origin

25 June 2020

Mr John Peirce
Chair
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

Email: aemc@aemc.gov.au

Dear Mr. Pierce,

RE: ERC0302 National Electricity Amendment (Deferral of Network Charges) Rule 2020

Origin Energy appreciates the opportunity to provide a submission in response to the Australian Energy Market Commission's (AEMC) consultation on the proposed National Electricity Amendment Rule.

Origin agrees it is vital that the regulatory framework responds to the financial stress COVID-19 is causing. However, while the proposed rule change provides a necessary support measure, we do not believe on its own it is sufficient to address the objective of avoiding retailer failure as a result of COVID-19.

The rule change proposes to support the financial resilience of the energy industry by reducing the cash flow pressures on retailers through deferred network payment arrangements. These network payments will nevertheless remain a future liability for retailers. However, we believe the greater risk to retailer failures relates to any potential material change in bad and doubtful debts because retailers may not recover enough future payments from their customers to remain viable.

This issue could potentially emerge when government stimulus ends, and customer deferred payment arrangements stop with other institutions. This risk would be further compounded with expected higher unemployment rates.

The scope and scale of COVID-19 impacts for retailers remain extremely difficult to forecast because much of the data to provide a clear picture is unlikely to be available until later in 2020. However, there is a risk of a notable increase in retailer bad and doubtful debt. It is this potential ongoing bad and doubtful debt accrual that is of greater concern to retailers, as it could represent significant and enduring reduced recoveries.

To complement this rule proposal, we consider that a broader review of the financial impact on customers and retailers should be conducted once more data is available. This will allow regulators and policy makers to make a more informed decision regarding what additional measures should be considered to support the market.

Origin's response to a number of issues raised by the AEMC is set out below.

Question 1: Impact of COVID-19 on Retailers

At the start of the lockdown restrictions in March 2020, early data showed a significant reduction in collections driven from workers left without jobs and businesses that were forced to close. With government stimulus measures, mortgage repayment holidays offered by banks and reduced discretionary spending, collections have held for most residential customers.

However, small business in discretionary spending categories such as recreational activities, accommodation, and food services have been especially impacted by the lockdown restrictions. As a result, we have noticed initial growth in uncollectable outstanding debt and a decline in usage volumes for these customer types.

To date there has been a minimal impact to overall working capital. However, as initial stimulus measures end in September 2020, there is potential that this could have a more pronounced impact on retailer cash flows and increased delinquency rates.

In terms of other support measures that have had an observable impact on improving outcomes for customers and retailers, we consider the Queensland dividend rebate of $500 for small business and $200 for residential customers was very effective. It was simple to execute and provided customers direct relief on their energy bills. While these measures are outside the remit of the AEMC, Government's should nevertheless consider targeted measures such as the one implemented in Queensland.

Question 2: Retailer Eligibility

COVID-19 has created a systemic risk for the energy sector. In principle, support measures that involve systemic risk should not target one participant over another. However, we accept that some retailers will be better placed to manage this risk than others.

On that basis, an opt-in model may result in less market distortion. Any opt-in model should be underpinned by independently set eligibility criteria rather than the onus being put on retailers to make a case. That way there will be at least be some element of consistency in how systemic risk is applied.

Furthermore, when setting out an approach, it should be transparent and consistent. This means that how an application is made and assessed, the timeframes and process for dispute resolution ought to be clearly defined.

Question 3: Customer Eligibility

Limiting the deferral mechanism to customers who were impacted by COVID-19 does not include customers already receiving support. These existing customers were vulnerable before the COVID-19 restrictions and arguably are in need of the most support. While Origin recognises that the intent is to provide relief to retailers where a larger than usual number of customers require support, not including the existing hardship portfolio in any assessment of retailer eligibility is likely to understate the number of customers who are in financial difficulty.

Furthermore, suspending collection activity including disconnection activity for non-payment since April 2020, has reduced the volume of customers entering hardship. This is expected to be a timing issue and numbers are expected to increase again from September 2020. Given the timing of future quarterly bills, increased numbers could spill into the new year which would fall outside of the proposed eligibility criteria.

We believe an alternative approach would be to apply the rule to all customers with payment difficulty. Payment difficulty can be defined as customers with overdue 90+ day debt above an agreed dollar threshold.

Question 4: Length of Deferral Period

Our concern is that the full economic impact of COVID-19 is unlikely to emerge until after the expiry of existing stimulus measures. We believe that in the first instance six months appears an appropriate duration. However, it must be applied over the right period. For this reason, there may be benefit in delaying the start of the relevant period to better align retailer benefits to economic impacts.

Question 5: Extension of Deferral Period

While Origin supports the lessening of the immediate impact of reduced cash flow, there remains considerable uncertainty regarding customers' ability to pay their energy bills in the new year. Without further assistance measures it is possible that many small businesses in particularly vulnerable industries will not re-open.

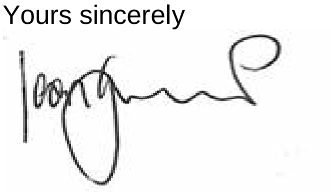
Due to this uncertainty, we believe it would be valuable for the AER to have the ability to extend the deferral period if adverse economic conditions persist.

Question 7: Process for Deferring Payment of Network Charges

For ease of implementation, Origin's view is that there should be a consistent process across the market. We also believe that the existing B2B procedures ought to be utilised in much the same way as the ENA support package was implemented. It would also assist the implementation of the rule if it were accompanied by a process developed by the AER in consultation with industry. We do not believe this would be an onerous process and could be completed ahead of the formal application of the rule.

If you have any questions regarding this submission, please contact Courtney Markham in the first instance on (03) 9821 8086 and or Courtney.Markham@originenergy.com.au

Yours sincerely



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