AEMC

ATTACHMENT 1

STAKEHOLDER FEEDBACK TEMPLATE

The template below has been developed to enable stakeholders to provide their feedback on the questions posed in this paper and any other issues that they would like to provide feedback on. The AEMC encourages stakeholders to use this template to assist it to consider the views expressed by stakeholders on each issue. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern. Further context for the questions can be found in the consultation paper. Stakeholders are also encouraged to provide evidence to support claims where possible.

SUBMITTER DETAILS

ORGANISATION:	Essential Energy
CONTACT NAME:	Natalie Lindsay
EMAIL:	natalie.lindsay@essentialenergy.com.au
PHONE:	02 6589 8419

General Comment
Essential Energy welcomes the opportunity to provide a response to the Australian Energy Market Commission on the proposed rule change regarding deferral of network charges due to COVID-19. We fully support the Energy Networks Australia (ENA) submission in relation to this matter but provide our own submission to further highlight our specific feedback.

CHAPTER 4 – SECTION 4.1 – THE PROBLEM - IMPACT OF COVID-19 ON THE RETAIL ELECTRICITY MARKET

Question 1 – Impact of COVID-19 on retailers	
a) What is the expected impact of COVID-19 on retailers' cash flows? How material is this impact? How long are these cash flow impacts expected to last?	
b) In the absence of the proposed rule change, what options are available to retailers to manage the cash flow impacts of COVID-19? Are existing support schemes that have been announced, including the Network Relief Package, sufficient to assist retailers to manage these impacts? If not, what are the areas where further assistance is needed?	
c) What are the expected impacts of the proposed rule change on any cash flow issues currently being experienced by retailers as a result of COVID-19?	

CHAPTER 4 – SECTION 4.2.1 – ELIGIBILITY TO DEFER PAYMENT OF NETWORK CHARGES

Question 2 – Retailer eligibility	
a) Is it appropriate and/or necessary to expressly exclude certain classes of retailer from deferring the payment of network charges under the proposed rule change? If so, please provide reasoning to support your position.	Essential Energy believes that it is appropriate that the deferral of network charges under this rule change, should be reserved for those retailers who require it the most. Retailers with significant financial backing through government ownership, shareholder support, or diversification (generation) to offset risk, should not be eligible for the network charge deferrals due to COVID-19.
b) If the onus is placed on retailers to show they have a legitimate financial need to access the proposed deferral mechanism, what eligibility criteria should apply?	Eligibility criteria should include being able to demonstate a legitimate need for financial support - such as the retailer's cashflow and liquidity metrics have been significantly impacted by COVID-19 impacted customers.
c) What would be an appropriate and efficient process for the verification of information provided by retailers under the approach described in (b) above?	
d) Do stakeholders have views on how the deferral mechanism could be designed to incentivise only those retailers that legitimately require immediate financial support due to COVID-19 to access this mechanism (including allowing DNSPs to charge interest on deferred payments)?	The eligibility criteria should be clear up front to ensure only those retailers who require and are eligible for assistance apply. The application and deferral process should not be too onerous on either retailers or NSPs, to allow for efficient and timely processing of the financial support.
e) Do stakeholders have views on whether any of the approaches outlined above (or a combination of each) would be preferable?	The AEMC should consider excluding retailers with significant financial backing or a diversified risk profile. In addition, sufficient rigour around the information required should incentivise only those retailers who genuinely require it, to request it.

Question 3 – Customer eligibility	
a) Do stakeholders have views on the types of customers that should be captured by the proposed deferral mechanism and how these customers can be clearly defined in the NER? Is it appropriate and/or necessary for this mechanism to include large commercial and industrial customers?	This financial support should only apply to small customers (residential and small business customers) who are given greater levels of protection for hardship and disconnection under the National Energy Retail Law (NERL) and the National Energy Retail Rules (NERR). Electricity is an essential service and small customers have less ability to absorb financial crises for any length of time, furthermore individual risk assessments are unlikely to have been made by retailers. Retailers should have good financial information on large commercial and industrial customers. Their counterparty risk would have been priced into large customer contracts. Large business customers should therefore be excluded, and this is also consistent with the lower levels of protection than small customers have, under NERR and NERL.

CHAPTER 4 – SECTION 4.2.2 – DEFERRAL TIMEFRAME AND TERMS

Question 4 – Length of deferral period	
a) Is a six-month deferral of the payment of network charges an appropriate timeframe, having regard to the potential cash flow impacts of COVID-19 on the retail electricity market in the second half of 2020? Alternatively, would a shorter deferral timeframe be sufficient to allow retailers to overcome the financial pressures posed by the current environment?	Essential Energy agrees with the six-month deferral timeframe. Any longer will require a reassessment of impact, and will mean that actual revenue for 2020-21 will be affected on a total year basis – thereby triggering the control mechanism for unders/overs to recoup revenue differences from all network customers in the 2021-22 pricing. The current end of billing to 31/12/2020 means that final bills will be paid by 30/06/2021. The AEMC is encouraged to consider the option for retailers to have some flexibility in their deferrals, i.e. the ability to request a shorter period, or only defer a portion of customers charges for the six-month period. The flexibility also needs to be workable for the relevant NSP.
b) What are the implications (if any) of a six-month deferral period for NSPs, compared to a shorter or longer deferral period?	As above, revenue implications that may result from a longer deferral period are not encouraged due to the existing control mechanisms.

Question 5 – Extension of deferral period	
a) Is it appropriate and/or necessary for the AER to have the ability to extend the deferral period if this is considered necessary? If so, what conditions, considerations and/or consultation requirements should reasonably apply to the exercise of this power?	Essential Energy believes that any request to extend the deferral period should come back via AEMC so further consultation can occur. The actual impact on retailers and individual NSPs may be quite different to the modelled impact. Participants will need to restate their position and expected impacts.

CHAPTER 4 – SECTION 4.2.3 – DEFERRAL OF PAYMENTS BETWEEN DNSPS AND TNSPS

Question 6 – Deferral of payment of transmission network charges	
a) Is it necessary and/or appropriate for DNSPs to be able to defer the payment of transmission charges to TNSPs under the proposed deferral mechanism? To what extent would this change the overall impact of the proposal on DNSPs? What would the impact of this approach be on TNSPs?	Yes, it is appropriate that this equivalent transmission charges for the impacted customers are deferred. This will reduce the cashflow impact for NSPs and share any burden somewhat.
b) Do stakeholders have views on how the deferral of payments from DNSPs to TNSPs would be implemented in practice? What issues would need to be addressed in the regulatory framework to facilitate this?	This is still being worked out currently for the ENA Retailer Relief package. It is not an easy solution and requires a bespoke approach which will require manual calculations and administrative effort. Codifying the process is unnecessary as long as the requirement for TNSP deferral is clearly stipulated.

CHAPTER 4 – SECTION 4.3 – PRACTICAL IMPLEMENTATION OF PAYMENT DEFERRALS

Question 7 – Process for deferring payment of network charges	
a) Do stakeholders have views on appropriate processes which could be adopted to facilitate the proposed payment deferrals in an expedient manner?	Essential Energy believe that given the various systems and processes across NSPs, jurisdictions and retailers, flexible processes should be available to facilitate the deferrals
b) Could the processes agreed between retailers and NSPs for implementing the Network Relief Package also be used to implement the AER's proposal?	Yes, although flexibility is required as some retailers and NSPs require different workarounds to process the deferrals.
c) If the details of this process are not prescribed in the NER, what alternative approaches would ensure that the payment deferrals could be administered in a transparent, consistent and efficient manner? Is it feasible for the details of this process to be directly agreed between NSPs and retailers?	Yes, it is feasible and has occurred in relation to the implementation of the ENA Relief Package. Direct arrangements between retailers and NSPs, (or groups of NSPs) would result in a more successful implementation than a prescriptive approach in the NER. There are also channels like the Energy Charter that can be leveraged to ensure alignment.

CHAPTER 4 – SECTION 4.4 – IMPACT ON NSPS

Question 8 – Impact of proposed deferral mechanism on NSPs	
a) Would a six-month deferral of the payment of network charges present a material financial risk to NSPs? If so, are there ways of addressing or reducing these risks through the design of the deferral mechanism?	As modelled, Essential Energy is not at any material financial risk resulting from the six-month deferrals. However, actual results may present a very different picture. The ability to recover interest costs monthly on amounts deferred would reduce some risk for NSPs.
b) Do NSPs have views on whether, in practice, the annual pricing proposal process would allow NSPs to recover any deferred revenue in the following regulatory year as described above? Are there any issues that may arise in seeking to utilise this process for this purpose?	Deferred network charges should be received before 30/06/2021 and therefore would theoretically be covered, but pricing is based on forecast revenue for the last few months, then actuals are trued up in the following year. This transfers retailer counterparty risk to other network customers for any deviation in revenue received in FY21.
c) Do stakeholders have views on whether NSPs should be reimbursed for direct costs incurred as a result of the deferred payments and, if so, what would be the best mechanism for achieving this?	Costs from the day of deferral, i.e. anything over the existing 10-day payment term, to the final date of receipt should be reimbursed. The ability to recover these costs on a monthly basis from retailers would reduce the compounding interest effect.
d) If NSPs were to be reimbursed for their efficient costs (as well as recovering their total regulated revenue), do NSPs consider there would be any residual risk to their business arising from the deferral of network charges?	The usage of the NSPs relevant WACC allowance for FY21 would be more reflective of the efficient costs of these deferrals than the current very low default rate (~2.1%) for network charges available under of the National Electricity Rules (3 month BBSW rate plus 2%). However, consideration is needed in relation to any related TUoS portion and how those efficient costs are recovered, given different WACCs of the NSPs. A flat rate for all NSPs may be a better solution to prevent additional complexity being introduced, however it needs to be significant enough to incentivise retailers to only defer if necessary.