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

Dear Mr Pierce

Market Participant Suspension Framework Consultation Paper (ERC0202)

Ausgrid welcomes the opportunity to provide a submission on the Rule change proposal made by the Council of Australian Governments (COAG) Energy Council aimed at clarifying the market participant suspension framework.

We understand that the Rule change request seeks to clarify in the Rules, the possibility of AEMO not suspending a Market Participant, or parts of its activities from the market when under external administration. We are supportive of this discretion where it is applied to ensure the continued operation of generation assets to enable DNSPs to provide safe, reliable supply to consumers.

Our only concern with the proposed suspension framework is that AEMO's discretion may give rise to financial uncertainty in the market, this is because we presume that while the customers (NMI's) of the failed retailer would trigger a Retail of Last Resort (RoLR) event and be transferred to the RoLR Retailer, the creditors (DNSP & Others) would still have claims against the entity with the generation assets, where deeds of cross guarantee are in place between related entities. Therefore there is a risk of financial contagion as AEMO will not have full visibility (or power) over all of the Market Participant's businesses/subsidiaries in order to mitigate financial distress in the NEM. This is of particular concern because we note that while not explicitly discussed in the AEMC's Consultation Paper there are proposed changes to the Rules to delay payment of DNSP credit support requirements (proposed drafting changes to clause 6B.B2.3).

We submit that any changes to the credit support regime need to be considered holistically. In order to mitigate our concern with the above issue in the market suspension framework, we are a strong advocate in strengthening the existing credit support regime and have raised this in our submissions to the current AEMC review of Retailer-Distributor Credit Support Requirements as well in the NEM Financial Resilience Review. We have proposed that the Rules should be improved by addressing three major issues with the current credit support Rules, namely:

- The three largest Retailers each have a Standard & Poor's (S&P's) corporate credit rating which applies to the consolidated entity, its group financial results and risk structure. Each of these large energy Retailers operates under multiple financially responsible market participants (FRMP) and various legal entities. However, Ausgrid's experience is that a Retailer (or Retailers) within the group seeks to rely on the corporate credit rating for the rated FRMP and a Dun & Bradstreet dynamic risk score for the other un-rated FRMP's, thereby availing the

Retailer of multiple credit allowances, resulting in the DNSP having no or inadequate credit support.

In order to address this problem, the current clause 6B.B3 of the Rules would need to be amended to explicitly state that the applicable credit support allowance can only be obtained for the parent Retailer based on their credit rating and that credit allowance apportioned to the related entities/ FRMPs within a Retailer group, so that Retailers can no longer receive multiple credit allowances for un-rated subsidiaries. That is, where a FRMP(s) or authorised Retailer(s) is a part of a large rated entity, the credit rating assigned by S&P's, Moody's or Fitch applies at the corporate level and the DNSP will determine how the credit allowance will be apportioned amongst the Retailers within the group (based on the methodology prescribed in the Rules).

- While credit ratings incorporate dynamic measures of risk, they do not address the single name concentration risk that DNSPs have to the largest three Retailers that dominate the NEM.

We recommend the inclusion of a concentration premium 'add on' that should be applied to the current provisions such that the credit support requirement captures single name credit concentration risk as well as the risk of default.

- The current Rules Table in Schedule 6B.1 (Clause 6B.B3.1) misaligns the Probability of Default of Dun & Bradstreet to Standard & Poor's and as a result gives unrated Retailers unrealistic credit allowances. We submit that the Rules should realign the Probability of Default of Dun & Bradstreet to Standard & Poor's/ Fitch/ Moody's PD. In addition, the Rules should retain the risk benchmark rating to A- or equivalent from S&P's, Moodys and Fitch.

The most effective way of mitigating the potential credit and cash flow impacts from a Retailer failure is through having effective credit support arrangements that can be enforced and provide certainty to Market Participants.

Ausgrid would be pleased to provide any further assistance or detail in order to give effect to our proposals. If you would like to discuss our submission further or arrange a meeting, please contact Mr Robert Millar on (02) 9269 3148.

Yours sincerely



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A/Chief Financial Officer