Supporting energy customers through the coronavirus pandemic

Victorian Electricity Distribution Businesses

14 July 2020

1 Summary

The Victorian electricity distribution businesses (AusNet Services, CitiPower, Jemena Electricity Networks, Powercor, and United Energy) welcome the opportunity to respond to the Essential Services Commission's (ESCV) draft decision relating to 'Supporting energy customers through the coronavirus pandemic.

The pandemic continues to have a significant impact on the health and financial viability of Victorians. We have willingly and voluntarily provided assistance to support our residential and small business customers, as well as ensuring the viability of small electricity retailers, during the COVID-19 pandemic. Our voluntary package, which applied in April to June 2020, as well as the modified package applied in July 2020, has involved:

- deferral of network charges for eligible customers;
- write-off of network charges for eligible customers;
- deferral of payment of a portion of the residential network bill for smaller retailers.

We consider that our proactive approach, together with the flexibility afforded through targeted and timely voluntary packages, is and continues to be the right response.

Following the outcome of the Australian Energy Market Commission's (AEMC) rule change process, we will reassess our commitments in consultation with other industry participants and the ESCV.

2 Background

2.1 Our voluntary package for April to June

In April 2020, the Victorian distributors, together with Energy Networks Australia (ENA), announced details of a package to support residential and small businesses customers during this pandemic.

For April, May and June 2020, our voluntary commitments included:

- network charges will be rebated for small business customers experiencing financial stress and who are mothballing as a result of COVID-19;
- network charges will be rebated for residential customers of smaller retailers that go into default as a result of COVID 19; and
- network charges will be deferred for residential customers of large retailers who go on payment plans or hardship arrangements put in place as a result of COVID 19.

This package went beyond the announced ENA package in its support of small retailers. In response to feedback from our small retailers, we offered to defer payment of 20% of residential network charges.

All retailers signed up to our voluntary packages.

2.1.1 Feedback on package

Feedback from retailers has been generally positive, with many highlighting appreciation for the package, and also the pragmatic approach we are taking to implementation. Some retailers have also specifically noted that the package has been far easier to administer in Victoria than in other states, particularly New South Wales (NSW) and also for all gas networks. The key themes from recent check-in sessions with retailers are:

- Set-up of operations to implement the package had its challenges but is now running smoothly;
- the small business rebate has been effective – the dispute process has made it easy to pass on to customers;
- there are small numbers of customers meeting eligibility requirements for residential rebates and deferrals – retailers are not seeing default rates as expected and most are handling it within their hardship programs; and
- retailers are anticipating a rise in customers seeking relief once key government programs are wound back.

2.1.2 Comparison to other states

Victoria has been leaders in driving the pragmatic implementation approach. Figure 1 below illustrates the differences between the states' approaches.

The availability of smart meter data in Victoria has helped us to avoid a range of the challenges facing South Australia and NSW, particularly with those customers with meters that are read (and/or are billed) quarterly.

Figure 1 Comparison of packages between states

	Victoria	South Australia	New South Wales
Must not be on government benefits or concessions pre 1 March	✓	✓	Silent
20% payment deferral offered for small retailers residential charges	✓	✗	✓
Consumption period or billing period?*	AMI – Consumption Non-AMI – Billing	AMI – Consumption Non-AMI – Billing	AMI – Consumption Non-AMI – Billing
Utilisation of existing B2B disputes process to process rebates, disconnections and reconnections	✓	✓	✓
Residential rebates calculated and paid monthly, or by true up in Septembe[r]	True-Up	Monthly	Monthly 1 month in arrears
Small business eligibility – 40MWHh p.a. and reduction of >75% - and DNSP provides to retailer**	✓	✓	✓
Threshold provided to small retailers as a guide (amounts below threshold do not require further information to be provided by retailer)	✓	✗	✓
Retailer charges write-offs obligation for residential rebates, to be confirmed with CEO declaration	✓	✓	✓

2.2 Our voluntary package in July

We have announced a modified version of our network tariff relief package to cover July 2020, focusing on supporting our smaller retailers and their small business and residential customers, during the COVID-19 pandemic.

For bills relating to July 2020, we have offered the following to small retailers:

- deferral of network charges for eligible residential and small business customers; and
- deferral of payment of 20% of residential network charges for all small retailers.

While the initial economic effects that flow through to electricity bill payment as a result of the COVID-19 pandemic are not as severe as initially anticipated, the extension of this package for July takes into account:

- the six-week lockdown for Melbourne and Mitchell Shire which took effect on 9 July 2020;
- the ongoing cold winter and stresses caused by the consequential higher electricity bills and prospect of the removal of Government support packages later this year;
- the pending decision by the AEMC on the Australian Energy Regulator's (AER) rule change proposal relating to the deferral of network charges, noting that this will not apply in Victoria.

2.3 AER rule change

On 6 May 2020, the AER submitted a rule change request to the AEMC. The request proposed to provide all retailers with a six-month deferral in paying network tariff charges incurred between 1 July 2020 and 31 December 2020 for customers who are in financial stress as a result of the COVID-19 pandemic. The proposal was intended to allow retailers to focus on the ongoing supply of energy as an essential service, and support for customers, as they deal with the cash flow pressures arising as a result of the COVID-19 pandemic.

On 28 May 2020, the AEMC published a consultation paper seeking feedback on a number of issues relating to the AER’s proposal. On 7 July 2020 the AEMC extended the time for making a final determination from 23 July 2020 to 6 August 2020, due to the complexity of issues raised in submissions to the consultation paper regarding the design and implementation of the deferral mechanism.

On 9 July 2020, the AEMC released a directions paper which indicates that it will make a more preferable final rule to allow certain retailers to defer the payment of network charges to distributors incurred in respect of certain customers between 6 August 2020 and 6 February 2021 for six months. The final rule is expected to include additional safeguards to ensure that:

- the scope of the deferral mechanism is narrowed by imposing appropriate entry criteria and incentives on retailers, while still allowing payment deferrals to be administered in a timely manner;
- eligible retailers can only defer the payment of network charges for residential and small business customers on a COVID-19 customer arrangement, including payment plans, hardship arrangements or deferred debt arrangements (including those who entered such arrangements prior to 1 March 2020);
- retailers will be required to pay interest of 3% per annum on deferred network charges in order to allow distributors to recover the efficient costs they may incur as a result of the payment deferrals;
- where a retailer defers the payment of network charges to a distributor, the distributor can also defer the payment of the relevant transmission use of system (TUOS) charges to the transmission network service provider, with applicable interest.

The AEMC final rule is expected to not allow all retailers to participate. Importantly, retailers that are directly or indirectly government-owned, or retailers of last resort (ROLR), or the related entities of these retailers, will not be eligible. The AEMC considers that retailers falling into these two categories are likely to be a storing financial foundation and/or able to access alternative sources of credit to alleviate any cash flow issues they are currently experiencing.

The final rule will not apply in Victoria.

3 Deferral of network charges is adequate

The ESCV did not make a draft decision in relation to the network charge packages offered by the Victorian distributors. Rather, the ESCV sought stakeholder input on whether a deferral of network charges, consistent with the AEMC final decision of the AER rule change proposal, would be appropriate in Victoria.

3.1 Existing network is working as intended

Question 5 - Do you think the current network relief package to retailers has worked the way it was intended? Please provide details to explain your answer.

We consider the current network relief package to retailers has worked the way it was intended.

The intent of our network tariff relief package was to target small businesses going into hibernation, and support retailers through relieving the cash-flow pressure from defaulting customers.

As noted above, the financial impacts that flow through to electricity bill payment of the COVID-19 pandemic do not appear to have been as severe as first anticipated. We have recently provided data on the take-up of the network relief package to the ESCV for April and May, and further update for June to be provided later this month.

In considering that data, we note that:

- retailers have until September to process clams and we anticipate that there may be an element of catch-up and one-off processing of further retailer claims at that time; and
- for residential rebates of smaller retailers, one of the conditions for waivers is for retailers to also have written-off the retail bill. This may explain the lower than expected take-up as retailers continue to pursue payments from customers, or are currently managing the customer through their usual hardship programs, and thus are ineligible for network relief. This is exactly how the relief package was intended to operate; otherwise, retailers would have the benefit of lower network charges but pursue full payment from customers.

3.2 Further network relief specified by the ESCV is not required

Question 6 - Do you think anything further should be put in place in Victoria after the initial network relief package to retailers ends, for example a deferral of network charges similar to the rule change that the Australian Energy Market Commission is currently consulting on? If yes, please provide details.

We do not consider that anything further should be put in place in Victoria by the ESCV, beyond consideration by the distribution networks of the voluntary implementation of the final outcome of the AER's rule change in Victoria.

We agree with the ESCV that it is unclear whether or not there is a problem to solve. This is acknowledged by the fact the ESCV did not make a draft decision on this matter, and we support the ESCV for their approach.

3.2.1 We could voluntarily implement the effect of the AEMC final rule

Our letter to the ESCV on 8 May 2020, which set out our initial package, noted that if the AER rule change is successful, we would consider whether the intent of the proposed rule change could be given effect in Victoria on a voluntary basis.

The AEMC considers that the implementation of a deferral mechanism with the design features discussed above is a necessary and proportionate response to the impacts of COVID-19. The AEMC notes that network deferrals help achieve a number of objectives:[1]

- allowing retailers to continue to support vulnerable customers while managing the increased risk arising from the inability to disconnect customers for non-payment in light of the AER's Statement of Expectations;
- ensuring a framework is in place to help manage potential increases in customer non-payment in the second half of 2020;
- reducing short-term risks to retail market competition posed by COVID-19.

The AEMC is considering adopting retailer eligibility criteria that excludes ROLR and government-owned retailers, and payment of interest in any deferred charges. We support the adoption of this retailer eligibility especially as large retailers have proven financially robust.[2] Therefore, we believe any deferrals of network charges is best targeted to smaller retailers.

We will consider whether the final outcomes of the AER rule change could be implemented on a voluntary basis in Victoria. We note this can be undertaken without any further regulation by the ESCV. This would avoid the need for ESCV to amend our default Use of Service Agreement (UoSA), issue a direction or impose a new regulation. We note the existing retail payment terms in Chapter 6B of the National Electricity Rules mirror those contained in our default UoSA with retailers.

3.2.2 Further network relief is not warranted

At the workshop hosted by the ESCV on 8 July 2020, a number of retailers noted that the draft decision imposes additional burdens on them during a time when they are already stretched, and that they should be compensated for this additional burden. Questions were raised whether such costs should be assessed through the ESCV's review of the Victorian Default Offer or considered as part of the assessment of future network relief and risk sharing between retailers and networks, including sharing of debt-write-offs.

We do not consider that the ESCV should expand its assessment of further network relief beyond the consideration of voluntary application of the final outcome of the AER rule change in Victoria. Network deferrals temporarily alter existing cashflow and risk allocations across the electricity supply chain. Any revised arrangements need to continue to provide an internally consistent risk compensation framework that is capable of supporting outcomes in the long-term interests of consumers. Key elements of this risk allocation framework which the ESCV must be mindful are:

1 AEMC, *Deferral of network charges rule change*, Directions paper, 9 July 2020, p. 2.

2 There does not appear to be emerging risk of large-scale changed retail patterns of credit risk for large Tier 1 retailers, as evidenced by market positions. AGL are currently engaged in share repurchasing program, which is having the effect of actively reducing their equity buffers. This is a clear market signal that they do not anticipate significant shocks. Origin Energy recently chose not to alter 2019-20 financial year earnings guidance and recently undertook a major overseas acquisition which involved entering into working capital guarantees in favour of its new equity partner.

- no compensation of relevant risks under the allowed rate of return – the rate of return as determined and set by the AER under the 2018 Rate of Return Instrument and previous instruments unambiguously include no compensation for the types of liquidity and market cashflow risks introduced by the provision of retailer assistance through deferred payment terms;

- credit support arrangements – the AEMC's review of credit support arrangements are also designed with the explicit premise of network businesses having limited capacity to manage the credit risks of electricity retailers. The credit support arrangements under the national framework are broadly consistent with those applied in Victoria;

- retailer of last resort arrangements – under retailer of last resort provisions it is it is a matter of deliberate policy design from all National Electricity Market (NEM) jurisdictions that networks should not assume credit risks and default risks associated with energy retailers entering financial distress or ceasing trading.

Any consideration of network charge relief beyond deferrals contemplated must be considerably very carefully as it may impose significant costs that are higher than potential retail market benefits.

We also note that both Federal and State Government are responding the evolving health situation and extending support to boost income and employment, and business operations. The Federal Government is reassessing whether programs such as JobKeeper will run beyond September 2020. In the event this proceeds, including the future of JobKeeper program, this may help mitigate against risk of customer hardship and correspondingly, retailer viability. Similarly, the Victorian Government announced on 10 July 2020 that it will provide over $500 million of support for Victorian businesses.[3]

3 Mr Tim Pallas MP, Treasurer, *More survival support for Victorian businesses,* media release, 10 July 2020. Available from: https://www.premier.vic.gov.au/more-survival-support-for-victorian-businesses/