

## GOANNA ENERGY CONSULTING – APRIL 2013 NEWSLETTER

### **DEALING WITH OVERDUE ENERGY BILLS & SECURITY DEPOSITS**

After the gut wrenching telephone call I had last night, I've decided to dedicate this month's newsletter to the topic of energy bill stress and how businesses can deal with it.

Sadly one of our clients plucked up the courage to call me last night, explain their dilemma and ask what I could do to help them. On top of the payment for an overdue electricity account, the electricity supplier was now hounding them for an upfront security deposit of several thousand dollars, after years of patronage. They went on to say that payment of this security deposit would send their family business to the wall and that they were not the only business in their industry facing this situation.

One comment they made struck a particular cord with me, and it was, "*Why is this happening now, we've been late paying before but they've never demanded a security deposit in the past*". This is where I need to start the explanation, before we can move on to a remedy.

Firstly, the energy supplier of the past looks nothing like your current retailer. The "Hydro" of the past was one big company that built the dams, generated the electricity, maintained the poles and wires and operated the call center servicing every customer in Tasmania. Once a quarter it sent out your bill, collected your cash and distributed most of that cash around the company employees, suppliers and owners.

The retailer of today however, buys its electricity directly from the National Electricity Market (NEM). To do this, it has to supply its own security credentials to the Market Operator (AEMO) and make cash settlements **every week**. Your retailer also gets a regular bill from the Network company, who provides the poles & wires transport of electricity to the Retailers customers. So your retailer is actually paying out a large proportion of your energy costs to third parties, well before it has even generated your monthly bill, let alone collected your cash. In fact, one of the gripes of today's retailer is that, in large style customer contracts, they are collecting cash for regulated Network Fees and other fixed "Pass Through" charges, upon which they cannot add a profit margin, but surely are carrying the cost of working capital and credit risk for.

All of a sudden the Retailer of today has become a Trading company, with some computers, energy traders, sales, billing and a call center. It no longer has to worry about rotting poles and rainfall into dams. To stay in business, it must simply have cheap prices to win customers and then be able to collect all of the cash it is owed, fast.

So whilst most customers hear about deregulation and competition in the market and

start to salivate about discounts and cheaper prices, many fail to realize that competition is a two way street. Whilst you can choose your energy provider, they can also choose you and this includes what terms and conditions they want to do business with you on. In fact these days the retailers are not only looking at individual business credit worthiness, but also the stability of industry sectors, to decide who they target.

So first of all, **do your best not to pay late**. Late payment automatically triggers the Retailers right to call for an upfront Security Deposit in most market contracts. Your retailer of today now has little else to focus on but their cost of working capital and credit risk. Their systems are much better at recording, tracking and monitoring your bill payment history and their people are much more focused on debtor days and credit worthiness for individuals, businesses and industry sectors. This interest often flows through to their pricing and sales departments, so when you next ask for a quote, the response may reflect both your own payment history and that of your industry peers.

**If you are going to have to pay late, be on the front foot.** Contact your retailer or account manager (if you have one) **before the account is due and request a payment extension**. Build on your relationship and confirm your discussions in writing or via e-mail with the date and name of the person whom you have spoken with and any agreement which you have struck with them. If you need help writing this letter your legal advisor or local Community Legal Centre may be able to help.

Back up your words with actions, **Part pay if you can**. Recognise that your retailer is already on the hook (for weekly settlements on energy which you have already consumed) so try to lessen this burden by putting some money into their bank account. Remember every day you pay late, eats into their profit margin and hurts, but if you go belly up, the retailer is still on the hook for the energy, network costs, metering and market fees, so they are well underwater and this is what they really fear. Try not to induce this fear by getting further and further behind!

Ask about a **payment plan**, most retailers offer a range of payment options, such as weekly or fortnightly Direct Debit, so ask about all of the available alternatives. **If you agree to a payment plan, stick to it**. When I was managing the credit department, this is one of the first things I would look at to decide if the customer was genuinely trying to work with us, or just telling us stories to buy time before disappearing. I never ordered a disconnection on a customer who was making an effort.

When all else fails, **stick your hand up and ask for help**. We are but human, not every venture can be a roaring success and not every year a record yield. Don't allow your pride to get in the way of finding a way out of the bog. Business is a team sport, seek out great players to guide and inspire you, if they don't know the answer to your problems, they'll know someone who does.

If you have done as much as you can and you are still in a bind, in addition to your accountant, help may be available from the following organisations.

Rural Financial Counseling Service <http://www.rfcstasmania.com.au/index.html>

The Energy Ombudsman 1800 001 170 <http://www.energyombudsman.tas.gov.au/>

A final word, on the policy side of things, often Retailers Hardship Policies and Payment Assistance programs apply mainly to residential account holders. Big Business and Government policy makers increasingly need to understand that despite having the words “Proprietary Limited” and an ABN after your company name, over 10,000 Tasmanian small businesses are home-based businesses (like ours) and the numbers are growing. Most of these businesses simply do not have the resources or financial backing to ride through unforeseen expenses like security deposits, but in my experience, Big Business credit policies are unlikely to differentiate between collecting overdue cash from a billion dollar company or a small business.

There are a far greater range of options and government programs for sourcing hardship assistance as an individual, than there are for a business, even where the two are really the same person. Small business is leading the local recovery, so talk to your industry or trade association about how to influence policies to support the growing small business sector.

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Dated 5 April 2013