

19 December 2013

Mr John Pierce
Chairman
Australian Energy Market Commission
Level 5, 201 Elizabeth St
Sydney NSW 2000

via website: submissions@aemc.gov.au

Dear Mr Pierce

EMO0024 – AEMC Market Review - NEM financial market resilience – response to Stage 2 Options Paper

Thank you for the opportunity to make a submission in response to EMO0024 – AEMC Market Review – NEM financial market resilience – Stage 2 Options Paper released on 8 November 2013.

The ENA notes that whilst Stage 1 of the NEM financial market resilience (the Review) was focused on the risk of financial contagion arising from the failure of a large retailer and associated retailer of last resort (RoLR) event; Stage 2 is focussed on considering other possible risks of financial contagion in the NEM. Specifically it is aimed at highlighting the role played by financial contracts – known as derivatives – that are used by generators and retailers to manage their exposure to the wholesale spot price for electricity.

It is our understanding that whilst Stage 1 examined options to mitigate the risks and impacts of financial contagion to other NEM participants arising from a large retailer failing and possible cascading retailer failure; Stage 2 is primarily aimed at identifying measures to prevent a RoLR event from occurring and possibly escalating to contagion, as a result of the number and nature of financial inter-relationships between generators and retailers.

The ENA supports the focus of Stage 2 of the Review. In our view, there is significant benefit in exploring measures to embed a principle based framework of risk mitigation strategies to prevent RoLR events from occurring. We consider that measures aimed at improving financial reporting and providing greater transparency of financial credit arrangements could achieve this, and will likely assist in the early identification and possible prevention of RoLR events.

Consequently, whilst the ENA is supportive of the focus of Stage 2 of the Review, we consider it essential that full consideration of any implications to network business operations arising from the options discussed in the Stage 2 Options Paper, are taken into account by the AEMC. As noted in our initial submission to the AEMC Options Paper in December 2012, the criticality of financial relationships in the NEM is not isolated to just retailers and generators. Network businesses operations depend significantly on there being a high level of confidence in the financial credit arrangements that support the physical delivery of electricity to customers.

A large retailer failure and the possibility of financial contagion would impact significantly on the cash flow of network businesses with the potential for this to impact the ongoing capability for the provision of network services with resulting broad societal effects.

For clarification we repeat an example included in a previous submission. A nominal DNSP with annual revenue of \$2 billion is raising invoices to the value of \$38 million each week. Assuming 50% of its customers are with the local retailer then approximately \$19 million each week (50% of its revenue) is assumed in its cash flow planning to maintain operations.

The ENA welcomes the opportunity to participate in the further development of this Review.

If you have any questions please contact Jim Bain on 02 6272 1516.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Bradley', with a small black dot to its right.

John Bradley
Chief Executive Officer