

## Appendix I. Proposed rule change

### National Electricity Rules, 6B.B1

#### 6B.B1.1 Application of Part B

This Part B (to be known as the *credit support rules*) applies to a *Distribution Network Service Provider* and a *retailer*:

- (a) in respect of *shared customers*;
- (b) in respect of charges for services for which the *retailer* pays the *Distribution Network Service Provider* in arrears in accordance with a *statement of charges* under clause 6B.A2.4.

#### 6B.B1.2 Definitions

In this Part:

~~credit allowance—see clause 6B.B3.1~~

**date of issue** has the meaning given in clause 6B.A1.2.

**default rate** has the meaning given in clause 6B.A1.2.

**due date for payment** has the meaning given in clause 6B.A1.2.

~~maximum credit allowance—see clause 6B.B3.2.~~

**network charges** has the meaning given in clause 6B.A1.2.

**network charges liability** (or *NCL*)—see clause 6B.B2.3.

**required credit support amount** means the amount ~~by which the network charges liability exceeds the credit allowance of the retailer~~ **calculated under clause 6B.B3.1.**

**shared customer** has the meaning given in clause 6B.A1.2.

**statement of charges**—see clause 6B.A2.4.

### Division 2 Requirements for credit support

#### 6B.B2.1 Distribution Network Service Provider may require credit support

- (a) A *Distribution Network Service Provider* may require a *retailer* to provide *credit support*, but only in accordance with the *credit support rules*.
- (b) A *Distribution Network Service Provider* may only require a *retailer* to provide *credit support* up to the *required credit support amount*.

#### 6B.B2.2 Determining required credit support amount

- (a) A *Distribution Network Service Provider* must ~~calculate the amount by which the network charges liability of a retailer exceeds the~~

~~credit allowance of that retailer, to~~ determine the *required credit support amount*, in accordance with the *credit support* rules.

- (b) A *Distribution Network Service Provider* must include in a request to a *retailer* for *credit support*, a statement setting out the basis upon which the *Distribution Network Service Provider* has determined the *required credit support amount*.

### 6B.B2.3 Determining a retailer's NCL

- (a) A *Distribution Network Service Provider* must estimate the amount of a *retailer's* average billed and unbilled *network charges liability* in accordance with the following formula:

$$NCL = \sum NCLc$$

where NCLc means the forecast *network charges* (determined as an average daily amount for a *retail billing period*) relating to those *shared customers* of the *retailer* for which the maximum *days outstanding (MDO)* is the same, multiplied by that MDO where MDO for those *customers* is calculated as:

$$MDO = FCCP/2 + RBP/2 + IPPL$$

where

FCCP (final customer consumption period) is the number of *days* in the average period of consumption covered in a *statement of charges* issued by the *Distribution Network Service Provider* to the *retailer* in respect of those *customers'* consumption of electricity; and

RBP (*retail billing period*) is the number of *days* in the *retail billing period* applicable to the *retailer*; and

IPPL (invoice preparation and payment lag) is the number of *days* between the end of a *retail billing period* covered by a *statement of charges* and the *date of issue* of the statement, plus the number of *days* allowed for payment of the *network charges* by the *retailer*.

- (b) A *Distribution Network Service Provider* must estimate the *network charges liability* of a *retailer*:
- (1) as at the date the *Distribution Network Service Provider* requests *credit support* from the *retailer*; or
  - (2) on the date the *Distribution Network Service Provider* recalculates the *required credit support amount* under the *credit support* rules.

## Division 3 Determining credit allowance for a retailer

### 6B.B3.1 Calculating ~~retailer required credit support amount allowance~~

- (a) A *Distribution Network Service Provider* must determine a *retailer's credit ~~required credit support amount allowance~~* as set out in this Division.

- (b) A retailer's credit ~~required credit support amount allowance~~ is calculated as follows:

$$\text{NCL} \times \text{DF}^{\text{BBB}} = [\text{NCL} - \text{CSR}] \times \text{DF}^{\text{Retailer}}$$

where;

~~DF<sup>BBB</sup> means the default risk of a BBB rated retailer by S&P as expressed as the applicable percentage in Table in Schedule 6B.1~~

~~CSR means the credit support amount required from a retailer;~~

~~CA means the credit allowance for a retailer; DF<sup>Retailer</sup> is the default risk of the retailer as expressed as the applicable percentage in the Table in Schedule 6B.1~~

~~If DF<sup>Retailer</sup> is less than or equal to DF<sup>BBB</sup> then the retailer's CSR is zero~~

~~MCA means the maximum credit allowance for that Distribution Network Service Provider— see clause 6B.B3.2;~~

~~CA% (the credit allowance percentage for a retailer) is the figure expressed as the applicable percentage in the Table in Schedule 6B.1 (which corresponds to the credit rating applicable to the retailer) or, where either clause 6B.B3.3 or clause 6B.B3.5 applies, is zero.~~

#### **6B.B3.2—Distribution Network Service Provider's maximum credit allowance**

- (a) ~~For the purpose of determining a retailer's credit allowance, a Distribution Network Service Provider must calculate its maximum credit allowance as follows:~~

$$\text{MCA} = \text{TARC} \times 25\%$$

~~where:~~

~~MCA means the maximum credit allowance for that Distribution Network Service Provider;~~

~~TARC or total annual retailer charges means the total annual amount of network charges billed by the Distribution Network Service Provider to all retailers as most recently reported by the Distribution Network Service Provider to the AER.~~

- (b) ~~A Distribution Network Service Provider must report the TARC to the AER, and the AER must publish on its website the TARC for each Distribution Network Service Provider.~~

#### **6B.B3.3 Credit rating for retailer**

- (a) In determining a retailer's credit allowance, a Distribution Network Service Provider may use a credit rating advised by the retailer.
- (b) Unless the retailer provides its guarantor's credit rating under clause 6B.B3.4, a retailer must advise a Distribution Network Service Provider of its credit rating which may be:

- (1) a Standard & Poor's, Fitch or Moody's credit rating; or
- (2) where a *retailer* does not have such a rating, a Dun and Bradstreet dynamic risk score.
- (c) A *retailer* must advise a *Distribution Network Service Provider* of any *change* to its credit rating immediately on becoming aware of that *change*.
- (d) A *Distribution Network Service Provider* may obtain relevant credit rating information about a *retailer* and monitor ongoing *changes* to the *retailer's* credit rating.
- (e) If a *retailer* does not have a credit rating of the type described in paragraph (b) then its *credit allowance* percentage is zero.

#### 6B.B3.4 Calculating required credit support amount allowance where guarantor

- (a) This clause applies in determining a *retailer's credit support requirement allowance* where a person (the **guarantor**) provides the *Distribution Network Service Provider* with an unconditional written guarantee of the *retailer's* financial obligations to the *Distribution Network Service Provider*.
- (b) A *retailer* relying on a guarantor must *advise* a *Distribution Network Service Provider* of its guarantor's credit rating, which may be:
  - (1) a Standard & Poor's, Fitch or Moody's credit rating; or
  - (2) where a guarantor does not have such a rating, a Dun and Bradstreet dynamic risk score.
- (c) A *retailer* must advise a *Distribution Network Service Provider* of any *change* to the credit rating of its guarantor immediately on becoming aware of that *change*.
- (d) A *Distribution Network Service Provider* may obtain relevant credit rating information about a *retailer's* guarantor and monitor any ongoing *changes* to the guarantor's credit rating.
- (e) If the guarantor of a *retailer* provides a guarantee to more than one *retailer*, the guarantor must advise the *Distribution Network Service Provider*:
  - (1) as to how the guarantor's ~~credit allowance~~NCL is divided among the *retailers* on behalf of whom the guarantor provides a guarantee; and
  - (2) the proportion of the guarantor's ~~credit allowance~~NCL allocated to the *retailer*; and
 the guarantor's ~~credit allowance~~NCL must be calculated in accordance with clause 6B.B3.1 as though the guarantor were a *retailer*.

**6B.B3.5** Additional circumstances wWhen no credit allowance will be extended to a retailer must provide credit support

- (a) ~~No credit allowance will be granted to a retailer~~ If, at the time of the *Distribution Network Service Provider's* request, any of the following apply:
- (1) within the previous 12 months, the *retailer* has failed to pay in full:
    - (i) the charges contained in 3 *statements of charges* by the *due date for payment*; or
    - (ii) the charges contained in 2 consecutive *statements of charges* by the *due date for payment*; or
    - (iii) the charges contained in 1 *statement of charges* within 25 *business days* of the *due date for payment*; or
  - (2) *AEMO* makes a claim on any *credit support* held by *AEMO* in respect of the *retailer's* obligations to *AEMO* under these *Rules*.

Then a retailer must provide a guarantee equivalent to its full NCL.

- (b) If the *retailer* fails to pay charges contained in a *statement of charges*, but the charges are disputed, and the *retailer* has complied with the requirements of clause 6B.A3.3 in respect of the dispute, the *retailer* will not be considered in default in payment of the disputed charges.
- (c) A *retailer* must notify a *Distribution Network Service Provider* within 1 *business day* if it is to be required to provide credit support is not to be granted any credit allowance because of the operation of paragraph (a)(2).

**Division 4**      **Provision of credit support by retailers**

**6B.B4.1** **Retailer to provide credit support**

- (a) A *retailer* must, on request by a *Distribution Network Service Provider*, provide *credit support* to a *Distribution Network Service Provider* in accordance with the *credit support* rules.
- (b) The *credit support* provided by a *retailer* must be:
- (1) for an amount requested by the *Distribution Network Service Provider*, not exceeding the *required credit support amount* calculated in accordance with the *credit support* rules; and
  - (2) provided within 10 *business days* of the *Distribution Network Service Provider's* request; and
  - (3) an acceptable form of *credit support* in favour of the *Distribution Network Service Provider* (see clause 6B.7.2).

#### **6B.B4.2 Acceptable form of credit support**

- (a) A *retailer* required to provide *credit support* under these *Rules* must provide the *credit support* in an acceptable form.
- (b) An acceptable form of *credit support* is:
  - (1) a form of *credit support* that the *retailer* agrees to provide, and the *Distribution Network Service Provider* agrees to accept; or
  - (2) an undertaking:
    - (i) substantially in the form set out in Schedule 6B.2; and
    - (ii) issued by a financial institution acceptable to the *Distribution Network Service Provider*.

#### **6B.B4.3 Provision of credit support where dispute arises**

- (a) A *retailer* must provide *credit support* requested by a *Distribution Network Service Provider* by the due date even though;
  - (1) the *retailer* disputes the *Distribution Network Service Provider's* entitlement to the *credit support* (in whole or in part); and
  - (2) the dispute remains unresolved.
- (b) Where a *DRP* determines that a *Distribution Network Service Provider* was not entitled to the *credit support* provided by the *retailer* in whole or in part, the *Distribution Network Service Provider* must:
  - (1) reimburse the *retailer* for any costs incurred to procure the *credit support* (including the costs of funding any cash collateral provided to the issuer of *credit support*), in excess of the costs that the *retailer* would have incurred if the correct amount had been requested; and
  - (2) pay the *retailer* interest at the *default rate* on the amount of those excess costs.

### **Division 5 Other Rules relating to credit support**

#### **6B.B5.1 Top up of credit support**

- (a) A *retailer* must ensure that at all *times* the aggregate undrawn amount of the *credit support* is not less than the amount requested by a *Distribution Network Service Provider* in accordance with clause 6B.B2.1, adjusted as required in accordance with a request under paragraph (b).
- (b) If at any *time* the aggregate amount of uncalled *credit support* held by a *Distribution Network Service Provider* is less than 90% of the *required credit support amount*, the *Distribution Network Service Provider* may require a *retailer* to increase the amount of the *credit support* to an amount not exceeding the *required credit support*

*amount*, and the *retailer* must comply with that requirement within 10 *business days*.

#### **6B.B5.2 Reduction of credit support**

If the aggregate amount of uncalled *credit support* held by a *Distribution Network Service Provider* is more than 110% of the *required credit support amount*, the *Distribution Network Service Provider* must on request by a *retailer* and in conjunction with the *retailer*, do all things necessary to reduce the aggregate amount of uncalled *credit support* held by the *Distribution Network Service Provider* to the *required credit support amount*.

#### **6B.B5.3 Application of credit support**

A *Distribution Network Service Provider* may only apply or draw on the *credit support* if:

- (1) the *Distribution Network Service Provider* has given not less than 3 *business days* notice to a *retailer* that it intends to apply or draw on the *credit support* in respect of an amount due and payable by the *retailer* to the *Distribution Network Service Provider*, and that amount remains *outstanding*; and
- (2) there is no unresolved dispute under clause 6B.A3.3 about the *retailer's* liability to pay that amount.

#### **6B.B5.4 Return of credit support**

- (a) This clause applies if:
  - (1) a *Distribution Network Service Provider* and a *retailer* no longer have any *shared customers*; or
  - (2) the *required credit support amount* of a *retailer* is zero.
- (b) A *Distribution Network Service Provider* must pay, cancel or return to a *retailer* as appropriate, any balance of *credit support outstanding* after payment of all amounts owing by the *retailer* to the *Distribution Network Service Provider*.

#### **6B.B5.5 Other retailer obligations**

- (a) A *retailer* must not take any steps to restrain (by injunction or otherwise):
  - (1) an issuer of *credit support* from paying out, or otherwise satisfying, a claim properly made by the *Distribution Network Service Provider* under the terms of the *credit support*; or
  - (2) the *Distribution Network Service Provider* from making a claim on the *credit support* in accordance with the *credit support rules*; or
  - (3) the *Distribution Network Service Provider* using the money obtained by calling on the *credit support*.

- (b) A *Distribution Network Service Provider* may disclose to its financiers, the *AER* or *AEMO* that it has required or called on *credit support* provided by the *retailer* under the *credit support* rules.

Standard and Poor's / Fitch Rating	Moody's Rating	Dun and Bradstreet dynamic risk score	Default <sup>Retailer</sup>	Credi support requirement as % of NCL
AAA	Aaa		<u>0.00</u>	<u>0.00</u>
AA+, AA, AA-	Aa1, Aa2, Aa3	Minimal	<u>0.00-0.02</u>	<u>0.00</u>
A+, A, A-	A1, A2, A3	Very Low	<u>0.03-0.08</u>	<u>0.00</u>
BBB+	Baa1	Low	<u>0.14</u>	<u>0.00</u>
BBB	Baa2	Average	<u>0.20</u>	<u>0.00</u>
BBB-	Baa3		<u>0.32</u>	<u>0.00</u>
BB+	Ba1		<u>0.43</u>	<u>25.58</u>
BB	Ba2	Moderate	<u>0.68</u>	<u>52.94</u>
BB-	Ba3	High	<u>1.13</u>	<u>71.68</u>
B+	B1	Very High	<u>2.31</u>	<u>86.15</u>
B	B2		<u>4.73</u>	<u>93.23</u>
B-	B3	Severe	<u>7.92</u>	<u>95.96</u>
CCC/CC	Caa, Ca, C		<u>26.87</u>	<u>98.81</u>

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