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Victorian Default Offer 2021 Price Review
Essential Services Commission
Level 37/ 2 Lonsdale St
Melbourne Victoria 3000

amaysim Australia Ltd (amaysim) submission on the Victorian Default Offer 2021 Consultation Paper

This submission sets out amaysim's submission on the Essential Services Commission (**Commission**) Consultation Paper on the Victorian Default Offer (**VDO**) to apply from 1 January 2021 (**Consultation Paper**).

Background on amaysim

amaysim entered the energy market in 2017. We are a 'tier two' energy retailer offering innovative products in competition with the major energy retailers (including gentailers). We sell electricity and gas and have over 200,000 energy subscribers, including over 80,000 customers in the state of Victoria. amaysim is a pure play retailer, it does not own or invest in generation assets and focuses purely on great products and service to deliver value to our customers.

Overview

amaysim welcomes the opportunity to comment upon the Consultation Paper in relation to the VDO to apply during 2021. Given the uncertainty in relation to the current COVID-19 environment in Victoria, amaysim submits that the Commission must strike an appropriate balance between:

- ensuring that customers' needs are met in the short-term and ensuring that financially impacted customers continue to be supplied energy; and

- in the longer term, maintaining a healthy competitive retail energy market (with the benefits this delivers customers, particularly engaged customers).

Accordingly, amaysim submits that the VDO price for 2021:

- must adequately compensate retailers for the future additional cost impacts that COVID-19 will impose on their cost structure; and

- must not be set at a price that diminishes competition and results in smaller retailers failing or voluntarily exiting the Victorian market (noting that effective competition from smaller retailers gives Victorians access to competitive offers that provide real value and savings).

In addition, amaysim submits that:

- a once-off 6-month VDO regulatory period is appropriate in the circumstances; and
- the forecast STP methodology needs to be reviewed.

What impact has COVID-19 had on retail operating costs and for how long will it affect costs?

The impact on COVID on retailers generally

The VDO is intended to provide a simple, trusted and reasonably priced electricity option that safeguards consumers. The COVID-19 crisis has added complexity to all participants in the Victorian electricity supply chain. At the time of this submission, cases in Victoria have spiked exponentially, severely undermining the certainty of any forward analysis of the COVID-19 crisis. Importantly, given the interlinked social, health and economic factors at play, the impact upon consumers on the short-medium term remains unclear. The corresponding impact upon retailers, which is likely to lag this second wave of cases, is also unclear.

The energy industry, as with most other industries, faced a huge challenge in dealing with the customer impact aspects of the first phase of the COVID-19 crisis in Victoria. Certainly, from amaysim's internal perspective, and from the actions we have seen from other retailers, retailers have gone above and beyond what would be expected in terms of social responsibility. In fact, most retailers have:

- entirely ceased disconnections for non-payments;
- extended payment terms; and
- provided numerous communications offering additional support.

amaysim believes that we have supported our customers through a difficult time and remains committed to doing so in Victoria (and each market in which we operate) as we all navigate the current second wave of COVID-19 cases.

The VDO is intended to safeguard consumers. While tolerance for bad debt differs between retailers, each retailer must assume some level of bad debt in their business model. As might be expected, COVID-19, and the recession that it has triggered, have significantly increased the potential scale of bad debt and/or cash flow challenges in the short-medium term. This is a fundamental step change. However, we do not expect to see (or be able to measure) the impact until early-mid 2021 as the significant economic fallout from the pandemic becomes clearer and which will likely be exacerbated by a withdrawal of Commonwealth Government support payments (such as the JobKeeper and JobSeeker programs) at some stage through the period covered by the 2021 VDO (in particular, from March 2021 onwards).

The economic uncertainty in Victoria, which is currently dealing with a second wave spike in COVID-19 infections, further clouds decision making from a pricing perspective. As a stand-alone retailer, amaysim continues to incur the network, wholesale and environmental costs for these customers, despite having a reduced level of cash flow. This inevitably puts significant strain on a retailer's liquidity, which is particularly problematic for a non-generating retailer given the need to comply with margin calls from both AEMO and hedge counterparties at relatively short notice.

The role of small retailers in Victoria

The role of small retailers in Australia is under severe threat, particularly in Victoria. The gentailers will ultimately survive as the bulk of their profit is derived from the relatively unregulated wholesale and generation market and, in retail, from their embedded base that the VDO has not yet exposed to competition.

On the other hand, small retailers are trading on a knife edge, yet supporting customers with appropriate COVID-19 responses. In order to continue providing that support (the burden of which will increase as COVID-19 driven bad debt spikes and Commonwealth Government support reduces during the 2021 VDO determination period), small retailers need to be adequately compensated through the 2021 VDO. This is also critical if small retailers are to survive as an essential part of a competitive retail Victorian energy market, bringing cheaper retail prices to consumers.

The allowance for retail operating costs should be increased (particularly in relation to bad and doubtful debts)

Accordingly, given the anticipated role of retailers on the front line of bad debt and/or cash flow issues affecting the wider electricity supply chain, amaysim submits that:

- the operating costs allowance in the VDO should be increased to reflect that retailers have been, and will continue to, safeguard consumers to an extent because of the COVID-19 crisis; and
- in particular, the Commission should include an increased allowance in the VDO for 2021 for COVID-19 related bad and doubtful debts. This allowance should be an explicit increased amount above the historical benchmarks relied upon by the Commission in previous iterations of the VDO.

This allowance must be proactively provisioned for the VDO to apply for 2021, as a reactive approach may put the liquidity and financial viability of many small retailers in doubt.

While it is noted that the Commission will rely on retailer cost data to cross check the regulatory benchmark to support the decision, the retailer data that is being provided will not yet reflect the impact of COVID-19 on retail operating costs. amaysim supports using this data as a baseline in order to model what the effect of a doubling or tripling of bad debt in a retailer's portfolio and operating costs may look like. However, it is this exercise that should determine the increase in the retail operating cost component of the historical benchmark for the regulatory decision.

amaysim supports accommodating network costs into the regulatory period

amaysim supports harmonising the VDO price determination and electricity network regulatory periods. This will provide certainty to industry and consumers around pricing for the full VDO period. It will also allow network price signals to be adequately reflected in the applicable VDOs.

If the networks ultimately move to financial year regulatory periods, amaysim submits that the Commission should proceed to issue a once-off VDO determination for 6 months, with a review of the VDO occurring after this period for the next 12 months. While it may be costly to have such a short regulatory period, given the uncertainty around COVID-19 and how the next 12 months are going to eventuate, it would present a timely opportunity to reassess the whole VDO cost stack at a more appropriate interval.

amaysim

Solving the issue between forecast and binding STP percentage

Uncertainty around the binding and forecast small-scale technology percentage (**STP**) continues to be an issue that has yet to be addressed in the VDO price setting framework. amaysim submits that the Commission should revisit its current methodology. If the Commission adopts a 6-month regulatory period, then the issue of forecast against binding STPs will need to be revisited again.

Instead of the midpoint of the 2020 non-binding STP and 2019 binding STP, amaysim suggests that the Commission select the higher of the two numbers. While this approach may seem conservative in the context of a VDO linked to the financial year, the expected result could in fact minimise the adverse effect of an unexpectedly high STP while ensuring the customers are not burdened with an excessive VDO relative to actual small-scale certificate costs.

Conclusion

amaysim appreciates the opportunity to comment on the Consultation Paper.

We would welcome the opportunity to discuss our recommendations with you. Please contact me (my email address has been provided separately) should you wish to do so.

Yours faithfully

Alexander Feldman
Chief Strategy Officer & General Counsel