



2 July 2015

Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

### **ERC0183/GRC0032 National Electricity/Gas Amendment (Retailer-Distributor Credit Support Requirements) Rule 2015**

Alinta Energy Retail Sales Pty Ltd (**Alinta Energy**) welcomes the opportunity to provide a response to the consultation by the Australian Energy Market Commission (**AEMC**) on the proposed rule change which seeks to amend the retailer-distributor credit support requirements in the National Electricity Rules (**NER**) and National Gas Rules (**NGR**).

Alinta Energy is both a generator and retailer of electricity and gas in the east coast energy markets and in Western Australia. It has over 2,500MW of generation facilities and in excess of 750,000 retail customers, including around 150,000 customers in Victoria and South Australia. Alinta Energy is an authorised electricity and gas retailer in NSW, however is yet to enter the NSW residential energy market.

Alinta Energy notes that the current arrangements in the NER and NGR enable a distributor to request credit support from a retailer when the retailer's network charges liability exceeds its credit allowance. The determination of the credit allowance is a function of the distributor's annual network charges and the retailer's credit rating, with a higher credit rating equating to a higher credit allowance.

Under the proposed rule change, if a retailer's credit rating (Standard and Poor's (**S&P**) or equivalent) is BBB- or better, the retailer would not be required to provide any credit support to the distributor. However if the retailer has a credit rating below BBB- then credit support would be required.

Alinta Energy **strongly opposes** the proposed rule change, which disadvantages smaller retailers in favour of larger retailers:

- Smaller companies generally have a lower credit rating as a function of being small, as company size is used by S&P's, Moody's and other rating services as a criteria for rating; and
- The cost of credit support is higher for smaller/lower-rated companies than for large companies. This higher cost can act as a barrier to entry for smaller retailers, discouraging competition.

Alinta Energy is a small retailer on the east coast with a current S&P credit rating of BB-. Figure 5.4 of the AEMC's Consultation Paper indicates credit support requirements for a small retailer with 5% market share and 90 days of outstanding network payments would, under the proposed changes, increase from zero to approximately 17.5% of its annual network charges. This is a significant cost increase for a small retailer.

In contrast, the proposed rule change decreases the credit support requirements for a larger retailer. Alinta Energy notes that this change doesn't recognise that a larger retailer is of greater systemic risk than a smaller retailer and that therefore it makes sense for larger

retailers to also provide credit support. A similar rationale has been acknowledged within the world-wide financial system; banking reform post the Global Financial Crisis of 2007-08 recognises systemically important financial institutions, which have had increased capital/liquidity provisions placed on them due to their importance in the system<sup>1</sup>.

Alinta Energy maintains that credit support requirements for small retailers are already significant and adequate in meeting any potential level of risk. Credit support facilities for small retailers are generally highly utilised and any proposed increases could see the use of cash and/or supplementary credit support facilities at additional cost.

Whilst understanding it is outside the scope of this review, an additional aspect of credit support that needs to be considered is the form in which retailers provide credit support. Historically, distributors have been closed to the idea of retailers meeting credit support obligations through methods other than bank guarantees. Other risk mitigation products exist in the market and distributors should be obligated to consider other options outside the provision of guarantees. These options may include the prepayment of network bills or the taking out of insurance coverage.

Alinta Energy has analysed the impact of the proposed rule amendment on its business and this is provided to the AEMC in confidence in the Attachment.

If you have any questions concerning this submission please contact me on (08) 9486 3191 or [catherine.rousch@alintaenergy.com.au](mailto:catherine.rousch@alintaenergy.com.au).

Yours sincerely



**Catherine Rousch**  
Manager Regulatory Compliance  
Alinta Energy

---

<sup>1</sup> Australian Prudential Regulation Authority (**APRA**) media release 23 Dec 2013: *APRA releases framework for domestic systemically important banks in Australia* [www.apra.gov.au](http://www.apra.gov.au)