

Australian Energy Market Commission
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Lodged (by online/email): <http://www.aemc.gov.au/Contact-Us/Lodge-a-submission.aspx>

21st December 2016

Draft rule determination – Retailer distributor credit support requirements

The Australian Energy Council (the Energy Council) welcomes the opportunity to make a submission to the Australian Energy Market Commission (AEMC) on the Draft rule determination – Retailer distributor credit support requirements.

The Australian Energy Council is an industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia, and sell gas and electricity to over 10 million homes and businesses.

In its draft rule determination the AEMC has drafted more preferable rules to those variously submitted by the original rule change proponents AGL, the Council of Australian Governments (COAG) and Jemena. The Energy Council recognises that the AEMC has sought further expert opinion in its original options paper and has consulted widely prior to publishing the draft rule determination. The Energy Council supports the AEMC's draft rule determination and believes it addresses both the likelihood and magnitude of the risks faced by distributors.

The draft rule determination achieves this by:

- Reducing the risk faced by DNSP's from retailer defaults by confirming that unpaid network charges are included in insolvency costs, along with removing the materiality threshold; and
- Providing that a distributor may request credit support from a retailer with a poor payment history.

Combined, these have the practical effect of ensuring that distributors can collect unpaid network charges and associated costs.

Incorporating a suitable incentive for retailers to maintain good credit worthiness into the draft rule determination means a retailer with a poor payment history may be required to provide credit support. We support an incentive linked to payment history over one that considers credit score. This provides a more pragmatic approach and meets the objective of providing appropriate signals for companies to maintain their creditworthiness over time, as well as to avoid excessive risk-taking.

Furthermore, the draft rule determination is competitively neutral. The justification of intent to encourage the participation of more small retailers (who tend to have relatively low credit ratings) that influenced earlier rule outcomes produced a number of economic inefficiencies. Not the least of these was changes that led to inefficient levels of credit support required primarily from retailers least likely to default, meaning the overall quantum of credit support being provided was too high; and much of it could not be called upon in the event of a riskier retailer defaulting. These inefficiencies have been appropriately addressed in the draft rule determination.

We note the AEMC's view that any existing retailer-distributor credit support arrangements are not necessarily extinguished by the draft rule, and also of the exception of Victoria in the draft rule determination.

Given that the draft rule determination will mitigate distributor revenue risk, will have no unintended (or otherwise) consequences for retail competition, and minimises costs to consumers over the long term, it has the full support of the Energy Council in its current form.

Should you have any questions in relation to this rule change request please contact David Markham, telephone 03 9205 3107 or david.markham@energycouncil.com.au.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'S. McNamara', with a long horizontal flourish extending to the right.

Sarah McNamara
General Manager Corporate Affairs