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Essential Services Commission
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Melbourne, Victoria 3000

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Supporting energy customers through the coronavirus pandemic - draft decision

Meridian Energy Australia Pty Ltd and Powershop Australia Pty Ltd (MEA Group or Powershop) thanks the Essential Services Commission (ESC) for the opportunity to provide comments on the Supporting energy customers through the coronavirus pandemic – draft decision (the Decision).

Background on the MEA Group

The MEA Group is a vertically integrated generator and retailer focused entirely on renewable generation. Through our investment in new generation, we have continued to support Australia's transition to renewable energy.

Powershop is an innovative retailer committed to providing lower prices for customers and recognises the benefits to customers in transitioning to a more distributed and renewable-based energy system. Powershop has introduced numerous new, innovative, and customer-centric initiatives into the market.

MEA Group broadly supports any financial assistance that targets both customers and retailers during this pandemic. With stage 3 restrictions imposed on a significant portion of the Victorian population again on 9 July, it is imperative that the ESC and industry strike a balance. A balance between ensuring residential and small business customers can mitigate their debt and retailers continuing to provide support for their customers. As a part of the solution, MEA Group welcomes support from both the ESC and the entire energy supply chain. Sharing the credit risk across the whole supply chain is critical as the industry is not operating in a normal market scenario.

Despite the "questions for stakeholders" not referring to Draft Decision 1: "Supporting customers to complete and lodge utility relief grant applications", MEA Group understand and support the ESC's urgency to assist customers who may be having difficulty completing this complex application form and process. For the duration of the pandemic Powershop has constantly supported its customers. However, MEA Group do not believe that changes to the Energy Retail Code (the Code) requiring retailers to complete Utility Relief Grant Scheme (URGS) forms for customers is the solution to the delays that have occurred over the last 12 months.

The URGS process has not been modified or changed to cater for the demand of this relief. The current pandemic has highlighted how urgently the process must be modified to increase its efficiency. This consultation period is the ideal time for the relevant forms, government portal and applicable process to be modified.

Powershop recommends modifying this process so that customers can deal exclusively with the Department of Health and Human Services (DHHS) and for the DHHS to advise the retailer of an approved URGS relief amount to be applied to their next bill. This would mirror the efficient process in place for New South Wales and Queensland concessions and rebates. This process change would reduce the chance for a customer's application to expire beyond the 90-day application period, a delay that the customer or their retailer is often not responsible for.

Please find below our responses to the questions raised in the Decision.

Question 1

Are there other measures you think we should be considering to ensure consistent protections for residential customers experiencing financial stress as a result of the pandemic, either in the short or medium term?

Draft Decision 2 requires retailers to perform a tariff check for customers who are receiving tailored assistance under the Payment Difficulties Framework (PDF). MEA Group does not believe that this draft decision supports the customer. In fact, MEA Group considers that this draft decision could increase confusion among customers, where many existing regulatory obligations currently provide sufficient information.

All relevant small customers must be provided best offer information on their bills under the current Code and retailers are required to provide clear advice. MEA Group considers that these reform addresses the issue that draft decision 2 seeks to resolve. The best offer message elicits further conversations between a customer and retailer, with the goal of ensuring the customer is on an appropriate tariff. MEA Group request that the ESC consider these recent reforms and the likelihood that they address the issues that this Decision seeks to resolve.

From a retailer's perspective, the cost to implement this change will include system development, resources, training, and time (e.g. call time expansions). In addition, many tariff check calculations are not straight-forward, require usage and behaviour history and assumptions on customer's future behaviour and usage. MEA Group would urge the ESC to undertake a comprehensive review on whether the benefit of this decision would outweigh the cost, especially given the lack of evidence supporting the draft decision.

The other significant factor for consideration must be that distributors would need to also adopt the tariff check and waive any charges associated with a change in tariff. Currently there is data confirming that despite a customer choosing the VDO flat tariff, the relevant distributor is not compelled to match the relevant flat network tariff. The rule change asking for a tariff check suffers from the same limitation of a distributor conforming to a customer's choice.

Question 2

Are there other measures you think we should be considering to ensure consistent protections for small business customers experiencing financial stress as a result of the pandemic, either in the short or medium term?

MEA Group commend the ESC for acknowledging that small business customers require relief. Our response to this question is addressed under Questions 5 and 6. However, the ESC will need to be cognisant of the pressure that rule changes will place on a retailer, referenced in our response to Question 1.

Finally, the MEA Group does not believe it is appropriate to assume that the PDF can be applied to small business customers in the same way it is applied to residential customers. Small business customers generally present different load profiles to that of a residential customer, for example far more volatile load, consumption profiles and complex tariff structures. Powershop, among the industry more broadly, are offering highly tailored arrangements to support small businesses. These include bill smoothing, payment smoothing, debt holds and deferrals.

Question 3

We are proposing that if a small business misses a bill pay-by-date, it will be entitled to repayment of arrears over not more than two years by payments at regular intervals of up to one month. Do you think that two years is an appropriate length of time for small business customers to be asked to repay their arrears? If not, please provide details about what alternative would be appropriate.

Our response to question 2 broadly advised that mandating that the PDF also apply to small business customers is not required. MEA Group is concerned that this rule change coincides with relevant federal government subsidies expiring, as well as little change to existing state-based concession programs. The pressure of increased debt is being increasingly shouldered by energy retailers, rather than being shared by industry and government collectively.

This draft decision also fails to evidence that there would be a benefit to small business customers. In MEA Group's experience, small business customers are strongly motivated bill payers. This rule change potentially disincentivises these customers from managing their bills or remain engaged with retailers to work together towards an appropriate, suitable solution.

An alternative solution is that any small business receiving Job Keeper, could be eligible for the assistance described by this draft decision over a 6 month period, rather than the proposed 2 years. The MEA Group encourage the ESC not to introduce any changes that would mask a business's test of solvency or hide their ability to manage their debts by deferring it.

MEA Group request that the ESC ensure that any future VDO determination will account for any increase to cost and debt-risk retailers may incur because of this decision.

Question 4

We are proposing a temporary entitlement to payment assistance for any small business that misses a bill pay-by-date. Do you think it would be practical or appropriate to restrict eligibility for payment assistance to small businesses that meet a set of criteria for financial stress? If yes, please provide details about what criteria would be appropriate.

Please note our responses to questions 2 and 3.

Question 5

Do you think the current network relief package to retailers has worked the way it was intended?

MEA Group believe the Energy Networks Australia (ENA) package was hasty and not sufficiently thought through and as a result failed to positively impact those customers who needed the relief the most. The package did not undergo the appropriate consultation with energy retailers, and as a result that the eligibility criteria associated with the package was not sufficient. For example, there was clear evidence that the small business 75% consumption reduction was extremely narrow and did not capture businesses still operating (e.g. take away food businesses) and therefore similar consumption but significantly less revenue.

Question 6

Do you think anything further should be put in place in Victoria after the initial network relief package to retailers ends, for example a deferral of network charges similar to the rule change that the Australian Energy Market Commission is currently consulting on?

MEA Group believes the ESC should adopt the Australian Energy Market Commission (AEMC) approach once it is finalised. Like the approach taken to adopt the Australian Energy Regulator's Statement of Expectations, this would at least ensure consistency across state boundaries.

However, MEA Group's view is that deferring the payment of network charges does not provide any direct customer assistance and effectively moves retailer's cash flow risk to later period. MEA Group has requested that Victorian distribution networks continue to work with Powershop to provide direct customer rebates to a broader customer group until 30 September 2020.

MEA Group would also like to understand further the role the ESC would be adopting when there are also ongoing commercial arrangements set between retailers and distributors separate to the ENA package. If the ESC's role is to design a temporary framework that provides for cashflow assistance and debt write-off provisions, then this would be beneficial. Retailers carry a significant portion of the credit risk for the supply chain and are currently operating well beyond the expectations of the traditional market, including the holding of debt.

MEA Group would like to consult further with the ESCV on debt risk and its potential smoothing. This can range from increasing allowed debt recovery and retail risk margins for the next VDO, regulated network support mentioned above or advocating for increases to state-based energy concessions and rebates. Failure of a retail business would be negative for competition and consumers alike. MEA Group urge the ESC to consider action to prevent this undesirable outcome.

The ESC is on record that during this pandemic, they do not want to impose any further regulations on industry that negatively impact both customers and its stakeholders. Considering the numerous, material issues that were raised in the three July forum consultations that remain unresolved, it is crucial the ESC undertake further consultation before issuing a final decision.

Therefore, to achieve best regulatory practice, unsubstantiated rule changes with an abridged process should be avoided. MEA Group believe a further consultation of all draft rule changes is required. Giving the three forums credibility by using a solid evidence base from industry, The ESC can subsequently provide and discuss their more robust, preferred draft positions before making final decisions.

We look forward to continuing the consultation with the ESC on these proposed changes. If you have any queries or would like to discuss any aspect of this submission, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jason Stein', with a long horizontal flourish extending to the right.

Jason Stein
Chief Executive Officer
Powershop Australia Pty Ltd
Meridian Energy Australia