SUMMARY OF ISSUES RAISED

Introduction

The Electricity Authority (**Authority**) has formed a COVID-19 Issues Working Group (**CIWG**) to provide a forum for the early identification of any COVID-19 related issues being experienced by consumers and industry participants and the development of arrangements to address those issues.

The CIWG has broad representation and includes members from consumer, retail, distribution, transmission, generation, metering, and market organisations as well as representatives of various governance bodies. Further details of its membership, and terms of reference are available on the Authority's website.

This summary provides an overview of the main issues identified to date, for the benefit of interested stakeholders. The summary has been prepared by the Secretariat and as such reflects its views rather than the views of individual members.

Consumer issues

The CIWG takes a consumer-centric approach to COVID-19 issues in line with the Authority's statutory objective of promoting the long-term interests of consumers.

A particular focus has been on the health, welfare and financial stress of domestic consumers and small and medium-sized enterprises (**SMEs**). For this group, the most important consumer issue identified by the working group is the prospect that as a result of the current Level 4 lockdown, any future lock downs, and any subsequent decline in economic activity, there is an increase in the level of electricity-related debt they owe to retailers.

Members acknowledge that the Government has doubled the Winter Energy Payment (**WEP**) but note this payment is not specifically targeted to electricity debt and is only made to beneficiaries and superannuitants. The CIWG has concerns there are others who will also struggle to pay their electricity costs, including low-income households and SMEs.

The CIWG has been discussing the nature of the arrangements which apply to disconnections, noting:

- Some consumers may be, or become, under financial stress and so will be seeking flexible payment options from their retailers so as to maintain supply; and
- Other consumers (eg. SMEs who are unable to trade) may actually want a disconnection so as to reduce the level of electricity-related costs at a time of little or no income.

The CIWG has also identified there may be a need to address the fees paid by certain consumers in addition to the cost of energy. These include disconnection and reconnection fees, and late payment charges.

Another consumer-related issue is the importance of verifying:

- all retailers' processes align with the Authority's medically dependent and vulnerable customer guidelines

- there are no barriers to adding further customers into these categories during Covid-19 lock-downs.

The Authority has written to retailers and MEPs about this issue and will be seeking assurance that processes do align with the guidelines.

Retailer issues

The prospect of significant electricity-related debt has flow-on consequences for retailers who:

- have to pay the costs of all upstream services such as metering, distribution, transmission and wholesale energy costs, including in situations where they do not get paid; and
- have reduced means to mitigate their own upstream payment obligations as they are expected to keep supplying their customers until those customers have had the opportunity to explore the appropriate support options for their circumstances.

All members of the CIWG have acknowledged this issue.

In addition, the Authority has issued statutory information disclosure notices to help it assess both the scale of the problem and its impact on retailers, over time.

Members have discussed the fact that this issue may increase the likelihood of one or more retailers being unable to pay their bills and having to default, and acknowledged the Authority has processes in place to ensure a defaulting retailer's customers will be transferred to a new retailer, without risk of non-supply.

Network issues

Another important issue the group has been discussing relates to reliability or continuity of supply.

Network businesses (transmission and distribution companies) are included in the definition of lifeline utilities and as such have continued to operate during the lockdown albeit under new operating rules.

No issues relating to the reliability of supply have been reported to date. However, network businesses are keen to resume their normal maintenance schedules as soon as possible so as to minimise the risk of future outages.

It is also acknowledged that there may be an issue for some networks in relation to a future weather event. For example:

- Network companies may need to break bubbles to respond to storms;
- Some critical input suppliers may need to ramp up production to provide materials;
- Cross-regional travel may be required to transport critical supplies; and
- Restoration times may be considerably slower.

Some of the issues network companies are experiencing are shared with other parts of the supply chain. These are described under the heading "Pan industry issues" below. The immediate issues above and in the Pan-industry section are being addressed through other channels, including the National Crisis Management Centre.

Other network specific issues include:

- Network businesses also are, or increasingly will be, under cash flow pressure as they have reduced volumes and revenues, but are largely fixed-cost businesses;
- Network companies may also face increased debt risk including from retailers, large customers and property developers;
- The risk that a prolonged lockdown may result in a decline in quality levels and other service impacts. This could in turn lead to non-compliance with regulated quality standards; and
- Significant maintenance re-planning operations may be needed at the end of the lock-down.

Generator issues

Generators are also included in the definition of lifeline utilities and as such have continued to operate during the lockdown albeit under new operating rules.

Generators are facing lower spot revenues as a result of lower levels of demand and lower prices (although these lower spot revenues maybe off-set by higher than expected returns from hedge contracts entered into before the pandemic).

Generators have also noted that in the event of any retailer default, resulting in shortfall of revenues paid to the Clearing Manager, their payments will be reduced. This is because the Code includes a settlement priority order in the event of a revenue shortfall. The priority order is, in brief, GST, ancillary services and extended reserve costs, loss & constraints excess for FTRs, loss and constraint excess for grid owner, and then, at the end, the energy pool which is when generators get paid.

Pan-industry issues

Across the supply chain organisations involved in the physical supply of electricity have noted:

- Access to necessary PPE, to ensure lifeline utility businesses are able to continue to provide supply or deliver expected service, is an ongoing requirement;
- There may be a growing need to have access to inputs (goods and services) which are not essential services to provide essential services ;
- Over the longer term there is a potential loss of capability in relation to contractors/service providers who are not able to operate during the lock-down.

Market related issues

The CIWG has identified a few market-related issues where arrangements may not have been designed with a pandemic in mind.

For example, the terms of typical electricity hedging arrangements require payments to be made even when the counterparty is in lockdown and unable to consume electricity. Similarly, margin calls on any ASX futures will continue to be required as forward price levels change over time.

Financial stress exists at all levels at the supply chain.

The group is also aware that under the Code, prudential security calculations assume an 18-day period to exit a retailer following default. This calculation uses futures prices, and applies for the following quarter.

It has been suggested changes could be made to the calculations, which could reduce the amount of prudential security required. However, a balance is required as this may mean the prudentials are insufficient for the underlying risk faced by payees.

The Authority has advised retailers, and other parties with prudential arrangements with the Clearing Manager, of ways in which their levels of prudential could be reduced. The Clearing Manager is open to discussing options with parties under financial stress.

Compliance and Regulator-related issues

The network companies have noted the Commerce Commission is constrained in the circumstances where it can re-open a price-quality-path especially where an Input Methodology may require adjustment during the regulatory period, as any new rule cannot take effect until the next price-quality path reset.

In relation to compliance, industry participants have indicated that there is an ongoing need for flexibility from a number of different regulators in relation to legal requirements for certain sites/equipment that require visits/audits/recertification during the lockdown period. Regulators are demonstrating that flexibility.

Further a number of stakeholders have also asked for submission extensions and deferral/re-prioritisation of new regulatory work from both the Authority and the Commerce Commission. Both regulators have been responsive to these requests.

Secretariat
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