



22 December 2016

Alan Rai

Director

Australian Energy Market Commission

PO Box A2449

Sydney South NSW 1235

Dear Mr Rai,

AGL Energy Limited (AGL) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC's) Draft Rule Determination on retail-distributor credit support requirements.

AGL is Australia's largest integrated energy company, operating across the supply chain with investments in coal-fired, gas-fired, and renewable electricity generation and is a significant retailer of energy, providing energy solutions to 3.7 million customers across gas, electricity, solar PV and batteries in the National Energy Market. AGL is Australia's largest ASX listed owner, operator and developer of renewable generation.

AGL supports the AEMC preferred Draft Rule, being:

- Enhancement of the operation of the retailer insolvency cost pass-through provisions;
- Removal of the requirement for a retailer to provide credit support to a distributor except in the case of a history of late payment of distributor's invoices by a retailer; and
- Retention of the existing credit support provisions so that they continue to operate as between any distributor and retailer, where that distributor currently holds credit support from that retailer.

As the Draft Decision outlines, AGL was the proponent of the original Rule Change request for retailer-distributor credit support requirements. Our objective for lodging the Rule Change was to correct an inefficiency in the requirements of the National Electricity Rules and the National Gas Rules (the Rules) that resulted in the current Rules not aligning credit support paid by retailers to distributors to the risk of retailer default.

It was AGL's view the current regime led to inefficient outcomes. Retailers with a low risk of failure were required to pay credit support, whereas retailers that presented a higher risk were not necessarily required to pay credit support, leading to cross subsidises between those retailers' customers.

As such, AGL proposed a Rule to eliminate the cross subsidy by better aligning the risk of failure with credit support regulatory obligations. COAG and Jemena made subsequent Rule change proposals to improve the operation of the retailer insolvency cost pass-through provisions for distributors.

AGL commends the AEMC in combining the various proposed Rule changes and the extensive consultation undertaken in the Rule making process. In particular, AGL appreciated the AEMC's approach to examine all possible solutions, which included a detailed analysis to understanding how a Retailer Fund Scheme might operate and the costs and benefits of such a scheme compared to other options to improve the retailer-distributor credit support requirements.

AGL supports the principles used by the AEMC in taking a broader market view of not only ensuring credit support obligations align with retailer risk of failure but also examining the most efficient and effective method for distributors to manage their risks of a retailer failure (including revenue, liquidity and broader systemic risks) and the impact on customers from the perspective of the most cost effective approach from changes in network revenue based on revenue and pricing principles.

Collectively, the proposed Rule will result in distributors being able to fully collect revenue lost from a retailer failure, better align retailer risk of failure with payment obligations, will have no unintended consequences on broader retailer and distributor commercial relations and minimises costs to consumers over the long term from better a more efficient and effective credit support regime.

AGL supports the AEMC finding that a regulatory mechanism to mitigate distributor liquidity risk is not necessary at this time. AGL supports and agrees that given the relatively low probability of a significant liquidity risk from a retailer failure, distributors are not only best-placed to manage this risk as a normal aspect of their business operation but from a consumer perspective, distributors managing their own risks (rather than a regulatory intervention) is the most cost-effective and efficient approach.

AGL supports proposed clause 6B.B2.1 (c), which means a retailer does not trigger the credit support late payment obligations by complying with the requirements of clause 6B.A3.3 in respect of withholding payment to a distributor in respect to a dispute. This will ensure the proposed credit support Rule will not unintentional and negatively impact on retailer and distributor commercial relationships with respect to service delivery.

AGL also supports the proposed return of credit support obligations (clause 6B.B4.2). This combined with the credit payment requirement for missed payments (clause 6B.B3.1 (b)) provides a suitable incentive for retailers to maintain good payment behaviour or be rewarded for improving its payment behaviour.

AGL recommends that clause 6B.B4.2 also include an obligation for the distribution business to return the credit support payment to the retailer with interest at the default rate proscribed by the Rules for each day from the date the retailer makes the credit support payment until the date it is returned to the retailer.

AGL's view is based on the fact the credit payment the distributor receives not only allows the distributor to mitigate retailer failure but the payment becomes a financial asset for which the distributor receives a rate of return on the asset. Hence, the value of the credit support payment for the distributor is higher at the time they return the payment than at the time they receive the payment.

If you have any questions in relation to this submission, please contact Con Hristodoulidis, Manager Regulatory Strategy on (03) 8633 6646 or christodoulidis@agl.com.au.

Yours sincerely,



Beth Griggs
Head of Energy Markets Regulation