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— **Exclusive**

# Australian energy regulator quietly tests resilience of retail market

**Colin Packham** *Energy and resources reporter*

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The Australian Energy Regulator has quietly demanded sensitive financial information from the country's retailers to test their resilience to the energy crisis that threatens to send more to the wall.

In a move that illustrates the concern among regulators over the impact of the crisis, Australian retailers have been sent letters requiring sensitive financial information to be provided by next month, according to the documents seen by *The Australian Financial Review*.



Australia's energy crisis has seen a spate of small retailers collapse. **AP**

A string of small energy retailers have either collapsed or urged customers to flee before facing higher bills as they struggle to insulate themselves against soaring wholesale costs.

Industry sources said the resilience test is rare, last issued at the start of the COVID-19 outbreak amid heightened fears over the impact of shutting large swaths of the economy to limit the spread of the virus.

“They are looking to understand how many retailers could be exposed if the current conditions continue. Enova fell over after not being able to withstand the cash requirements of the market. Others could be close,” one industry source said.

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The AER chided retailers for revealing the resilience talks in an email.

“The AER would like to bring to your attention s131 of the National Energy Retail Law, which requires the AER and any other party to keep the fact and nature of any such notice confidential,” the regulator said.

While the regulatory requirement appears focused on the smaller retailers – which do not have the financial clout of the bigger end of town to ride out the crisis – industry sources confirmed requests were sent to all participants in the space.

Enova, which operates community-owned renewables generation and a retail business with 13,200 customers, became the latest casualty of Australia’s energy [<https://www.afr.com/companies/energy/energy-crisis-claims-next-retailer-20220621-p5aveo>] crunch as it went into administration after it said it had been unable to secure

“suitable” wholesale energy price hedging after the ending of an agreement with Diamond Energy.

It entered administration with about \$8 million owing to employees and creditors, according to administrator Simon Cathro at Cathro Partners.

## More companies expected to fall

While other smaller retailers including LPE, Discover Energy and ReAmped Energy have urged customers to leave, Australian regulators have told them they risk losing their licence by telling people to leave for better deals.

[<https://www.afr.com/companies/energy/energy-licence-could-be-revoked-if-retailers-dump-customers-victoria-20220610-p5asse>]

With little room to move, industry sources expect more retail companies to fall, echoing a similar story in Britain, where 30 retailers were forced out of business due to high electricity and gas prices.

Customers of retailers that collapse are transferred to larger retailers, typically Origin Energy and EnergyAustralia, and are unlikely to enjoy the discounts they received from their old supplier.

For Origin and EnergyAustralia, adding new clients is a strain on their financials. The AER earlier this year approved price increases of up to 18 per cent in NSW and 12 per cent in Queensland from July 1, though for some this is unlikely to fully cover the costs of electricity generation.

Earlier this week, EnergyAustralia – one of the three big suppliers – reported a 20 per cent slump in operating profits and heavy losses on derivatives contracts [<https://www.afr.com/companies/energy/energyaustralia-hit-by-profit-warning-20220620-p5av8d>] that will send the whole business of its owner CLP Group in Hong Kong into the red this half.

The higher wholesale prices have been described as due to a “perfect storm” of the war in Ukraine, high wholesale power prices, soaring coal and gas prices and unplanned outages at coal-fired power stations that are flowing through to customer bills.

The higher costs come at a time when Australian households are dealing with stagnant wage growth, soaring inflation and rising interest rates.

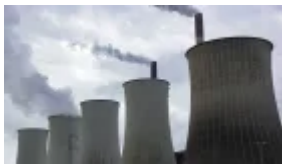
Increased utility bills would add to inflation, further pressuring the Reserve Bank of Australia to lift interest rates.

## Regulatory clampdown

The financial disclosures will see the AER inundated with detailed information. The retailers have until mid-July to supply the information required. For a larger retailer, the AER could receive thousands of pages of documents.

The heightened armoury of the AER comes as Australian regulators vow to increase scrutiny of the country's energy market.

Much of the immediate focus has fallen on Australian electricity generators, who have been roundly criticised for withdrawing offers of supply following the unprecedented decision of the Australian Energy Market Operator to suspend spot trading across the National Electricity Market.



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“The AER had to make very clear to the generators their obligation under the law and, as I said, as federal Energy Minister, I put consumers first and therefore the energy regulator has my full support in any action she has had to take or will have to take,” federal Energy Minister Chris Bowen said.

AEMO has said it will be closely watching the behaviour of generators when the suspension lifts, which could be as early as Friday

[<https://www.afr.com/companies/energy/generators-under-scrutiny-as-aemo-to-resume-power-market-20220622-p5avng>]. Electricity company bosses also face being hauled in by the regulator in charge of the electricity market to answer questions over decisions to turn off plants after the imposition of controlled wholesale prices, which contributed to the suspension.

## The return of almost 4000 megawatts of coal power capacity

[\[https://www.afr.com/companies/energy/coal-power-supply-improves-with-two-units-back-online-20220619-p5auue\]](https://www.afr.com/companies/energy/coal-power-supply-improves-with-two-units-back-online-20220619-p5auue) since last week, as well as improved bidding by generators into the market, has built confidence that the system can be operated securely, AEMO said as it examined lifting the suspension.

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**Colin Packham** is an energy and resources reporter at The Australian Financial Review  
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