14 July 2020

Ms Kate Symons
Chairperson
Essential Services Commission

Submitted online via Engage Victoria

Dear Ms Symons,

Supporting energy customers through the coronavirus pandemic: draft decision

Thank you for the opportunity to comment on the Essential Service Commission's *Supporting energy customers through the coronavirus* draft decision. The COVID-19 pandemic is having an unprecedented personal and economic impact globally. Network businesses recognise the impact of the crisis on energy customers and the need for industry to work together to provide support.

Energy Networks Australia is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

Key messages

- Victorian network businesses are **proactively supporting energy customers in hardship due to COVID-19 through their voluntary Network Relief Package.**
- Energy Networks Australia strongly recommends a **proportionate and targeted approach to designing further network relief support to address any future demonstrated need.**
- Any network relief support package should **promote the long-term interests of Victorian customers** – the shifting or transfer of cash-flow risk between components of a supply chain does not represent a customer benefit.
- The **risk allocation framework needs to be considered** in the design of any Victorian network relief package. The existing risk allocation compact is critical to the ability of networks to access efficient financing, reducing the cost to deliver network services.

Industry support

In April 2020, the network sector acted to proactively recognise the potential impacts of the COVID-19 pandemic, including through preparation and implementation of a targeted COVID-19 Electricity and Gas Network Relief Package (Network Relief

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Package). The Network Relief Package was implemented on a jurisdictional basis, which allowed distributors to engage with retailers to develop a pragmatic, targeted and timely voluntary response.

The initial Network Relief Package covered the April to June 2020 period in Victoria. However, Victorian distributors have proactively developed an additional small retailers' package for July 2020 that provides cash flow support in the interim period prior to the commencement of the Australian Energy Market Commission's (AEMC) deferral of network charges rule change.

AEMC Deferral of network charges rule change

On 6 May 2020, the Australian Energy Regulator (AER) submitted an urgent rule change request to the AEMC proposing an extension of retailers' eligible electricity network bill payment terms from 10-days to 6-months. The rule change request applies to electricity network service providers operating under the *National Electricity Rules* with the exception of those in Victoria.

In our submission to the AEMC, Energy Networks Australia supported rule change development being undertaken with a view to the potential emergence of a need.[1] However, we considered that the AER's proposed rule required significant modifications to clearly promote the long-term interests of consumers – given the transfer of cash-flow risk is not a consumer benefit.

Energy Networks Australia provided scope and design recommendations to ensure that, if made, the rule change is targeted and proportionate.

On 9 July 2020, the AEMC released a Directions Paper[2] that recognised a number of these recommendations, including proposing:

- a narrowing of the deferral mechanism scope by imposing retailer eligibility criteria and limiting the deferral to household and small business customers on a payment plan, hardship arrangement or deferred debt arrangement,
- the application of interest on deferred network charges, to allow network service providers to recover the efficient costs they may incur as a result of the payment deferrals, and
- introducing public reporting requirements to ensure transparency of the support package.

These amendments were considered necessary by the AEMC to ensure that the rule change was likely to contribute to the achievement of the National Electricity Objective.

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[1] Energy Networks Australia, *Deferral of network charges: Response to the AEMC's Consultation Paper*, 19 June 2020.

[2] Australian Energy Market Commission, *Directions Paper: Deferral of Network Charges Rule Change*, 9 July 2020.

For example, the AEMC introduced retailer eligibility criteria as the rule change would otherwise allow certain retailers (Retailer of Last Resort retailers, and government owned retailers) to commercially benefit from accessing payment deferrals despite not having an immediate financial need for this support. The AEMC considered that retailers falling into those two categories should be in a strong financial position and/or able to access alternative sources of credit to alleviate any cash flow issues they are currently experiencing.

Energy Networks Australia supports the introduction of retailer eligibility. There does not appear to be emerging risk of large-scale changed retail patterns of credit risk for large Tier 1 retailers, which is reinforced by the current public market postures of major energy retailers.

In addition, the AEMC has proposed a 6-month deferral period, and is not proposing a further extension of the support package. They noted that the possibility of an extension would introduce significant uncertainty for network businesses. In addition, they noted that it was not clear, based on the evidence available at this stage, that deferring network charges will continue to be an appropriate or necessary measure to deal with the longer-term impacts of COVID-19.

Energy Networks Australia supports consideration of these factors, among others, in the design of any Victorian network relief package.

Victorian network relief package

The AEMC has designed a deferral mechanism scheme that they consider is a proportionate response to the impacts of COVID-19 in order to achieve the following objectives:

- 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, and
- reducing short-term risks to retail market competition posed by COVID-19.

The AEMC explicitly note that the purpose of their proposed rule change is not to address the medium to long-term implications for the energy sector of a broader economic recession. To the extent that broader economic outcomes continue to pose a material risk to the viability of the retail market in early 2021, they note that it may be appropriate to consider alternative measures to address this issue.

The purpose of any similar Victorian designed scheme should be the same – to assist eligible retailers to manage the immediate cash flow impacts of COVID-19 and continue to focus on the supply of electricity to customers during this period.

In addition, the design of any Victorian network relief package needs to consider key elements of the risk allocation framework, including:

- **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 jurisdictions that networks should not assume credit risks and default risks associated with energy retailers entering financial distress or ceasing trading.

It is noted that key elements of this risk allocation framework, such as the Rate of Return Instrument, cannot be altered. This reinforces the importance of any scheme in this area being consistent and coherently implementable in the light of these fixed legislative provisions or instruments.

Practically, this means that any risks and costs introduced by any possible Victorian scheme need to be addressed in a comprehensive manner in such a way as to not undermine the existing risk compact. This risk allocation compact is critical to the ability of networks to access efficient financing, reducing the cost to deliver network services.

The design of any Victorian network relief package, if one is determined as necessary, should be proportionate, targeted and promote the long-term interests of customers. Consideration should be given to how this can be achieved in a timely manner, including adoption of any possible voluntary proposals by the Victorian distributors.

If you would like to discuss this submission further, please contact Lucy Moon, Head of Regulation, at lmoon@energynetworks.com.au.

Yours sincerely,

Andrew Dillon
Chief Executive Officer