

22 December 2016

Mr John Pierce

Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Energy Networks Australia submission to the AEMC's Draft Rule Determination on the Retailer – Distributor Credit Support Requirements Rule Change.

Dear Mr Pierce,

Energy Networks Australia welcomes the opportunity to make a submission to the Australian Energy Market Commission (AEMC) in response to the *National Electricity Amendment (Retailer – distributor credit support requirements) Rule 2016* and the related *National Gas Amendment Rule* published by the AEMC on 27 October 2016.

Energy Networks Australia is the national industry association representing the businesses operating Australia's electricity transmission and distribution and gas distribution networks. Member businesses provide energy to virtually every household and business in Australia.

Energy Networks Australia is supportive of amendments to the National Electricity Rules (NER) and the National Gas Rules (NGR) to enhance the operation of the retailer insolvency cost pass-through provisions by:

- » removing the materiality threshold (currently one per cent of a distributor's annual revenue requirement), where applicable;
- » confirming that unpaid network charges may be included as part of a distributor's insolvency costs following a retailer insolvency event; and
- » confirming that the retailer insolvency cost pass-through provisions take precedence over any inconsistent provisions in any distributor's access arrangements, which is applicable only to the NGR.

However, Energy Networks Australia does not support the amended credit support arrangements proposed and the removal of the credit risk based approach, as it is uncertain that the AEMC's proposed ex-post retailer-distributor credit support arrangements will provide energy market confidence and financial stability, even with the improved retailer insolvency cost pass-through provisions. The key issue is that the regulatory framework does not provide distributors with sufficient access to short term funding to maintain mandated services in the event of a major retailer insolvency event.

Further, there is no continual monitoring or review of retailers ongoing financial stability, other than via credit ratings agencies following the AER's initial authorisation. This is increasingly important in an energy market experiencing substantial changes and requiring significant investment to integrate higher levels of renewable energy in the future.

Energy Networks Australia believes that it is not appropriate, or in keeping with the pricing aspects of the National Electricity Objective, that a distributor may be required to provide credit to a late paying retailer, with a non-investment-grade bond status, for up to three or four months before the late payment trigger for credit support could be used.

Energy Networks Australia has previously advocated, and continues to advocate, for the realignment of the Dunn and Bradstreet ratings to the Standards and Poor rating. This amendment would not transfer or change the risk position between distributors and retailers, rather it is an administrative amendment to reflect the revisions in Dunn and Bradstreet ratings which has occurred.

The credit risk based approach, with associated credit thresholds, incentivises retailers to spread their market participation across several jurisdictions and several distributors, thus avoiding credit support requirements by staying below the required credit limits. Additionally, current arrangements encourage active retail competition, which is in customers' interests. Retailers do not generally need to provide credit support under current credit risk arrangements, so Energy Networks Australia does not agree that these arrangements are barriers to expansion and competition, or that the cost burden is borne by customers in retail prices today.

Energy Networks Australia supports retention of the existing arrangements, including the realignment of the Dunn and Bradstreet ratings to the Standards and Poor rating.

Should the AEMC proceed with the draft rule, as currently proposed, Energy Networks Australia notes that clauses 6B. B2.1 (a) (2) and (3) will have the effect that up to three statements of charges would be owing before a distributor could request one statement of charges worth of credit support. Energy Networks Australia submits that the credit support requested in 6B. B2.1 (b) should be for an amount equal to unpaid liability based on previous statements, or for an amount equivalent of the estimated liability at the date of the request.

The drafting in 6B. B2.1 (a) (3) suggests that a further invoice could be issued and remain unpaid before credit support could be requested for the initial invoice. Energy Networks Australia suggest that the 25 business days be reduced to 17 business days, so the most recent statement of charges is still consistent with the initial months' invoice at the time the credit support is requested.

Another unidentified point in the Draft Determination is that energy consumption fluctuates significantly across the year based on weather impacts. Limiting credit support to the most recent statement of charges does not allow for variability and does not allow the distributor to request additional credit support.

The Draft Rule suggests that only one statement of charges worth of credit support can be requested. Energy Networks Australia suggests that this may be insufficient, as in some circumstances there may be three months' liability owing.

Energy Networks Australia notes that separate arrangements apply in Victoria, as Victoria has not adopted the National Energy Customer Framework.

If further information is sought on this matter, please contact Ms Kate Healey, Director Regulation, on 02 6272 1516 or by email on khealey@energynetworks.com.au.

Yours sincerely,



John Bradley
Chief Executive Officer