



Retailer-distributor credit support requirements

AEMC starts consultation on rule change requests from AGL

AGL has proposed changes to the arrangements for managing the risk to distribution businesses of non-payment for services provided to customers due to a retailer default.

Credit support arrangements

Distributors face commercial risks associated with the non-payment of network charges resulting from a retailer default. These risks arise as distributors rely on retailers to collect the network charges from their shared customers and to remit those funds to the distributor.

The provision of credit support is one of a number of regulatory and commercial mechanisms available to distributors to manage the risks associated with retailer default. Credit support serves to limit distributors' financial exposure to retailer default.

The rule change requests

AGL has requested rule changes that would amend the retailer-distributor credit support requirements under the National Electricity Rules and the National Gas Rules.

Under the proposed rules, the credit support requirements would be amended so that a retailer with a BBB- credit rating and above would not be required to provide credit support. AGL considers that a BBB- credit rating reflects the minimum rating for which no credit support should be required. Retailers with a credit rating below BBB- would be required to provide credit support in an amount that equates the value at risk to the distributor to the amount that would be at risk if the retailer was rated BBB-.

AGL considers that the proposed rules would better reflect the actual risks faced by distributors from retailer default and better align the costs of the credit support requirements with these risks.

Proposed approach

Rather than simply assessing the AGL rule change requests against the current credit support requirements, we propose to take a broader view of how the risks and costs involved with retailer default should best be managed. We will examine different options for managing these risks and allocating the associated costs to various parties.

We have proposed a set of principles to be taken into account when assessing the different options. These will guide the development of a rule for managing the risks associated with retailer default that will contribute to the long term interests of consumers.

The AEMC has prepared a consultation paper to facilitate public consultation on AGL's rule change requests.

Stakeholders are encouraged to provide any submissions by 2 July 2015.

The AEMC has extended the timeframe for the publication of the draft determination relating to these rule change requests. The extension will allow us to conduct additional consultation, through the publication of an options paper, prior to release of the draft determination. The AEMC considers the extension appropriate given the complex issues raised by the rule change requests, the varying views of stakeholders and the potential for some stakeholders to be materially financially impacted by changes to the credit support requirements.

The draft determination will be published on 18 February 2016

Current credit support requirements

The current credit support requirements in the National Electricity Rules and the National Gas Rules provide that a distributor may request credit support when a retailer's network charges liability (billed, but unpaid, and unbilled charges over the outstanding period) exceeds its credit allowance. The determination of the credit allowance is a function of both the distributor's annual network charges and the retailer's credit rating, with a higher credit rating equating to a higher credit allowance. For any given credit rating, as a retailer's market share increases, all else being equal, its network charges liability increases. The amount of credit support that may be required then also increases.

Under the current credit support requirements, a small retailer rarely has to provide credit support – irrespective of its credit rating – because the retailer's network charges liability generally will not exceed its credit allowance. Conversely, a retailer with a large market share may be required to provide credit support, even if it has an investment grade credit rating.

Consolidation with COAG Energy Council rule change request

The AEMC received a rule change request from the COAG Energy Council to amend the retailer insolvency cost pass-through provisions in the National Electricity Rules. We published a consultation paper in relation to the retailer insolvency cost pass-through rule change request and the first round of consultation closed on 11 December 2014. Submissions on the consultation paper indicate that stakeholders see a link between the retailer insolvency cost pass-through rule change request and the retailer-distributor credit support requirements rule change requests.

The AEMC has consolidated the COAG Energy Council's rule change request related to the retailer insolvency cost pass-through provisions with the rule change request received from AGL in relation to the retailer-distributor credit support requirements under the National Electricity Rules.

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