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Department of
**Employment, Economic
Development and Innovation**

19 OCT 2010

Mr E J Hall
Chief Executive
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Mr Hall

I refer to the Queensland Competition Authority's (QCA's) current review of credit support arrangements for electricity in Queensland and in particular, the Draft Decision 'Review of Credit Support Arrangements' published in September 2010.

I am pleased to note the QCA is considering aligning the credit support arrangements with those set out in the National Energy Customer Framework (NECF). As noted by Mr Alan Millis in his letter in response to the consultation notice dated 17 June 2010, this approach is expected to reduce transitional costs for industry in moving the NECF.

However, the draft decision notes that consideration is also being given to a number of additional provisions to those set out in the NECF. Similar additional provisions were considered during the development of the NECF and explanations of why they were not included are set out below. It is also our view that the inclusion of additional provisions may lead to increased costs when Queensland transitions to the NECF. Your consideration of the following comments would be appreciated.

Form of credit support: Recommendation to add an express requirement on distributors that acceptance of an alternative form of credit support cannot be unreasonably withheld

The NECF requires a retailer to provide credit support in an acceptable form, which may be determined by agreement, or otherwise as an unconditional undertaking from a financial institution acceptable to the distributor.

The inclusion of a protection similar to that recommended by the QCA was looked at for the NECF arrangements and has some merits. However, the national working group considered it unnecessary, given the availability of dispute resolution mechanisms under the National Electricity Rules, combined with general requirements on distributors and retailers to act in good faith.

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***Provider of credit support:* Recommendation that provision be included to allow a distributor to require a retailer take action to preserve the value of its credit support by changing credit support providers, if the current provider is under financial stress.**

This issue was considered by the national working group in finalisation of the NECF, but considered to be overly prescriptive and outside the scope of the reforms. However, distributors are not prevented under the NECF arrangements from requesting retailers to change credit support providers and action may be taken under the dispute resolution framework if needed.

***Amount of credit support:* Recommendation to include an additional provision to require distributors to provide estimates of the total annual retailer charges for any retailer for which it is determining a credit allowance**

Under NECF, the amount of credit support a retailer must pay a distributor is based on a number of factors, including the retailer's network charge liability for a billing cycle, their credit rating and the total annual retailer charges the distributor requires of all retailers (as most recently reported to the AER).

The NECF arrangements provide transparency by requiring distributors to include, with a request for credit support, a statement setting out the basis on which the retailer's liability has been determined. This would include the total annual retailer charges.

***Review of credit support:* Recommendation to include express mechanism by which a retailer may request a distributor to review its credit support liability, combined with a requirement that the distributor not unreasonably refuse such a request.**

The NECF includes requirements to facilitate reviews of credit support liability. A distributor must on request by a retailer reduce credit support where the aggregate amount held is more than 110 per cent of what the retailer is liable for. Inclusion of a detailed mechanism for how the retailer may request a review or adjustment was not considered necessary.

I trust this information is of assistance. Should you have any further enquiries, please contact Ms Kate Ryan, Director, National Energy Market Reform Unit of the Department of Employment, Economic Development and Innovation on telephone 3224 8296.

Yours sincerely



 **DAN HUNT**
Associate Director-General