas@energycouncil.com.au or by telephone on (03) 9205 3111.

Yours sincerely,



Ben Barnes
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Australian Energy Council