INFORMATION

Deferral of payment of network charges

Stakeholder submissions invited on new rule change request

The Australian Energy Market Commission (AEMC) has published a consultation paper on a rule change proposal from the Australian Energy Regulator (AER) that seeks to allow electricity retailers to defer the payment of network charges by six months in respect of customers whose ability to pay their electricity bill has been impacted by COVID-19.

The rule change request

The COVID-19 pandemic has resulted in a downturn in the Australian economy which has reduced the ability of some consumers to pay their electricity bills. This places cash flow pressure on electricity retailers. The AER has submitted a rule change request seeking to allow retailers to defer the payment of network charges by six months in respect of certain customers impacted by COVID-19 to deal with these cash flow pressures. This would apply to network charges incurred between 1 July 2020 and 31 December 2020. The AER considers the delay will allow retailers to manage the financial disruption caused by the pandemic while ensuring the ongoing supply of electricity as an essential service.

The AER's proposal would allow all retailers to defer the payment of network charges for any customer who, after 1 March 2020, entered into:

- a payment plan or instalment arrangement
- any arrangement as a hardship customer
- any "deferred debt arrangement".

Retailers would be required to pay the network charges in full at the end of the deferral period, meaning network businesses would remain entitled to recover the full amount of their regulated revenues as determined by the AER.

Issues for consultation

The consultation paper seeks stakeholders' views on the following key issues:

- How has COVID-19 impacted retailers' financial health, and what would be the impact of a deferral of network charges on participants' cash flows?
- Should the eligibility of retailers to defer the payment of network charges be restricted? If so, how should this be determined?
- Is six months an appropriate timeframe for payment deferrals?
- How could these payment deferrals be implemented in practice and what level of detail would be required in the regulatory framework to address this?
- Is it appropriate for distribution networks to also defer some portion of payments to transmission networks?

The Commission requests that where possible, evidence should be provided to support stakeholder submissions. Any confidential cost information can be treated as confidential and redacted from submissions published on the AEMC's website. The Commission recommends that stakeholders provide submissions prior to 25 June 2020 to facilitate thorough consideration of the issues within the expedited process. The Commission is also considering processes for engaging further with stakeholders prior to the close of submissions.

Key dates

Key dates for stakeholders in this process are as follows:

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- Commencement of the rule change process: 28 May 2020
- Objections to the Commission’s decision that the rule change request is a request for an urgent rule (and be subject to the expedited process): 11 June 2020
- Submissions to the consultation paper to be received by: 25 June 2020
- Final determination and final rule to be published under an expedited process by: 23 July 2020.

Treatment as an urgent rule change request

The AER has requested that the rule change request be subject to the expedited rule making process on the basis that it is a request for an 'urgent rule'. The AER states that COVID-19 could threaten the financial resilience of the energy industry, among other things.

The Commission considers that this rule change request is a request for an urgent rule, and therefore has decided to use the expedited rule change process, provided that it does not receive any valid requests not to use the expedited process by 11 June 2020. The Commission recommends stakeholders considering making an objection contact Commission staff prior to doing so.

Context

Electricity retailers carry the credit and cash-flow risks for the entire electricity supply chain. Notably, retailers are required to make payments for non-retail supply chain components, including network charges, by defined time frames regardless of the level of non or late-payment by customers. As the participant with direct relationships with customers, retailers are best placed to manage the risk of non or late-payment by customers.

However, the Commission considers that the unprecedented circumstances presented by the COVID-19 pandemic justify providing assistance to retailers to manage cash flow risks that are exceptions to the usual efficient allocation of cash-flow risk within the sector. In particular, the AER's Statement of Expectations of energy businesses has changed the requirements on retailers by requiring them to continue to supply non-paying customers to a greater degree than could have been foreseen by retailers before the crisis.

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28 May 2020