



12 July 2013

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Via electronic submission

Dear Commissioners

Submission on First Interim Report: NEM financial market resilience

Australian Power & Gas (**APG**) welcomes the opportunity to provide a submission to the Australian Energy Market Commission (**AEMC**) to support its *First Interim Report: NEM financial market resilience* (**Interim Report**). APG commends the AEMC for the extensive consultation with industry on this issue and has appreciated the opportunity to participate in the AEMC's working group for this review.

APG is a Tier 2 retailer supplying electricity and gas to customers in New South Wales, Queensland and Victoria. Commencing operations in 2007, APG has grown its customer base across three states to approximately 341,000 customers. APG is not vertically integrated with any generator and therefore will focus its submission from its perspective as a stand-alone retailer. Further, APG considers its input to the working group as part of the consultation process for this review and will not reiterate discussions undertaken as part of this submission. APG also supports the submission of the Energy Retailers Association of Australia (**ERAA**), of which APG is an active, full member.

APG appreciates the complex nature of this review, especially in the context of assessing the management of an event, the failure of a "large" retailer, which has a low likelihood of occurring. Fundamentally, the energy market's financial underpinnings and the risk management arrangements of market participants are robust. To date, retailer failures have been managed under the Retailer of Last Resort (**RoLR**) regimes in place without great difficulty. However, APG understands that international events, including major institutional failures during the global financial crisis (**GFC**), have raised concerns about the risks and consequences of a large retailer failure on the market and consumers.

Throughout the working group process, APG has advocated that any recommendations from this review should minimise the need for regulatory intervention and allow the market to respond to what is essentially a market failure. APG appreciates that the AEMC has sought to develop recommendations that proportionately respond to the risks and has highlighted the need for any regulation to be justified in terms of cost to industry and impact on the market. Such costs have a direct impact on retail competition, particularly for small retailers such as APG, where additional regulatory costs are a barrier to growth and will discourage new retailers from entering the competitive market.

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Changes to the RoLR scheme and credit support arrangements

APG is generally supportive of the recommendations proposed in the Interim Report to provide the RoLRs increased confidence on their ability to recover costs associated with meeting their obligations. APG believes that the financial stress resulting from a retailer needing to undertake its RoLR obligations has limited retailers self-nominating to be an additional RoLRs. This leaves the RoLR regimes relying on the largest retailers who serve as designated RoLRs. APG believes that the recommendations proposed will not only ease financial stress on RoLRs but may encourage additional retailers to act as a RoLR, particularly where multiple retailers may be needed for a large retailer failure.

Whilst the recommendations address changing RoLR provisions in the National Energy Retail Law (**NERL**) may have merit, APG is concerned that the proposed changes will only apply to NEM RoLR events. As the RoLR scheme is harmonised to cover both electricity and gas retailers, the AEMC may need to consider the potential impacts of splitting the RoLR scheme by fuel as the failure of a retailer in most instances will affect both gas and electricity markets and customers.

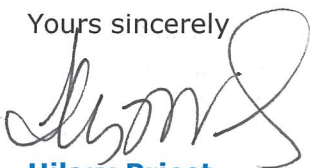
APG is also supportive of the recommendations to ease Australian Energy Market Operator (**AEMO**) prudential requirements for retailers assuming RoLR obligations in order to reduce financial pressure on RoLRs needing to provide immediate credit support to cover customers acquired during a RoLR event.

Special administration regime

APG understands the balance that the AEMC is seeking to achieve in developing the concept of a special administration regime to manage the failure of a large retailer rather than introducing moral hazard through proposing government bailouts. Whilst APG believes that government intervention may be necessary in the event of a large retailer failure to ensure the smooth transition of consumers to new electricity suppliers, it is concerned that the costs and management of the proposed regime will outweigh the benefits. Further, how such a regime will interface with existing requirements of insolvency laws to prioritise the efficient transitioning of consumers over the interests of administrators and creditors will require significant legislative changes. APG will follow the development of this recommendation with interest.

APG welcomes the opportunity to discuss its submission with the AEMC and will continue to support the working group as requested by the Commission. Please do not hesitate to contact me on 02 8908 2714 or via email at hpriest@auspg.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Hilary Priest'.

Hilary Priest

Manager, Government and Regulatory Affairs