COVID-19 was declared a pandemic by the World Health Organisation on 12 March 2020. Governments started closing non-essential services and imposing social distancing measures in late March. The shutdown has led to significant impacts experienced by energy consumers, which flow onto retailers through an increase in late and non-payment of energy bills. This can increase the potential for financial instability of the retail energy market if retailers begin to default on their payments.

How the COVID-19 pandemic has affected the Australian energy market

Customers have difficulty paying their energy bills due to increased pressures and contact their retailers.

Impacts:
- Loss of employment/reduced income
- Increased energy usage at home
- Businesses shutting down

Existing framework:
- Hardship framework, assists customers with difficulties paying their energy bills
- Existing Government payment assistance schemes, designed to provide one off payments or ongoing financial assistance

Retailers experience increased costs and higher levels of customer debt, leading to a reduction in cash-flow.

Impacts:
- (resilience to impacts will differ between retailers)
- Increased volume of customers seeking hardship status
- Drop in wholesale prices leaving some retailers locked into higher contract prices
- Difficulty in operating call centres and strain on specialist hardship staff

Existing framework:
- Retailer payment processes, requiring retailers to pay network and wholesale costs before receiving payment from customers

Potential for retailers to default on payments for network and wholesale costs because of reduced revenue with more and more customers unable to pay their energy bills.

Impacts:
- Market participants experience cash flow, settlement, market and credit risk
- Financial interdependencies exist throughout the NEM
- Greater risk of retailers folding once other retailers begin to fold

Existing framework:
- Retailer of last resort (ROLR) framework, requires designated ROLRs to take on customers from folded retailers

New measures announced or proposed:
- ENA support package, including rebates and deferral of network charges for retailers with COVID-19-impacted residential and small business customers
- AER monitoring for advanced notice of retailer distress, with a significant increase in the frequency by which information is collected on the number of customers on payment plans and hardship arrangements and the level of customer debt

Recommendation 1: Allow retailers of last resort (ROLRs) to place new small customers on competitive market offers instead of starting them out on more expensive standing or default offers if their existing retailer goes out of business

Recommendation 2: Amend the ROLR regime to reduce the impact of increased cash flow and/or credit support requirements

Recommendation 3: Move the ROLR regime from the National Energy Retail Law to the National Energy Retail Rules so that changes can be made more easily when needed

Recommendation 4: COAG Energy Council to consider current and potential short-term measures to support market stability

Recommendation 5: Advance notice of retailer distress rule change request to formalise and build on the information the AER has been collecting throughout COVID-19

Recommendation 6: Increased protections for embedded network customers by implementing the comprehensive package of changes to laws, rules and regulations recommended in the embedded networks review completed in 2019

Embedded network customers
Embedded network customers do not receive the same standard of consumer protection as all other small consumers.