



Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

22 December 2016

Email: submissions@aemc.gov.au

Dear Mr Pierce

**ERC0183: RETAILER-DISTRIBUTOR CREDIT SUPPORT REQUIREMENTS — DRAFT
DETERMINATION**

CitiPower Pty Ltd and Powercor Australia Limited welcome the opportunity to respond to the Australian Energy Market Commission's (AEMC) draft determination in relation to retailer-distributor credit support arrangements.

As acknowledged in the draft determination, distributors face significant commercial risks from the potential failure of retailers to pay network and associated charges, including revenue risk, liquidity risk and systematic risk.

Cost pass-through provisions

We support the draft determination to amend the retailer insolvency cost pass-through provisions in the National Electricity Rules to:

- remove the materiality threshold; and
- clarify that foregone revenue is included in the cost pass-through amount.

The changes to the cost pass-through provisions appropriately address the revenue risk faced by distributors from retailers failing to pay network charges. Ensuring distributors are able to recover lost revenue resulting from retailer default is essential because, unlike in competitive markets, distributors are not permitted to manage revenue risk by refusing to provide services to customers of retailers with a high risk of default or pricing in default risk.

Credit support provisions

We do not support the draft determination to remove the requirement for retailers to provide credit support, except where there is a history of late payment. Without ex-ante credit support, distributors bear the full burden of liquidity risk. We do not agree that distributors should bear the full burden of liquidity risk, particularly for retailers at high risk of default.

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Further, the draft rule that credit support can be requested where a history of late payment is established will be ineffective for managing liquidity risk. This is because once a retailer is already in default, it will not be in a position to provide upfront credit support.

We note the current credit support rules already provide retailers with a generous credit allowance, without the need to provide credit support, irrespective of whether the retailer has an investment grade credit rating or a sub-investment grade or “junk” credit rating. Therefore very few retailers actually provide credit support under the current rules.

We therefore support retaining the existing credit support requirements to leave in place a mechanism for managing liquidity risk associated with retailers that have a high risk of default.

We would be pleased to discuss any aspect of this submission with the AEMC. Please contact Megan Willcox on 03 9236 7048 or mwillcox@powercor.com.au.

Regards



Brent Cleeve
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