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22 December 2016

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

Submitted electronically

Dear Mr Pierce,

Re: Retailer-distributor credit support requirements (ERC0183)

Red Energy (Red) and Lumo Energy (Lumo) welcome the opportunity to respond to the Australian Energy Market Commission (the Commission) on the National Electricity and Gas Amendment (Retailer-distributor credit support requirements) Draft Determination (the draft determination).

We support the draft determination on the basis that it delivers an effective regulatory package to mitigate the revenue, liquidity and systemic risk that arises from a retailer default in a balanced and cost effective manner.

Specifically, the draft determination mitigates a distributor's:

- revenue risk by removing the current 1% materiality cost pass through threshold, confirms that unpaid network charges may be included as a part of a distributor's insolvency costs and authorises for retailer insolvency cost pass through provisions to take precedence over any inconsistent provisions in the National Gas Rules
- liquidity risk arguing monopoly distributors with strong cash flows are best placed on how to manage their liquidity risk which may arise from a retailer default
- systemic risk by providing an incentive for retailers to continue to pay their bills on time by requiring a retailer to provide credit support in an amount equal to its last payment of charges in the case of late payments.

Overall, this solution improves the efficiency of dealing with the risks to a distributor of any retailer default when compared with the current arrangements. On this basis, Red and Lumo agree that the draft determination is consistent with the National Electricity Objective and National Gas Objectives.

We welcome the opportunity for further discussions regarding this rule change with the Commission. For any further enquiries regarding this submission, please call Con Noutso, Regulatory Manager on 03 9976 5701.

Yours sincerely

Ramy Soussou
General Manager Regulatory Affairs & Stakeholder Relations
Red Energy Pty Ltd
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