

22 December 2016

**Mr John Pierce  
Chairman**

Australian Energy Market Commission  
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Sydney South NSW 1235

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**Dear Mr Pierce,**

Australian Gas Networks Limited (AGN) welcomes the opportunity to make a submission to the Australian Energy Market Commission (AEMC) in response to the National Electricity Amendment (Retailer – distributor credit support requirements) Rule 2016 and the related National Gas Amendment Rule published by the AEMC on 27 October 2016.

AGN is one of Australia's largest natural gas distribution companies. AGN owns approximately 23,000 kilometres of natural gas distribution networks and 1,100 kilometres of transmission pipelines, serving over 1.2 million consumers in South Australia, Victoria, Queensland, New South Wales and the Northern Territory.

AGN supports the AEMC's draft rules (draft rules) related to the mechanisms available to distributors to manage the risks they face from retailer default. As the AEMC has noted, distributor's risk from a retailer default consists of revenue risk, liquidity risk and broader systemic risk.

We particularly support amendments to the National Gas Rules (NGR) to enhance the operation of the retailer insolvency cost pass-through provisions by:

- removing the materiality threshold (currently one per cent of a distributor's annual revenue requirement), where applicable;
- confirming that unpaid network charges may be included as part of a distributor's insolvency costs following a retailer insolvency event; and
- confirming that the retailer insolvency cost pass-through provisions take precedence over any inconsistent provisions in any distributor's access arrangements, which is applicable only to the NGR.

We also support amendments which, at the time the new provisions in the NGR commence, remove 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.

The proposed amendments retain the requirement for a retailer to provide credit support when requested by a distributor, where that retailer has not paid in full during the last 12 months:

- 1 the charges contained in 3 statements of charges by the due date for payment; or
- 2 the charges contained in 2 consecutive statements of charges by the due date for payment; or
- 3 the charges contained in 1 statement of charges within 25 business days of the due date for payment.

Point 1 (above) covers instances where a retailer has failed to pay the distributor by the due date on at least 3 occasions during the year. The overdue amounts cannot be for consecutive periods otherwise point 2 would apply, and any single invoice cannot remain unpaid for a significant period of time otherwise point 3 would apply.

Point 2 (above) applies where a retailer has not paid 2 consecutive invoices on or before the due date. This rule will apply if the retailer pays the invoices 1 day later (or more) than the due date in two consecutive periods.

Point 3 (above) is designed to offer protection to a distributor to prevent a retailer avoiding rules 1 & 2 by leaving a single invoice unpaid for an extended period of time. The AEMC allowed overdue period of 25 business days would require that a complete billing month / invoice remains unpaid while the subsequent months invoice was in fact paid. However, AGN does not agree that 25 business days is appropriate as the likelihood is that a retailer in difficulty would then be in default of point 2.

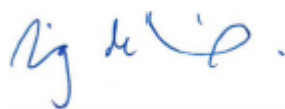
It would therefore be more prudent to have a shorter period (say 10 business days overdue) to then trigger credit support to ensure the requirements are internally consistent. Making the requirement 10 business days would force the retailer to always pay the overdue invoice first rather than using the provisions to create more exposure for the distributor. Additionally, it would be more prudent to have a shorter period to trigger credit support requirements as it would take a number of days for the distributor to request and the retailer supply the required credit support which would most likely be in the form of a bank guarantee.

We note and support the AEMC's finding that, given the operation of the savings provisions in the National Gas Law, existing credit support provisions will continue to operate between any distributor and retailer where a credit support instrument is currently already provided.

We also note that separate arrangements apply in Victoria, as Victoria has not adopted the National Energy Customer Framework.

Please contact either Geoff Barton (08 8418 1130) or myself (08 8418 1129) if you would like to discuss the matters raised in this submission further.

Yours sincerely,



**Craig de Laine**  
**General Manager - Strategy and Regulation**