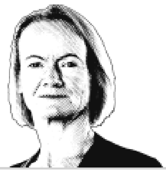
Companies Energy Energy prices

Energy crisis claims another small retailer



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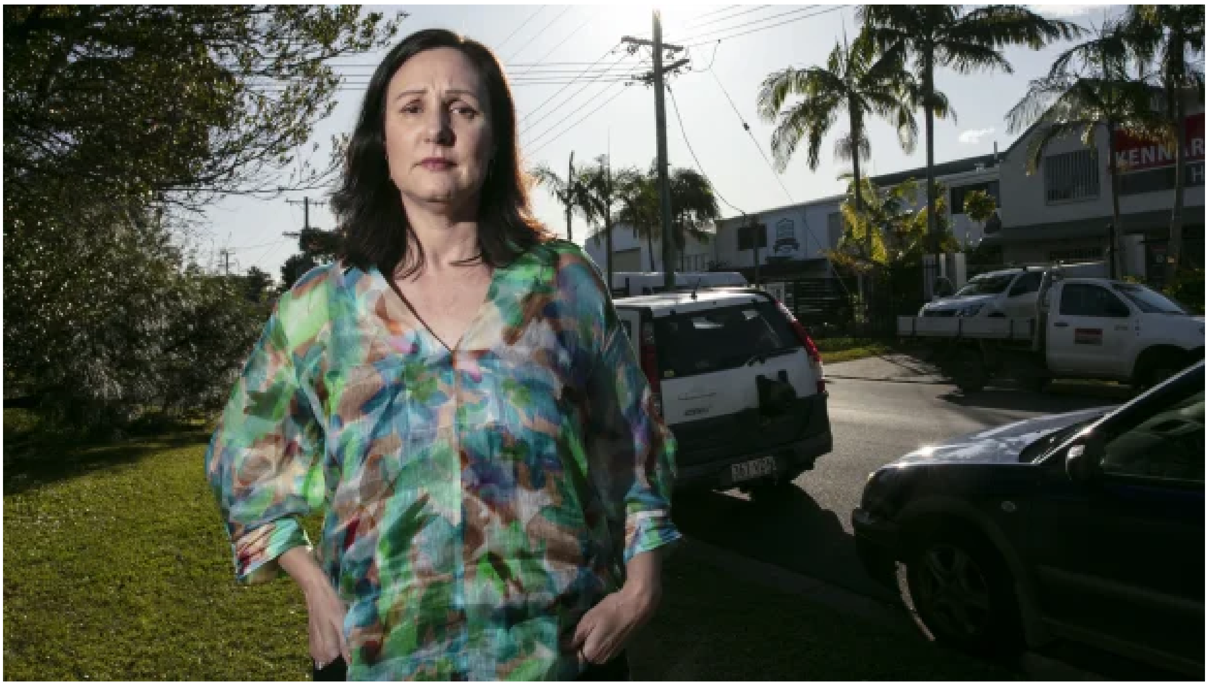
The “diabolical” state of the energy market in Australia’s eastern states has claimed another victim, with community-owned supplier Enova falling into administration as the crunch hits suppliers both small and large.

Managing director Felicity Stening described the energy market as “broken”, saying the combination of high wholesale prices and caps on prices for consumers made it impossible for Byron Bay-based Enova and many other small retailers.



Enova Energy CEO Felicity Stening said the energy market is “broken”. **Brendan Beirne**

The failure of the junior comes as EnergyAustralia – one of the “Big 3” suppliers – is also struggling with the impacts of the energy crunch, reporting 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.

Moody's has also issued an alert on the negative credit impact on utilities as a result of last week's suspension of the National Electricity Market. It pointed to risks to AGL Energy and Origin Energy – the other members of the "Big 3" – because the wholesale prices they can receive for their generation output are now capped.

The collapse of Enova extends the series of smaller suppliers and retailers that are exiting the energy market or advising customers to switch suppliers as they struggle with the extraordinary surge in wholesale prices that took place before the NEM was suspended.
Adding to the turmoil, the Australian Competition and Consumer Commission warned on Monday [https://www.afr.com/companies/energy/victoria-slammed-for-hypocrisy-on-coal-power-20220620-p5av16] it was closely watching for anticompetitive conduct by electricity and gas suppliers as households and businesses were hit by rapidly rising prices.

The ACCC noted retailers cannot set prices for standing offers above the "safety net" default price determined by the Australian Energy Regulator [https://www.afr.com/companies/energy/nsw-power-bills-to-rise-by-200-a-year-20220525-p5aoe6], but it is that constraint - designed to protect consumers - that is contributing to the squeeze on the sector.

Enova, which operates community-owned renewables generation and a retail business with 13,200 customers, said it had not been able 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.

Diamond at one stage provided about half Enova's renewable energy to supply to its customer base, with the rest coming from customers' rooftops. Enova's wholesale cost are understood to have at least doubled or tripled the usual level, making its business commercially unviable.

"The current diabolical state of the energy market, combined with the high wholesale market energy prices and the cap on customer pricing, has made it impossible for Enova Energy and many other small retailers to operate in the market," Ms Stening said in a statement.

She said the market does not support small retailers, while the constant raft of state and federal government regulatory changes just adds to the complexities.

Enova Community Energy's chairman, John Taberner, said the energy crisis was "a matter of national significance that requires the urgent attention of government and regulators".

"The Enova board's decision to enter voluntary administration has not been taken lightly and comes as a result of the organisation being extremely challenged in recent months by external factors, specifically the previously unseen activity on the wholesale energy market including severe and sustained wholesale electricity pricing," Mr Taberner said.

EnergyAustralia MD Mark Collette said the company had to buy power on the spot market at higher than expected prices.

At EnergyAustralia, managing director Mark Collette pointed to the problems caused by lower generation at the Yallourn coal plant in Victoria, and coal supply problems at its Mt Piper generator in NSW. Those cut EnergyAustralia's contribution to earnings for the first five months of 2022 by about $200 million below last year.

"Because of this, EnergyAustralia was required to purchase electricity on the spot market at higher than forecast prices," Mr Collette said.

CLP told the Hong Kong stock exchange late on Monday that accounting revaluations of sold energy contracts held by EnergyAustralia had surged from a loss of $HK2.5 billion ($457 million) at the end of March to $HK7.2 billion at the end of May. It said the changes in the "fair value" of the contracts were due to "challenging and extreme market conditions in Australia".

"The recent sharp increase in wholesale prices has led to our accounting revaluations, which are common during high periods of market volatility," Mr Collette said.

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"Noting the volatility in these accounting revaluations, these sold contracts are normal operational activities used to forward sell our generation and offer fixed prices to customers."

Moody's said the compensation scheme run by the Australian Energy Market Operator during the NEM suspension [https://www.afr.com/companies/energy/generators-earn-millions-of-dollars-for-supplying-broken-market-20220616-p5au52] would mitigate the risk of AGL's and Origin's power plants running at a loss. It also noted the ability of AGL's low-cost generators to produce revenue was limited by outages at units at its Loy Yang A and Bayswater generators, while Origin's Eraring power station is facing difficulties with coal supply.

"As generation from solar sources ramps up in the Australia's spring, the pressure on the generation market is likely to ease, reducing the prospects of future AEMO intervention," the firm said.

"We expect policymakers to prioritise the development of additional renewable capacity backed up by firming capacity, to avoid a recurrence of current conditions."

Angela Macdonald-Smith writes on the resources industry with a focus on energy, including gas, oil, electricity and renewables. *Connect with Angela on Twitter. Email Angela at amacdonald-smith@afr.com*