

22 June 2010

Mr Liam Stewart
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Email: electricity@qca.org.au

Dear Mr Stewart

Re: Queensland Competition Authority (QCA) consultation “Review of Electricity Retailer and Distributor Credit Support Arrangements - May 2010”

TRUenergy appreciates the opportunity to participate in the QCA’s development of credit support guidelines for Queensland market participants. Our response considers the national guidelines on credit support and the proposed changes in South Australia, which were subject to consultation in April 2010 and based upon recommendations by Gilbert and Tobin.

Broadly, TRUenergy supports the current credit support arrangements operating in Victoria, which are mirrored in the proposed changes for South Australian credit support arrangements. There are some areas where these arrangements can be enhanced further, which are detailed below. The proposed national credit support guideline is almost similar but with subtle differences in the calculation of the required credit support amount.

TRUenergy’s comments are organised under the following sections:

- A. Credit support trigger mechanisms;
- B. The form of credit support;
- C. The amount of credit support;
- D. When credit support should be reviewed; and
- E. Other issues (drawing of credit support, dispute resolution, proposed National guideline).

A. Credit Support Trigger Mechanism

TRUenergy supports the current credit support trigger mechanisms operating in Victoria (and proposed for South Australia), which occurs when the retailer’s Required Credit Support Amount (RCSA) exceeds zero. This approach takes into consideration scenarios where a retailer does not have a credit rating, as it also considers use of Dynamic Risk Scores as an alternative. This scheme equally incentivises the retailer and distributor to actively monitor the RCSA in

accordance with standard risk management practice for both parties, i.e., distributors need to monitor this to reduce their credit risk, and retailers need to monitor this to forecast any credit support requests. This is particularly the case where the Credit Allowance is automatically equal to zero due to scenarios such as consistent failure to pay distribution invoices timely, market de-registration by AEMO, etc., as outlined in 3.2 (a)-(e) in the consultation paper.

The components used to calculate the RCSA do, however, require further clarification to enable retailers to independently monitor their potential exposure. This is discussed further in section C below.

B. Form and provider of credit support

TRUenergy supports the provision of bank or parent company guarantees for credit support.

C. The amount of credit support

TRUenergy supports the Victorian calculation of credit support (and proposed for South Australia), which is the amount by which a Retailer's Distribution Service Charges Liability (DSCL) exceeds its Credit Allowance (CA). This approach, which is also almost similar to that proposed by the National guideline:

- takes into account the different billing cycles of a retailer's customer base;
- does not adversely affect retailers with customers on shorter billing cycles;
- takes into account a retailer's assets and liabilities and the relative risk of default; and,
- provides incentives to both retailers and distributors to proactively manage their respective risk exposures.

However, the following factors in the calculation of the CA and DSCL require more clarification for retailers if QCA were to adopt this calculation in its guidelines:

- i. Each Retailer's Credit Allowance is calculated by multiplying the Credit Allowance Percentage (CAP) by 33.33% of the Distributor's annual Distribution Service Charges revenue (DSCR). The CAP is determined by reference to the Retailer's credit rating (Standard and Poors or equivalent) or Dynamic Risk Score (rated by Dun and Bradstreet). While this approach addresses scenarios where a retail entity does not have a credit rating, it is not clear how new entrants to the market would demonstrate suitable ratings or scores, or what alternative methods would apply. Also, the QCA should consider whether applying one-third of a distributor's DSCR towards the calculation of a retailer's credit allowance adequately reflects the risks faced by Queensland distributors, taking into account pass-through support arrangements in event of retailer failure.
- ii. Several retailers, including TRUenergy, operate under multiple market participant IDs and legal entities. TRUenergy's experience with the Victorian model is that some distributors tend to calculate the CA for TRUenergy as a consolidated entity. TRUenergy would expect

distinguishing between legal entities in accordance with the entities party to the Coordination Agreement.

- iii. In Victoria, the annual DSCR is defined as the total annual amount of distribution service charges billed by the distributor to all retailers are recently reported by the distributor to the Essential Services Commission of Victoria. TRUenergy's experience in obtaining the annual DSCR-equivalent data for Victoria is that it is not readily accessible. TRUenergy recommends that the DSCR for each distributor is either published clearly on QCA's website or otherwise provided directly to retailers on an annual basis.
- iv. Clarify whether the annual DSCR and DSCL is inclusive or exclusive of the Goods and Services Tax (GST). TRUenergy recommends that DSCL and DSCR is exclusive of GST.
- v. Confirm that the annual DSCR and DSCL comprises solely of distribution charges only; that is, it does not include metering costs and excluded services charges. TRUenergy's expectation is that the annual DSCR and DSCL comprise distribution (use-of-system) costs only.
- vi. In Victoria (and proposed for South Australia), the DSCL is calculated by taking into account 90 days' forecast monthly (67%) and quarterly billed Distribution Service Charges (100%) for the respective Retailer. TRUenergy requests the Authority clarify the basis for forecasting these charges, particularly for new retail market entrants. TRUenergy used 2009 historical data in its modelling of this calculation, but the value of its historical data would be diluted if there are significant changes to consumption and billing patterns. TRUenergy recommends that distributors should provide the calculated forecast DSCL to retailers quarterly, so that retailers can monitor potential exposures to credit support requests, and the basis for the distributors' calculations. Periodically reporting this data would also allow retailers to more timely ascertain whether the a distributor is holding credit support valued at 110% or more than actually required (in accordance with current Coordination Agreement clause 12.4 related to variation of credit support amounts).
- vii. The current approach to discount the DSCL forecast for monthly billed customers is intended to "avoid discrimination against retailers that service a significant number of customers with shorter billing cycles". The effect of this is to reduce the calculated DSCL.
- viii. While not immediately relevant for Queensland, Victoria is currently rolling out interval meters and distributors are proposing monthly network billing for all interval-metered customers (large or small). This proposal will have significant impacts on retailers because:
 - Retailers must first obtain a customer's explicit informed consent to change their billing cycle from quarterly to monthly; and,

- Assuming this is likely to be difficult to accomplish, retailers will continue to bill their customers quarterly but be charged by the distributor on a monthly basis. This will increase cashflow/working capital pressures on retailers, particularly smaller second tiers. This point is raised for QCA's consideration of broader issues in the context of a forecast national rollout of interval metering longer term.

D. Review of Credit Support Requirements

TRUenergy recommends that credit support arrangements are reviewed whenever the (a) Required Credit Support Amount equals zero or (b) when the distributor and retailer no longer have any shared customers. Specifically, there should not be a minimum review period, as this would potentially result in a distributor holding credit support undertakings for a period longer than required.

Consistent with the above feedback, this approach would incentivise distributors to proactively monitor credit exposure to retailers.

E. Other Issues

- i. When credit support may be drawn.

TRUenergy recommends:

- retailers receiving a minimum of 10 business days notice to provide credit support – this is consistent with the Victorian practice and proposed South Australian practice; and
- retailers being provided a minimum of three business days notice where a distributor intends to draw down on the credit support provided. This should be conditional on there being no dispute outstanding in relation to the retailer's liability to pay that amount. The three day minimum is consistent with the Victorian practice as well as the proposed South Australian and National practice. The condition related to disputes is consistent with the proposed National practice.

Further, TRUenergy recommends that at the time a request for credit support is made, the distributor is required to provide the retailer with a statement setting out the basis upon which the distributor has determined the required credit support amount. This is consistent with the proposed National Credit Support guideline which allows retailers to validate such a claim. We acknowledge that provision of credit support is nonetheless required within the minimum timeframe (recommended minimum 10 business days as per above), so on that basis TRUenergy believes retailers should also have the right to have the statement independently audited at any time once credit support is requested.

Finally, TRUenergy also recommends that the guidelines consider where a distributor incorrectly draws down on credit support and that penalties apply in order to compensate the retailer for any unnecessary costs incurred.

ii. Dispute Resolution process

TRUenergy supports the current dispute resolution process outlined in the current Queensland Coordination Agreement.

iii. Proposed National credit support requirements

As noted earlier, the proposed National requirements are almost similar to the Victorian and proposed South Australian models. If the QCA is considering the National approach, TRUenergy recommends clarification of the following:

- To calculate DSCL, the forecast daily distribution service charge for each customer is to be calculated, multiplied by the “maximum days outstanding” (MDO). The calculation of MDO includes three factors: the “final customer consumption period” (FCCP), the “distributor retailer invoicing period” (DRIP) and the “invoice preparation and payment lag” (IPPL) The definition of DRIP (number of days in the retail billing period applicable to the retailer) is not clear as to how this factor is to be interpreted.
- What is the basis for distributors forecasting the daily distribution service charge, particularly for new entrants? Similar to our earlier points, TRUenergy attempted to model this using our historical data, but:
 - the value of this data would be diluted by changes in billing and consumption patterns, or other industry developments (such as interval metering rollout), given that the DSCL calculation includes application of a factor related to “the number of days in the average period of consumption covered in a statement of charges issued by the distributor...in respect of (each) customer”; and
 - TRUenergy’s systems both do not have sufficient data nor are they designed to calculate the “forecast daily distribution service charge” for each customer.

Therefore, TRUenergy recommends that distributors be required to provide this information to retailers on a quarterly basis.

Please contact Helena Lau on (03) 8628 1443 if you require additional information.

Yours sincerely,

Alastair Phillips
Regulatory Manager