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26 November 2015

Australian Gas Networks

Ms. Anne Pearson
AEMC Senior Director
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Ms Pearson

National Electricity Amendment (Retailer – Distributor Credit Support requirements) Rule 2015 and National Gas Amendment (Retailer – Distributor Credit Support requirements) Rule 2015

Australian Gas Networks Limited (AGN) welcomes the opportunity to make a submission to the AEMC in response to the retailer-distributor credit support requirements and the retailer insolvency cost-pass through provisions in the National Electricity Rules (NER) and the National Gas Rules (NGR) published by the AEMC on 22 October 2015.

AGN (formerly Envestra)[1] is one of Australia's largest natural gas distribution companies. AGN owns approximately 23,000 kilometres of natural gas distribution networks and 1,100 kilometres of transmission pipelines, serving over 1.2 million consumers in South Australia, Victoria, Queensland, New South Wales and the Northern Territory.

AGN understands that our industry body, Energy Networks Association (ENA), has also made a submission and we are supportive of the positions put forward in that submission.

AGN supports both elements of the COAG Energy Council and Jemena Gas Networks retailer insolvency cost pass-through rule change, namely:

- removing the materiality threshold, where one applies; and
- clarifying the provisions to ensure that foregone revenue is included in the costs distributors are able to recover in the cost pass-through amount.

[1] On 27 October 2014, Australian Gas Networks Limited was announced as the new name for Envestra Limited. The name change was effective from 3 November 2014 and has no impact on the service offering of the Company.

However, in relation to the AGL rule change AGN is concerned that as the purpose of Chapter 6B Part B of the NER and Part 21, Division 4 of the NGR is to mitigate the credit risks of retailers to distribution network service providers (DNSPs), then any rule that lowers the benchmark such that a DNSP will never be entitled to credit support leaves the market open to contagion and systemic risk.

AGN favours option 2.3 as it would improve the existing arrangements and capture the COAG Energy Council and Jemena proposals with enhanced credit support.

This option assumes that the retailer insolvency cost pass-through proposed rule changes are implemented and an alternative set of credit support requirements are introduced such as:

- re-alignment of D&B dynamic risk scores and S&P, Moody's and Fitch credit ratings to reflect differences in methodology; and
- restricting the use of D&B dynamic risk scores to instances where a retailer or its parent guarantor do not have a credit rating from S&P, Moody's and Fitch.

AGN believes the present Rules will be enhanced by correctly aligning the probability of default of D&B with those of S&P, Moody's and Fitch. Only where an entity (a retailer or its parent guarantor) does not have a rating from S&P, Moody's or Fitch, a D&B dynamic risk score can be used for the purposes of determining the amount of credit allowance and support that may be required.

AGN also notes that the AEMC has developed further options, including Option 3 involving the introduction a retailer default fund. While conceptually this option may possess some potential of promoting the long-term interests of consumers, there are a range of critical design and implementation issues not addressed in the Options Paper which prevent it from being assessed as a fully-formed option.

AGN therefore supports Option 2.3, noting that further and potentially lengthy policy design and development processes would be required to progress Option 3.

Please contact either Geoff Barton (08 8418 1130) or myself (08 8418 1129) if you would like to discuss the matters raised in this submission further.

Yours sincerely

Craig de Laine
General Manager – Regulation