

COVID-19: Financial liquidity in the electricity sector

State of play in the Energy Community Contracting Parties, 28 April 2020

In the wake of the COVID-19 crisis, Energy Community Contracting Parties adopted preventive measures having a direct or indirect influence on customer behaviour and the operation of entities in the electricity market. This has impacted the commercial arrangements along the electricity supply chain and the financial liquidity of electricity companies. The information provided hereinafter represents the state of play as of 28 April 2020 and may be amended to reflect additional developments.

As the crisis emerged in mid-March, governments, regulators and utilities in most Contracting Parties pledged not to disconnect customers for reasons of non-payment and to waive interest for delayed payments during the state of emergency. Relief measures, combined with curfews and limited working hours of customer centres, led to an immediate drop in the electricity bill collection rate, especially in those Contracting Parties where online payment systems are not yet widely utilised by customers. The drop ranged from 10 to 30% in March 2020 in most of the Contracting Parties, with Kosovo* and North Macedonia the most affected. Preliminary data for April 2020 show a further sharp decline of the collection rate in comparison to March 2020 in the majority of cases. On the other hand, the lack of guarantees from disconnection and strong pleas by the prime ministers and suppliers for customers to pay their electricity bills helped keeping the payment rate high in Georgia, while it started to increase after an initial drop in Albania.

The decrease in supplier income due to non-payment in the first month of the crisis has resulted in insufficient working capital that is necessary for suppliers to pay their liabilities. The pressure on working capital and lack of clarity on the distribution of the incurred loss of revenue along the supply chain gave rise to suppliers to activate force majeure provisions in their contractual arrangements with other market players, such as in Kosovo* and Ukraine, where payment of the suppliers' liabilities to upstream stakeholders (DSOs, TSO and producers, including renewables producers) was reduced. In North Macedonia, a universal supplier, which had paid all its liabilities from March 2020 had to secure loans and apply for a reduction in payment of its liabilities in April 2020. In Serbia, a power utility invoked force majeure to halt its legal obligations to privileged power producers under Power Purchase Agreements (PPA).

In the coming months, electricity companies are expected to face additional pressure in their efforts to maintain financial liquidity due to the decreased revenue and cash-flow because of non-payment and waiving of interest, lower consumption and a shift from commercial to residential consumption where electricity prices are often lower. The majority of supply companies foresee accumulating substantial customer debt by 1 July 2020. Projections show that the collection rate is expected to stabilise in the next couple of months, however, accumulated debt is likely not to be eliminated by the end of 2020. It is still unclear how this debt will be financed and allocated across unbundled vertically integrated undertakings. This will play an important role in the allocation of costs and the calculation of regulated tariffs in forthcoming tariff reviews.

Suppliers that are facing an immediate risk of insufficient working capital have either entered into negotiations with commercial banks and/or international financial institutions (IFIs) on additional loans or with their governments to receive support either directly or as guarantee towards commercial banks. Other measures that electricity companies are considering should the situation continue to escalate are deferring loan repayments to commercial banks and IFIs and postponing or reducing their tax and duty obligations.

Overview per Contracting Party

Albania

The payment of electricity bills is mandatory for all categories of customers and no deferment of disconnection in case of non-payment is allowed. In March 2020, the collection rate was 91,4%, resulting in increased receivables of around EUR 10 million. A notable increase in payment was recorded in April following public appeals by the Government and the supplier to customers to pay their electricity bills. In addition, customers started using alternative ways of payment such as online banking. The annual collection rate is not expected to be affected by the COVID-19 crisis. A relief measure, adopted by the Government and implemented by the universal supplier OSHEE, allows certain categories of households and small business customers to enter into an agreement with the supplier based on which all accrued interest on non-paid electricity bills (not the principal amount) which has accumulated until 31 December 2019 will be written off. A total of 227,568 indebted customers can benefit from the decision, 205,228 households and 22,340 business customers. The release measure amounts to approx. EUR 125 million.

Bosnia and Herzegovina

No measures regarding electricity bill payment relief or deferment of disconnection of customers for non-payment were adopted at the state level. The Government of Republika Srpska adopted a recommendation for the power utility of Republika Srpska (ERS) to waive interest rates from unpaid electricity bills for March, April and May 2020. In the Federation of Bosnia and Herzegovina, the power utility of Bosnia and Herzegovina (EP BiH) adopted a decision not to disconnect customers in case of non-payment during the crisis and is considering a legal possibility for waiving interest arrears. A legal solution that would allow for delayed payment of electricity bills is being considered also by power utility of HZ HB. A drop in the collection rate was recorded in Bosnia and Herzegovina. The collection rate in ERS was 69.5% in March 2020, whereas it was 85% in the previous month. In EP BiH, the collection rate was around 91% in March 2020, while in the same month last year it was 99%.

Georgia

The start of the crisis in Georgia was not followed by any decisions or announcements of non-disconnection of customers in case of non-payment and waiving of interest for delayed payments during the state of emergency. Georgia experienced only a slight decrease of the collection rate, decreasing from 100% recorded in the previous months of 2020 to 98% in March 2020. Nevertheless, no customer was disconnected due to delayed payment in March. For the electricity delivered in March, April and May 2020, the Government adopted a decision to subsidise all households with electricity consumption from 1 to 200 kwh (and gas consumption from 1 to 200 cubic meters). The subsidy could be prolonged depending on the duration of the crisis. This measure is expected to prevent the collection rate from dropping significantly and mitigate the financial illiquidity risk of suppliers. The Ministry of Health and Social Welfare will transfer the subsidy amount directly to the supplier's account by the end of April. Having in mind that the majority of household customers are eligible for the subsidy, it is expected that the collection rate will remain between 90% to 95% in the following months and stabilize and return to 100% within a period of 3 to 6 months following the crisis. The possibility to delay payment is offered by the supply company Energo-Pro to customers that consume more than 201 kWh on a case by case basis.

Kosovo*¹

An initial announcement by governmental officials that the payment deadline for March electricity bills is postponed until 30 April 2020 led to a significant drop in the collection rate, standing at 73% in March 2020, compared to 99% in March 2019. Due to the imposed curfew and the fact that cash payment is prevailing, despite the possibility of using the e-KESCO platform and online banking, the decreasing trend continued with the collection rate at less than 60% by 21 April. According to the revised collection plan, the supply company KESCO is expecting customer debt to increase up to EUR 49 million by 1 July 2020. KESCO, as an immediate measure, triggered the force majeure provision under the contractual arrangements with other stakeholders in the supply chain (DSO, TSO and generation company KEK). Payment is done in a way that the core financial liabilities are covered first, such as payment of imported electricity. The remaining collected amount is being distributed to the other stakeholders proportionally to the collection rate. KESCO requested further support from the Government including, in the first place, non-financial measures, such as public appeal to customers to pay electricity bills, guidance on reading/billing due to quarantine measures, etc. A possibility of financial support to KESCO is currently being discussed with the relevant institutions.

Moldova

According to the decision of the national regulatory authority ANRE, disconnecting customers and charging interest for delayed payment of electricity bills during the state of emergency are not allowed. The collection rate dropped to 90% in March 2020, and by 21 April 2020 stood at 77.7%. Receivables increased in the amount of EUR 4.7 million, of which the largest share amounting to EUR 2.7 million was incurred due to the non-payment of bills by household customers. By the end of April, receivables are expected to reach EUR 6.7 million, out of which EUR 3.6 million will be from households.

Montenegro

The Government adopted a decision by which the companies whose work is prohibited by the order of the Ministry of Health will be exempted from payment of a fixed part of the electricity bill for the months of April, May and June 2020. In addition, the Montenegrin Electric Enterprise (EPCG) decided to double the amount of electricity bill subsidies for socially vulnerable households, which will be covered from EPCG's own funds, for the period during which the emergency measures apply. In March 2020, the collection rate was 86.96%, leading to an increase of receivables of around EUR 2.85 million.

North Macedonia

The Energy Regulatory Commission (ERC) issued a recommendation for customers not to be disconnected due to unpaid electricity bills during the state of emergency. Customers that were previously disconnected due to unpaid bills were reconnected after the crisis emerged. Furthermore, ERC agreed with the universal supplier EVN HOME to offer customers affected by the COVID-19 crisis, namely those with minimal wages, the option to pay their electricity bills for March, April and May 2020 in instalments and without interest for overdue payment. As of the beginning of the state of emergency, the supplier EVN HOME recorded a collection rate decrease of 31% in the first week

¹ This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

of April compared to the same period in March 2020. Despite a reduction of planned income of around 30%, EVN HOME has still paid its liabilities for March 2020 to upstream stakeholders in the supply chain (DSO, TSO, Market Operator and generation company ESM). In order to ensure a buffer against further reduction of the collection rate and secure its financial liquidity, EVN HOME has applied for credit with five domestic banks and the European Bank for Reconstruction and Development (EBRD) in the total amount of EUR 40 million. EVN HOME officially informed the Government of the negative impact of the crisis on the company's financial liquidity and applied for a reduction in the payment of its liabilities to the generation company ESM in April 2020.

Serbia

Upon declaration of the state of emergency, Electric Power Industry of Serbia (EPS) activated the force majeure provision under its PPAs with privileged producers as a measure to cushion the expected decrease of income from its supply activities and ensure its financial liquidity. This lifted the obligation of EPS to purchase electricity from privileged producers during the state of emergency. EPS offered to purchase and balance electricity from privileged producers at the regulated purchase price of electricity for guaranteed supply of approx. 28 EUR/kWh. On the supply side, EPS will not charge penalties to customers in case of delayed electricity bill payment. Pensioners will be given a prolonged deadline with the regular 5% discount for timely payment included. No information has been received on the decrease of the collection rate and the financial liquidity of EPS so far.

Ukraine

A moratorium on disconnection for non-payment was imposed by the Law of Ukraine "On Amending Certain Legislative Acts of Ukraine aimed at Preventing the Occurrence and Spread of Coronavirus Disease (COVID-19)". Households and communal services are not allowed to be disconnected due to non-payment during the period of quarantine or restrictive measures related to the spread of COVID-19 and during the first 30 days following the termination of the measures. Following the state of emergency, the supply company DTEK, who is acting as a universal supplier in Kiev city, Dnipropetrovsk and Donetsk regions, experienced a drop in the collection rate. In March 2020, the collection rate was 90%, whereas in January and February it was 98% and 104% respectively. Having in mind the ongoing quarantine and the restriction on disconnection, DTEK expects a further decrease in the collection rate, dropping down to 65% or less. Its revenue deficit in April is estimated at EUR 47.7 million. Should the non-payment continue in May and June, the deficit is expected to increase up to EUR 170 million by 1 July 2020. The incurred debt could be reduced only to EUR 136 million by the end of the year, according to DTEK's projections. Due to the lack of working capital, DTEK's supply branch reduced the payment of its liabilities to the TSO and DSOs for April 2020.