



## Retailer-distributor credit support requirements

### Options paper released for consultation

**The Australian Energy Market Commission has prepared an options paper to facilitate consultation on rule change requests proposing changes to the retailer-distributor credit support requirements and the retailer insolvency cost-pass through provisions in the National Electricity Rules and the National Gas Rules.**

#### The options paper

The purpose of the options paper is to discuss the outcomes of analysis undertaken for the Commission, to test stakeholders' views on a number of potential options identified to address the rule change requests, and to continue the assessment of the proposed rules.

The rules relate to the management of risks associated with retailer default and raise complex issues that have not been previously examined by the Commission. Further, changes to these rules have the potential to materially financially impact various stakeholders. As such, the Commission considers that there is value in adding an extra stage of consultation to the standard rule making process prior to the publication of the draft determination.

#### Background

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 and their consolidation

The Commission received two rule change requests from AGL, on 19 January 2015, to amend the retailer-distributor credit support requirements, for changes to the National Electricity Rules (NER) and the National Gas Rules (NGR), respectively.

In addition to AGL's rule change requests, the Commission received a rule change request from the Council of Australian Governments Energy Council (COAG Energy Council) to amend the retailer insolvency cost pass-through provisions in the NER. A consultation paper was published in relation to this rule change request and the first round of consultation closed on 11 December 2014. Submissions on the consultation paper indicated stakeholders saw a link between the retailer insolvency cost pass-through rule change request and the retailer-distributor credit support rule change requests.

Consequently, the Commission consolidated the COAG Energy Council's rule change request with AGL's rule change request relating to the NER. The two requests will be treated as one request and addressed under the process for the AGL rule change request.

The Commission also received a rule change request from Jemena Gas Networks, on 25 September 2015, to amend the retailer insolvency cost pass-through provisions in the NGR. The Commission has published an information notice in relation to this rule change request and is seeking stakeholder comments. The information notice can be found on the AEMC website under the "Retailer insolvency costs and pass through arrangements" project page. The Commission has consolidated the consideration of the Jemena rule change request with AGL's rule change request relating to the NGR.

Submissions on  
the options paper  
close on 26  
November 2015.

### Potential options for consideration

While specific changes were proposed in the rule change requests, the Commission has concluded that there is merit in considering a broader range of options that also have the potential to contribute to the achievement of the National Electricity Objective or National Gas Objective.

The following options to address the risks and costs associated with managing retailer default, in the context of collecting unpaid network use of system charges, are discussed in the options paper:

1. Option 1: retain the existing arrangements - the existing arrangements for both the credit support requirements and the cost pass-through provisions would remain as currently set out in the NER and NGR;
2. Option 2: strengthen the existing arrangements - variations to the current credit support requirements and cost-pass through provisions, including but not limited to, the AGL proposal, the COAG Energy Council proposal and the Jemena proposal;
3. Option 3: establish a retailer default fund - the establishment of a fund, available to distributors in the event of a retailer default which is funded by retailers based on a set formula prescribed in the NER and NGR; and
4. Option 4: introduce a liquidity support scheme - a liquidity instrument to be held by the distributor to be used to address cash-flow issues arising from a retailer default. Under this option the costs associated with the liquidity support scheme could be paid by the distributor or collected from the retailers based on a set formula prescribed in the NER and NGR.

Prior to making a draft rule determination in respect of the rule change requests, the Commission is seeking stakeholder views on these options and any other matters raised in this paper. Submissions from stakeholders will assist the Commission in determining the best way to address the issues raised by the rule change requests and to ensure any changes to the existing frameworks will lead to more efficient market outcomes in the long term interests of consumers.

The Commission welcomes submissions by 26 November 2015.

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