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PUBLIC SUBMISSION

By email:

mittchellshannon@aemc.gov.au

26 June 2020

Attn:

Mr Mitch Shannon
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

Dear Mitch

amaysim Australia Ltd (amaysim) submission on the National Electricity Amendment (Deferral of Network Charges) Rule 2020

This submission sets out amaysim's comments on the Australian Energy Regulator's (**AER**) proposed rule change on the deferral of network charges (**Rule Change**).

Background on amaysim

amaysim entered the energy market in 2017. We are a 'tier two' energy retailer offering innovative products in competition with the major energy retailers (including gentailers). We sell electricity and gas and have over 200,000 energy subscribers. amaysim is a pure play retailer, it does not own or invest in generation assets and focuses purely on great products and service to deliver value to our customers.

Overview

amaysim welcomes the proposed Rule Change proposed by the AER. However, the Rule Change will not, on its own, solve the bad debt crisis which may severely impact retailers later this year. It is, at best, a cashflow supportive measure which buys time before a more comprehensive support package can be introduced. In other words, it buys time to assess the extent to which COVID-19 is impacting the ability for households to pay their energy bills, but it does not solve the underlying problem.

The stated objective of the Rule Change around supporting the financial resilience of the energy industry is important. The energy industry supply chain relies on retailers to collect payments from customers – retailers and their customers are critical to the financial security of the supply chain as a whole. It is therefore imperative that customers can pay their bills, and that retailers are kept whole, so that they can together keep the energy supply chain functioning. Given that retailers are only directly responsible for a small percentage of the cost of supplying energy to end-use customers, the Rule Change has correctly highlighted that retailers have a narrow financial buffer to manage the risks and wholesale volatility of the industry.

amaysim is supportive of the Rule Change and suggests the following enhancements to the Rule Change proposal:

- widening the criteria of the Rule Change to include customer arrears incurred by retailers as a result of COVID-19. It is these arrears that will impact upon bad and doubtful debts for retailers. These debts are not currently captured by the Rule Change; and
- expanding the definitions and eligibility within the proposed Rule Change to capture a broader segment of customers who are unable to pay their bills.

Impact on the market is bigger than cash flow issues

The proposed Rule Change is principally aimed at delaying the cash flow issues that retailers are expected to incur due to COVID-19 related financial stress amongst customers. However, the proposed Rule Change does not address the structural issue of bad or doubtful debt.

There are two categories of customers that relate to the cash flow issues identified in the proposed Rule Change:

- customers that are willing but unable to pay their energy bills; and
- customers that are able but not willing to pay their energy bills and/or do not engage with their retailer.

Regulators and industry have undertaken considerable work to ensure that retailers support customers that are in difficult financial situations with a view to ensuring continuity of supply. Customers on payment plans, hardship programs or deferred debt arrangements are in the first category – they are already supported by retailers who wear the cost and cashflow implications of that support. In normal times, this is already a significant cost for retailers. In times of crisis like COVID-19, this could balloon to a level that sinks energy retailers.

Customers who are able but not willing to pay and do not engage with their retailer are in the second category. These customers are a major risk to the financial viability of retailers because there is no revenue associated with their usage and all of the foregone revenue is written off as bad debt. Losses associated with this category are borne by the economy, the energy supply chain and by customers in the first category (who ultimately do the right thing).

amaysim expects that the bad debt problem will crystallise later in the calendar year, particularly when Commonwealth Government support packages come to an end and winter bills fall due (these are typically larger, particularly in Victoria). While the AER has correctly identified that retailers bear the risk of incurring network and wholesale costs, bad or doubtful debt will be the factor that will impact the viability of retailers into the future and this change in viability could happen extremely quickly given the way that payment processes work in the energy market as administered by AEMO.

amaysim is proposing that the Rule Change be amended to include customers who were not in arrears prior to 1 March 2020 and who at any stage in the period up until to 31 December 2020 find their account in arrears beyond 60 days. 60 days has been selected because this would reflect a normal amount of time for an account to be considered in the written-off category for a retailer under normal circumstances. We accept that this approach will capture more customers. However, the benefit outweighs the cost because it will delay significant network bills in respect of customers who are unlikely to ever pay their bills.

Retailers cannot alone shoulder the bad debt crises and underwrite the profits of the whole energy supply chain

A competitive retail market ensures that all customers can access competitively priced retail offers from a range of suppliers. Tier two and three retailers offer a genuine alternative to the larger gentailers, maintain downward market pressure on prices and offer choice and innovation. It holds true that customers who regularly shop around and engage with the market continue to be able to save money on their energy bills, often be picking a tier two or three retailer. Small retailers are therefore an integral part of the market – the lubrication that significantly promotes competition to the benefit of customers.

amaysim encourages a wider response from Government and industry that goes further than addressing short-term cash flow issues. A broad support package will be critical in protecting the long-term viability of retailers and a competitive market.

Key design elements

The following specific comments are in response to the questions posed within the Rule Change around key design elements of the scheme.

Retailer Eligibility

This Rule Change is aimed at immediate financial support for retailers impacted by COVID-19 driven bad debt, and amaysim considers it should be accessible for all retailers regardless of size. If the Rule Change is truly aimed at the financial resilience of the sector, then the customer eligibility criteria should guide the size of the program and the impact on networks. If COVID-19 does not impact customers in a significant way (and by extension retailers), then the size of the network deferrals will be limited by the size of the program.

Customer Eligibility

The Rule Change only captures customers actively engaging with retailers. amaysim believes there is merit in widening the Rule Change to capture the second category of customers that also contribute to bad debt – being those who do not pay their bills at all and/or do not engage with their retailer. The eligibility should be passive rather than active. Many of these customers will not have contacted their retailer to access options available to them. The onus should fall upon retailers to be able to declare they are compliant with the eligibility provisions of the scheme, but this should not be reliant on customer engagement for the reasons described above. Retailers currently manage the risk associated with bad debt and are best placed to determine which customers meet the eligibility criteria. A requirement around declaration would provide certainty to participants that retailers are operating within the boundaries of the scheme.

Deferral Period and Extension of Deferral Period

The focus of the impact of an increase in bad debt upon the retail sector has deferred the cash flow impact to the second half of the calendar year – again, without solving the underlying problem it must be said. If many of the current Commonwealth Government's initiatives are withdrawn in September as is currently predicted, then the post-September period becomes a critical period for retailers. amaysim supports the initial deferral period and considers that the AER should have absolute discretion to extend the deferral period even further. amaysim strongly suggests that an industry-wide solution is still needed that deals with the underlying problem of an explosion in energy bad debt being borne only by the retail

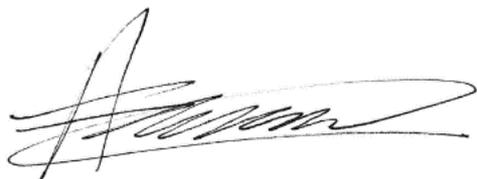
end of the energy supply chain, with cascading problems likely working their way upwards to the point where the whole energy supply chain and energy security could be put at risk.

Conclusion

amaysim welcomes the proposed Rule Change from the AER and urges the AEMC to consider how the Rule Change could best address the forthcoming issues that will impact the retail energy sector.

We would welcome the opportunity to discuss our recommendations with you. Please contact me (my email address has been provided separately) should you wish to do so.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Alexander Feldman', written over a light blue horizontal line.

Alexander Feldman

Chief Strategy Officer & General Counsel