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NEWS

Call to prevent energy bill shock caused by retail business failure

The Australian Energy Market Commission has called for new measures to prevent consumers' energy bills from blowing out if their retailer goes out of business.

The recommendation is one of several in the AEMC's 2020 Retail Energy Competition Review, which this year addresses the potential impacts of COVID-19 on the market.

Under the plan, customers who lose their existing retailer would automatically be placed on a competitive market offer with their new provider, rather than a more expensive standing or default offer, as happens now.

"The risk of a retailer going out of business is greater today due to the extraordinary economic pressure many businesses are facing due to COVID-19," said AEMC Chief Executive Benn Barr.

"We want to make sure that if this happens in the future, consumers won't be facing higher energy bills through no fault of their own. Our plan would ensure the customer's new retailer, called the 'retailer of last resort', would be prevented from automatically putting their new clients on more costly default offers.

"The best-case scenario is to avoid multiple retailer failures altogether because that would take us back a decade, when customers had the options of only a handful of larger players and had much less choice than they have today."

The Retail Competition Review also highlighted the vulnerable position of more than a million residential and small business customers in apartment complexes, retirement villages, shopping centres and caravan parks, who receive their energy via private 'embedded networks'.

These customers aren't protected in the same way as regular small customers when it comes to being disconnected and being able to access concession and Ombudsman schemes. This is even more concerning given COVID-19. The Commission has developed a comprehensive package of changes to laws, rules and regulations to protect these consumers and recommends they are implemented.

The Review noted that the full COVID-19 impact on the retail energy market is yet to be felt, because most small consumers pay their bills three months in arrears. Some retailers have reported they are expecting the level of bad debts to double.

While the level of debt of customers entering retail energy hardship schemes has generally decreased over the course of the past year, indications are that this is going to increase. Since December it has jumped by 15%.

Because electricity retailing is a relatively high-volume industry with low margins (about $4 for every $100 received), retailers carry the credit and cash-flow risks for the entire sector. So, a relatively small increase in non-paying customers could quickly put some retailers in a position where they can't pay their own bills.

The Review also recommended other measures be put in place to improve the resilience of the market in the face of economic shocks such as a pandemic. These include making it easier for retailers other than the 'Big 3' (Origin, AGL, EnergyAustralia) to register as retailers of last resort (ROLR) – subject to them meeting stringent financial tests. This would spread the risk across the market.

The ROLR mechanism transfers customers of failed retailers to make sure their energy service continues and has only been triggered on a handful of occasions, including in 2009 when Jackgreen's failure affected 67,500 customers.

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We want to make sure that consumers won’t be facing higher energy bills through no fault of their own.

Other recommendations include:

- Giving energy ministers and officials advance warning on retailer revenue and cost risks on a monthly basis so they have more time to act on large or multiple retailer failures
- Giving the Australian Energy Regulator information-gathering powers for identifying risks to financial stability in the market. This would build on and formalise information the Regulator is currently collecting.
- Energy ministers and officials giving detailed consideration to “last resort” financial assistance to retailers in the event of an emergency.

“If we make the suggested improvements, this should help protect against any future crisis,” Mr Barr said.

Retailer profit margins have also declined over the past three years, falling by around a third since 2017−18. This could have placed some retailers in a less secure financial position in the lead-up to the pandemic. Early indications to date are that the Big 3 retailers are not being impacted by the pandemic to the same extent as smaller retailers due to their higher retail margins and greater access to credit.

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About the AEMC Retail Competition Review

The annual Retail Competition Review looks at the state of competition in the energy market and whether this is benefiting consumers. It is an important tool to map retail market progress over time and identify opportunities for reform. The findings on electric vehicles are informed by a survey of and interviews with retailers, interviews with other stakeholders, and submissions to our electric vehicle consultation paper issued in February 2020.

About the AEMC

The Australian Energy Market Commission is the rule maker, market developer and expert adviser to governments on energy. It protects consumers and achieves the right trade-off between cost, reliability and security.