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26 June 2020

Mr Mitchell Shannon
Senior Advisor
Australian Energy Market Commission

Lodged online

NATIONAL ELECTRICITY AMENDMENT (DEFERRAL OF NETWORK CHARGES) RULE 2020

Dear Mr Shannon,

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments (COAG) Energy Council in 2015, our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety, and security of supply.

An ‘all of the above’ approach needed in unprecedented crisis

We appreciate the opportunity to make a submission on the Australian Energy Regulator’s (AER) proposal to change the rules to allow network charges to be deferred.

Energy Consumers Australia supports the proposed rule change in principle, as a mechanism that underpins the AER’s Statement of Expectations. Helping consumers manage their energy bills is an important part of the overall response to help Australian families and businesses ride out the economic shock and rebuild on the other side. We welcomed the initiative of the AER in publishing its Statement of Expectations in response to the economic consequences of the health crisis.

In the initial days of the lockdown in March 2020, we commissioned Finncorn to provide advice on consumer support mechanisms, assessing alternative measures against four criteria: scalability; speed; flexibility; and equitability. Having government deliver assistance to consumers by contributing to network costs was identified as one of the best options against these criteria:

“Regulated networks’ revenue is fixed in \$ terms by the AER over a five-year period and is already billed to retailers specifically for each end-consumer account. It is a known, non-competitive payment by consumers to infrastructure owners, passed through via retailers. These charges are 43% of the small consumer electricity bill on average across the NEM.

As a result, we suspect the easiest means to provide very substantial bill relief would be for government to directly provide networks with their regulated revenue for a period. Networks would cease billing retailers, and retailers would remove the cost from their bills to consumers.”

We shared this advice with industry and government stakeholders through the Energy Co-Ordination Mechanism that was established through the COAG Energy Council. This advice is attached to our submission.



We welcomed the voluntary package announced by Energy Network Australia on 2 April 2020 which supported retailers who were providing targeted relief for consumers who met certain hardship criteria up until the end of June 2020.

With the full extent of the energy bill stress yet to be fully realised, there is clearly a need to extend these kinds of measures. Doing so in a transparent and rigorous way through the expedited rule change process gives all stakeholders the opportunity to help shape the design of the mechanism to maximise its effectiveness.

We are particularly concerned about the risk of significant energy bill stress from September 2020, with many people likely to have drawn down their savings, early superannuation withdrawals and other buffers, potentially coinciding with the phasing out of government support. The proposed rule change provides support to the ongoing provision of targeted assistance by retailers to consumers.

Low levels of consumer trust in energy companies means that there will be scepticism that relief provided to retailers will benefit consumers or indeed that retailers operating in a competitive market should be provided with any support at all.

We see network charge deferrals for customers who are being provided with assistance by retailers as being part of a broader suite of measures to support households and businesses. The size and nature of the economic shock caused by the response to COVID-19 means that every part of the economy, including the energy sector, needs to contribute to the national effort.

It would be a mistake therefore, to see network cost deferrals as a substitute for direct government support for households and small businesses – support which is already being provided in the form of new Federal programs like JobKeeper, and expanded emergency energy bill payments at a state and territory level.

Careful targeting and transparency critical

It is critical though that as part of the rule change, networks and retailers work together to develop a mechanism that ensures any deferral of charges directly and clearly benefits customers.

This can build on the good work that has already been done to implement Energy Networks Australia's voluntary [Customer Relief Package](#).

Retailers should also be required to include information about deferrals as part of their regular performance reporting against the AER's Statement of Expectations to assure consumers that the mechanism is working as intended.

We note that there are gaps in the information retailers are providing the AER for its weekly COVID-19 dashboard which must be remedied. One notable gap being the number of customers who are on payment plans because some retailers have set up specific 'COVID19' payment plans which are not necessarily being reported.

There is also a debate about whether all retailers should be eligible for the network charge deferral mechanism, or just smaller retailers or some other subset.



We note that the Ofgem and the New Zealand Competition Authority are consulting on schemes, and proposing to draw tight boundaries around eligibility, limiting the network charge deferrals to retailers who can demonstrate need, and *but for* COVID-19, would not be in financial difficulty.

We think this is a sensible starting point for the design of the Australian scheme. The information that is publicly available about the “Big 3” retailers indicates that they remain in a strong financial position, suggesting it would be unnecessary and inefficient to transfer liquidity risk they are able to manage to another party.

Consequently, in supporting the rule change we note that networks will only be required to provide deferral of network charges for customers who are already subject to agreements with their retailer for deferral of payments.

To ensure retailers are adequately contacting consumers, the proposed network support should only be available to retailers who are providing reports to the AER on their aged accounts outstanding data and the proportion of those amounts that are covered by payment arrangements.

Further, the rule should be amended to enable the AER to declare that it does not apply to retailers who cannot, at the request of the AER, demonstrate a need. Phrased like this, small retailers are not required to expend resources demonstrating need and the AER can target the retailers requiring support.

We note that the Ofgem model also includes protections for networks, limiting deferrals to amounts that do not put credit ratings or other important commitments at risk.

We doubt that any Australian network is as over-g geared as the UK networks given that the benchmark gearing used for determining the rate of return is 60%. The AER should, however, have the power to exempt a network, in whole or part, on the basis that it would result in a breach of lending covenants or significantly affect credit ratings. The AER should note such claims for consideration of gearing rates in making the next Rate of Return Binding Instrument.

Another important matter is how long the deferral mechanism will be needed. The AER is proposing that it run for six months until 31 December 2020, with an option to extend its life beyond that date if it considers it reasonably necessary to do so. We agree that the uncertainty about the economic impacts of COVID-19 – in particular impacts on households and small businesses – means that the flexibility to extend the mechanism is an important element of the rule change. A decision to extend should be based on a robust and open assessment by the AER, with opportunities for stakeholders to comment on the need and impacts. The information retailers are providing to the AER for the COVID-19 Dashboard should be a key input for this decision. We would encourage the AEMC to consider how the rule change might support consistent and comprehensive reporting by retailers, taking account of the gaps in what is currently being provided.

Public Awareness campaign needed

Importantly, the value of this rule change depends on how effectively the ability to obtain support is communicated to consumers.

It must be backed-up by a coordinated and well-funded, public awareness campaign to ensure that consumers know that assistance is available and know how to get it. This is because in surveys we



commissioned to better understand how consumers were being impacted by COVID-19, we found that electricity bills are the bills that people have the most concerns about being able to pay (Figure 1).

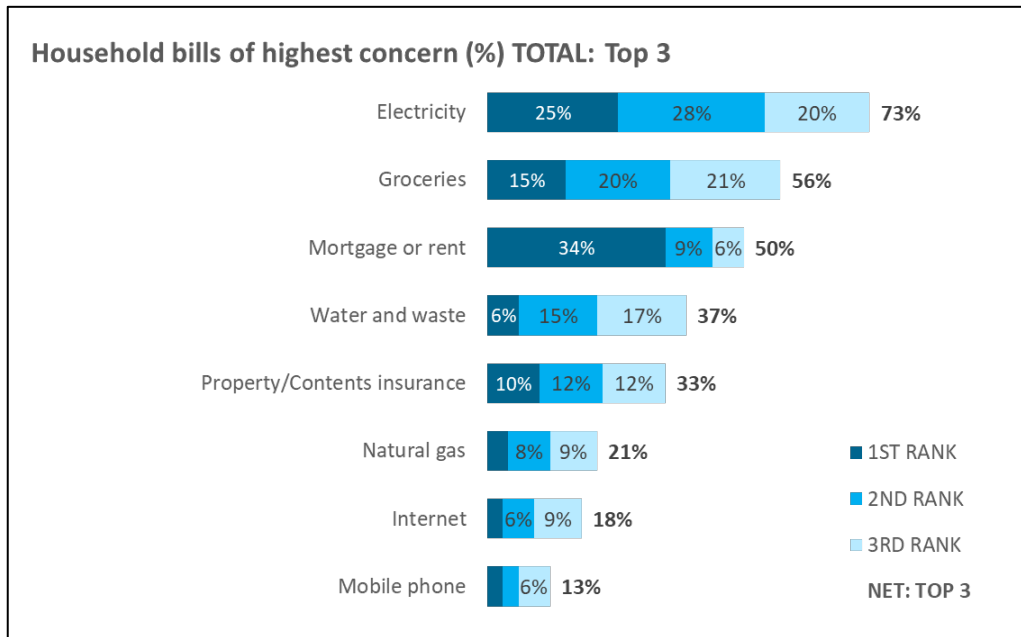


Figure 1: Households concerns about ability to pay bills

We also found that households seem to be the focus of hardship communications – few businesses in this research have been engaged by their energy company. One small business owner said:

“The bank has been the only business to interface with us...everybody else has been very quiet, just billing and asking for payment. Some businesses have been totally silent and not sharing in the pain.”¹

The [We got you](#) campaign which is a new Energy Charter initiative, which has a set of resources for consumers, translated into nine languages, must receive strong support from all energy companies.

We also see a role for government to complement outreach by energy companies, by using platforms like the COVID-19 app and advertising to promote trusted information. The Australian Government invested in an advertising campaign to increase the uptake of the COVID-19 tracing app. To make sure people get access to the assistance they need so they can keep the power on, and stay warm this winter, governments should do the same in relation to awareness around the availability of energy bill support.

Strong leadership and a whole of sector response is needed to ease the pressure on households and small businesses now and protect them from bill shock. It is time to hear from the electricity generators

¹ COVID19 Quantitative and qualitative research reports will be published on the ECA website on 1 July 2020.



and the gas companies, whose costs make up around one-third of energy bills, how they will play their part in supporting Australians in difficulty.

Thank you for the opportunity to make this submission. Please contact Chris Alexander, Director of Advocacy and Communications chris.alexander@energyconsumersaustralia.com.au if you would like to discuss it further.

Yours sincerely,

Lynne Gallagher
Chief Executive Officer (Interim)
Energy Consumers Australia