



Credit Support Guidelines

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1. INTRODUCTION

Credit support arrangements refer to commercial arrangements that a **Retailer** enters into with a **Distribution Network Service Provider**, to manage the risk to the **Distribution Network Service Provider** of the non-payment by the **Retailer** of **Network Charges** owed.

These Guidelines have been prepared by the **Authority** in accordance with the *Electricity Act 1994* and the *Queensland Competition Authority Act 1997* and establish the credit support arrangements between electricity **Distribution Network Service Providers** and **Retailers** operating in Queensland.

The Guidelines:

- (a) establish the circumstances under which a **Distribution Network Service Provider** may require credit support from a **Retailer**;
- (b) provide the methodology for determining the amount of credit support to be provided;
- (c) detail the form in which credit support is to be provided;
- (d) refer to provisions outside of the Guidelines under which disputes relating to the provision of credit support are to be resolved; and
- (e) establish procedures for:
 - (i) the top up or reduction of credit support if the amount of credit support to be provided is inadequate;
 - (ii) a **Distribution Network Service Provider** to apply credit support when a **Retailer** fails to meet its payment obligations to that **Distribution Network Service Provider**;
 - (iii) the return of credit support by a **Distribution Network Service Provider** when a **Retailer** is no longer obliged to provide it under these Guidelines; and
 - (iv) other matters relating to the relationship between **Retailers** and **Distribution Network Service Providers**.

1.1 Authority and Purpose

Under the *QCA Act* and the *Electricity Act* the **Authority** is required to develop credit support Guidelines. The Guidelines govern the application of credit support arrangements between **Distribution Network Service Providers** and **Retailers** in Queensland. Specifically:

- (a) Section 10(ka) of the *QCA Act* makes it a function of the **Authority** to make Guidelines under the *Electricity Act*;
- (b) Section 55DC of the *Electricity Act* makes it a condition of a **Retail Authority** that a **Retailer** must, if asked by their **Distribution Network Service Provider**, enter into and maintain credit support with that **Distribution Network Service Provider**. However, any credit support arrangements requested by the **Distribution Network Service Provider** must be consistent with the Guidelines developed by the **Authority** or otherwise as agreed to between the **Distribution Network Service Provider** and **Retailer**; and
- (c) Section 120ZN(1) of the *Electricity Act* requires that the Guidelines developed by the **Authority** must, at a minimum, include consideration of the following matters:

- (i) the circumstances in which a **Retailer** may be required to enter into and maintain credit support with, or for the benefit of, a **Distribution Network Service Provider**;
- (ii) the types of credit support the **Authority** considers appropriate;
- (iii) the amount of credit support which should be provided; and
- (iv) when and how credit support should be reviewed, including provision for review of the amount of credit support.

Section 120ZN(2) of the **Electricity Act** requires that the **Authority** consult with **Distribution Network Service Providers** and **Retailers** before making the Guidelines.

1.2 Application

These Guidelines apply:

- (a) to a **Distribution Network Service Provider** and a **Retailer** in respect of **Shared Customers**; and
- (b) in respect of charges for the provision of any services for which a **Retailer** pays a **Distribution Network Service Provider** in arrears, in accordance with a **Statement of Charges**.

1.3 Definitions and Interpretation

In these Guidelines:

- (a) words and phrases presented in bold italic font **such as this** are defined in the glossary to these Guidelines at Appendix A and have the meaning given to them in that glossary; and
- (b) the words “shall” and “must” indicate mandatory requirements, unless the overall meaning of the phrase in which one of these words appears is otherwise.

1.4 Revisions

To ensure that the provisions established in these Guidelines remains relevant, the **Authority** may amend these Guidelines from time to time to reflect changes in the regulatory, policy or business environment.

1.5 Version History and Effective Date

Every version of the Guidelines will be identified by an issue number and date of issue.

This is Version No.2.0 of these Guidelines, released in December 2010.

1.6 Format of the Guidelines

As discussed in the **Authority’s** Final Decision, these Guidelines mirror many provisions contained in the finalised National Energy Customer Framework (NECF). To the extent that the **Authority** has amended or added to the credit support arrangements detailed in the NECF, those amendments or additions of substance are highlighted in the following Guidelines.

2. REQUIREMENTS FOR CREDIT SUPPORT

2.1 Distribution Network Service Provider may require Credit Support

- (a) A *Distribution Network Service Provider* may require a *Retailer* to provide credit support, but only in accordance with these Guidelines.
- (b) A *Distribution Network Service Provider* may only require a *Retailer* to provide credit support up to the *Required Credit Support Amount*.

2.2 Determining the Required Credit Support Amount

- (a) A *Distribution Network Service Provider* must calculate the amount by which the *Network Charges Liability* of a *Retailer* exceeds the *Credit Allowance* of that *Retailer*, to determine the *Required Credit Support Amount*, in accordance with these Guidelines.
- (b) A *Distribution Network Service Provider* must include in a request to a *Retailer* for credit support, a statement setting out the basis upon which the *Distribution Network Service Providers* has determined the *Required Credit Support Amount*.

2.3 Determining a Retailer's Network Charges Liability

- (a) A *Distribution Network Service Provider* must estimate an amount which is equal to a *Retailer's* average billed and unbilled *Network Charges Liability* in accordance with the following formula:

$$NCL = \sum NCL_c$$

Where NCL_c means the forecast daily *Network Charges* relating to those customers of the *Retailer* for whom the *Maximum Days Outstanding* (MDO) is the same, multiplied by that MDO, where MDO for each customer is calculated as:

$$MDO = FCCP/2 + RBP/2 + IPPL$$

where,

FCCP (*Final Customer Consumption Period*) is the number of days in the average period of consumption covered in a *Statement of Charges* issued by the *Distribution Network Service Provider* to the *Retailer* in respect of that customer's consumption of electricity; and

RBP (*Retailer Billing Period*) is the number of days in the *Retail Billing Period* applicable to the *Retailer*; and

IPPL (*Invoice Preparation and Payment Lag*) is the number of days between the end of a *Retail Billing Period* covered by a *Statement of Charges* and the date of issue of the statement, plus the number of days allowed for payment of the *Network Charges* by the retailer.

- (b) A *Distribution Network Service Provider* must estimate the *Network Charges Liability* of a *Retailer*:
 - (i) as at the date, the *Distribution Network Service Provider* requests credit support from the *Retailer*; or

- (ii) on the date on which the *Distribution Network Service Provider* recalculates the *Required Credit Support Amount* under these Guidelines.

3. DETERMINING CREDIT ALLOWANCE FOR A RETAILER

3.1 Calculating Retailer Credit Allowance

- (a) A *Distribution Network Service Provider* must determine a *Credit Allowance* for a *Retailer* as set out in this Chapter 3.
- (b) A *Credit Allowance* for a *Retailer* is calculated as follows:

$$CA = MCA \times CA\%$$

where,

CA (*Credit Allowance*) means the *Credit Allowance* for a *Retailer*; and

MCA (*Maximum Credit Allowance*) means *Maximum Credit Allowance* for that *Distribution Network Service Provider* as calculated in Clause 3.2; and

CA% (*Credit Allowance Percentage* for a *Retailer*) is the figure expressed as the applicable percentage in the table in Appendix B (which corresponds to the credit rating applicable to the *Retailer*) or, where either Section 3.3 or Section 3.5 applies, is zero.

3.2 Distribution Network Service Provider's Maximum Credit Allowance

For the purpose of determining a *Credit Allowance* for a *Retailer*, a *Distribution Network Service Provider* must calculate its *Maximum Credit Allowance* as follows:

$$MCA = TARC \times 25\%$$

where,

MCA (*Maximum Credit Allowance*) means *Maximum Credit Allowance* for that *Distribution Network Service Provider*; and

TARC (*Total Annual Retailer Charges*) means the total annual amount of *Network Charges* billed by the *Distribution Network Service Provider* to all *Retailers* as most recently reported by the *Distribution Network Service Provider* to the Australian Energy Regulator (AER).

3.3 Credit Rating for Retailer

- (a) In determining a *Credit Allowance* for a *Retailer*, a *Distribution Network Service Provider* may use a credit rating advised by the *Retailer*.
- (b) Unless the *Retailer* provides its guarantor's credit rating under Clause 3.4, a *Retailer* must advise a *Distribution Network Service Provider* of its credit rating which may be:
 - (i) a Standard & Poor's, Fitch or Moody's credit rating; or
 - (ii) where a *Retailer* does not have such a rating, a Dun & Bradstreet Dynamic Risk Score.
- (c) A *Retailer* must advise a *Distribution Network Service Provider* of any change to its credit rating immediately on becoming aware of that change.
- (d) A *Distribution Network Service Provider* may obtain relevant credit rating information about a *Retailer* and monitor ongoing changes to the *Retailer's* credit rating.

- (e) If a **Retailer** does not have a credit rating of the type described in Clause 3.3(b) then its **Credit Allowance Percentage** is zero.

3.4 Calculating Credit Allowance for Guarantor

- (a) This clause applies in determining a **Credit Allowance** for a **Retailer** where a person (the guarantor) provides the **Distribution Network Service Provider** with an unconditional written guarantee of the **Retailer's** financial obligations to the **Distribution Network Service Provider**.
- (b) A **Retailer** relying on a guarantor must advise a **Distribution Network Service Provider** of its guarantor's credit rating, which may be:
 - (i) a Standard & Poor's, Fitch or Moody's credit rating; or
 - (ii) where a guarantor does not have such a rating, a Dun & Bradstreet Dynamic Risk Score.
- (c) A **Retailer** must advise a **Distribution Network Service Provider** of any change to the credit rating of its guarantor immediately on becoming aware of that change.
- (d) A **Distribution Network Service Provider** may obtain relevant credit rating information about a **Retailer's** guarantor and monitor any ongoing changes to the guarantor's credit rating.
- (e) If the guarantor of a **Retailer** provides a guarantee to more than one **Retailer**, the guarantor must advise the **Distribution Network Service Provider**:
 - (i) as to how the guarantor's **Credit Allowance** is divided among the **Retailers** on behalf of whom the guarantor provides a guarantee; and
 - (ii) the proportion of the guarantor's **Credit Allowance** allocated to the **Retailer**; and
 - (iii) the guarantor's **Credit Allowance** must be calculated in accordance with Clause 3.1 as though the guarantor were a **Retailer**.

3.5 When no Credit Allowance will be extended to a Retailer

- (a) No **Credit Allowance** will be granted to a **Retailer** if, at the time of the **Distribution Network Service Provider's** request, any of the following apply:
 - (i) within the previous 12 months, the **Retailer** has failed to pay in full:
 - the charges contained in 3 **Statements of Charges** by the **Due Date for Payment**;
 - or
 - the charges contained in 2 consecutive **Statement of Charges** by the **Due Date for Payment**; or
 - the charges contained in 1 **Statement of Charges** within 25 **Business Days** of the **Due Date for Payment**; or
 - (ii) The Australian Energy Market Operator (AEMO) makes a claim on any credit support held by AEMO in respect of the **Retailer's** obligations to AEMO under these Guidelines.

- (b) If the **Retailer** fails to pay charges contained in a **Statement of Charges**, but the charges are disputed, and the **Retailer** has complied with the requirements of Clause 3.3 in respect of the dispute, the **Retailer** will not be considered in default in payment of the disputed charges.
- (c) A **Retailer** must notify a **Distribution Network Service Provider** within 1 **Business Day** if it is not to be granted any **Credit Allowance** because of the operation of Clause 3.5(a)(ii).

4. PROVISION OF CREDIT SUPPORT BY RETAILERS

4.1 Retailer to provide Credit Support

- (a) A **Retailer** must, on request by a **Distribution Network Service Provider**, provide credit support to a **Distribution Network Service Provider** in accordance with these Guidelines.
- (b) The credit support provided by a **Retailer** must be:
 - (i) for an amount requested by the **Distribution Network Service Provider**, not exceeding the **Required Credit Support Amount** calculated in accordance with these Guidelines; and
 - (ii) provided within 10 **Business Days** of the **Distribution Network Service Provider's** request; and
 - (iii) an acceptable form of credit support in favour of the **Distribution Network Service Provider** - see Clause 4.2.

4.2 Acceptable form of Credit Support

- (a) A **Retailer** required to provide credit support under these Guidelines must provide the credit support in an acceptable form.
- (b) An acceptable form of credit support is:
 - (i) a form of credit support that the **Retailer** agrees to provide, and the **Distribution Network Service Provider** agrees to accept; or
 - (ii) an undertaking:
 - (A) substantially in the form set out in Appendix C; and
 - (B) issued by a financial institution acceptable to the **Distribution Network Service Provider**.

4.3 Provision of Credit Support when a Dispute Arises

- (a) A **Retailer** must provide credit support requested by the **Distribution Network Service Provider** by the due date even though:
 - (i) the **Retailer** disputes the **Distribution Network Service Provider's** entitlement to the credit support (in whole or in part); and
 - (ii) the dispute remains unresolved.
- (b) Where, as a result of a decision under the **Electricity Act**, a **Distribution Network Service Provider** was not entitled to the credit support provided by the **Retailer** in whole or in part, the **Distribution Network Service Provider** must:
 - (i) reimburse the **Retailer** for any costs incurred to procure the credit support (including the costs of funding any cash collateral provided to the issuer of credit support), in excess of the costs that the **Retailer** would have incurred if the correct amount had been requested; and
 - (ii) pay the **Retailer** interest at the **Default Rate** on the amount of those excess costs.

4.4 Credit Support Disputes

These Guidelines are enabled under the *Electricity Act* and are therefore subject to the dispute resolution and enforcement provisions as determined by the Regulator under the *Electricity Act*.

5. OTHER MATTERS RELATING TO CREDIT SUPPORT

5.1 Top Up of Credit Support

- (a) A **Retailer** must ensure that at all times the aggregate undrawn amount of the credit support is not less than the amount requested by a **Distribution Network Service Provider** in accordance with Clause 4.1, adjusted as required in accordance with a request under Clause 5.1(b).
- (b) If at any time the aggregate amount of uncalled credit support held by a **Distribution Network Service Provider** is less than 90% of the **Required Credit Support Amount**, the **Distribution Network Service Provider** may require a **Retailer** to increase the amount of the credit support to an amount not exceeding the **Required Credit Support Amount**, and the **Retailer** must comply with that requirement within 10 **Business Days**.

5.2 Reduction of Credit Support

If the aggregate amount of uncalled credit support held by a **Distribution Network Service Provider** is more than 110% of the **Required Credit Support Amount**, the **Distribution Network Service Provider** must on request by a **Retailer** and in conjunction with the **Retailer**, do all things necessary to reduce the aggregate amount of uncalled credit support held by the **Distribution Network Service Provider** to the **Required Credit Support Amount**.

5.3 Application of Credit Support

A **Distribution Network Service Provider** may only apply or draw on the credit support if:

- (a) the **Distribution Network Service Provider** has given not less than 3 **Business days** notice to a **Retailer** that it intends to apply or draw on the credit support in respect of an amount due and payable by the **Retailer** to the **Distribution Network Service Provider**, and that amount remains outstanding; and
- (b) there is no dispute about any **Statements of Charges** which relate to the **Retailer's** liability to pay that amount.

5.4 Return of Credit Support

- (a) This Clause applies if:
 - (i) a **Distribution Network Service Provider** and a **Retailer** no longer have any **Shared Customers**; or
 - (ii) the **Required Credit Support Amount** of a **Retailer** is zero.
- (b) A **Distribution Network Service Provider** must pay, cancel or return to a **Retailer** as appropriate, any balance of credit support outstanding after payment of all amounts owing by the **Retailer** to the **Distribution Network Service Provider**.

5.5 Other Retailer Obligations

- (a) A **Retailer** must not take any steps to restrain (by injunction or otherwise):
 - (i) an issuer of credit support from paying out, or otherwise satisfying, a claim properly made by the **Distribution Network Service Provider** under the terms of the credit support; or

- (ii) the *Distribution Network Service Provider* from making a claim on the credit support in accordance with these Guidelines; or
 - (iii) the *Distribution Network Service Provider* using the money obtained by calling on the credit support.
- (b) A *Distribution Network Service Provider* may disclose to its financiers, the AER, AEMO or the *Regulator* that it has required or called on credit support provided by the *Retailer* under these Guidelines.

APPENDIX A - GLOSSARY

(New Section – brings together definitions from the body of the NECF and new definitions.)

Authority means the Queensland Competition Authority.

Bank Bill Rate in respect of any day means:

- (a) the Bank Bill Swap Reference Rate for 30 days on that day (if not a **Business Day** then the previous **Business Day**) published in the *Australian Financial Review*; and
- (b) if the Bank Bill Swap Reference Rate referred to in (a) is not available, the rate percentage per annum agreed by the parties in good faith to be the appropriate rate having regard to comparable indices then available in the then current bill market, and in default of agreement within 14 days, the rate determined in accordance with the dispute resolution procedures in the *Electricity Act*.

Business Day means a day other than a Saturday or a Sunday or a Queensland wide public holiday (as appointed under the *Holidays Act 1983* (Qld)).

Credit Allowance means the **Credit Allowance** as calculated in Chapter 3.

Credit Allowance Percentage means the **Credit Allowance Percentage** for a **Retailer** which is the figure expressed as the applicable percentage in the table in Appendix B, and which corresponds to the credit rating applicable to the **Retailer**. Alternatively, where either Section 3.3 or Section 3.5 applies the **Credit Allowance Percentage** is zero.

Default Rate means, at any time, the **Bank Bill Rate** plus 2 percent per annum.

Distribution Network Service Provider means the holder of a **Distribution Authority**.

Distribution Authority means the **Distribution Authority** issued to the **Distribution Network Service Provider** under the *Electricity Act*.

Due Date for Payment means 10 **Business Days** from the date of issue specified on a **Statement of Charges**.

Electricity Act means the *Electricity Act 1994* (Qld) and all regulations, notices, orders and other statutory instruments made or issued under that Act from time to time.

Final Customer Consumption Period means the number of days in the average period of consumption covered in a **Statement of Charges** issued by the **Distribution Network Service Provider** to the **Retailer** in respect of that customer's consumption of electricity.

GST has the meaning it has in the *A New Tax System (A Goods and Services Tax) Act 1999* (Cwlth).

Invoice Preparation and Payment Lag is the number of days between the end of a **Retail Billing Period** covered by a **Statement of Charges** and the date of issue of the statement, plus the number of days allowed for payment of the **Network Charges** by the retailer.

Maximum Credit Allowance means **Maximum Credit Allowance** for that **Distribution Network Service Provider** as calculated in Clause 3.2.

Maximum Days Outstanding means the **Maximum Days Outstanding** for each customer which equals **Final Customer Consumption Period/2 + Retail Billing Period/2 + Invoice Preparation and Payment Lag**.

Network Charges means charges that a **Distribution Network Service Provider** is entitled to claim for customer connection services in respect of shared customers under these Guidelines. This includes charges for:

- (a) a service relating to a new connection for the premises; and
- (b) a service relating to a connection alteration for the premises; and
- (c) a service relating to the ongoing energisation of the premises, including (but not limited to) the initial energisation, supply, de-energisation or re-energisation of the premises.

Network Charges Liability means the **Network Charges Liability** as calculated in Clause 2.3.

Regulator means Regulator under the *Electricity Act 1994*.

Required Credit Support Amount means the amount by which the **Network Charges Liability** exceeds the **Credit Allowance** of the **Retailer**.

Retail Authority means the **Retail Authority** issued to the **Retailer** under the *Electricity Act*.

Retailer is the holder of a **Retail Authority**.

Retailer Billing Period means a calendar month or another retail billing period agreed between a **Distribution Network Service Provider** and a **Retailer**.

Shared Customer means a person who is a customer of the **Retailer** and whose premises are connected to the **Distribution Network Service Provider's** distribution system.

Statement of Charges means a statement (which may be electronic) prepared by the **Distribution Network Service Provider** for the **Retailer** under Clause 7.1 of the Queensland Default Coordination Agreement.

Total Annual Retailer Charges means the total annual amount of **Network Charges** billed by the **Distribution Network Service Provider** to all **Retailers** as most recently reported by the **Distribution Network Service Provider** to the AER.

APPENDIX B - CALCULATING CREDIT ALLOWANCE PERCENTAGE

<i>Standard & Poor's or Fitch credit rating</i>	<i>Moody's credit rating</i>	<i>Dun & Bradstreet Dynamic Risk Score</i>	<i>Credit Allowance (% of Maximum)</i>
AAA	Aaa		100.0
AA+, AA, AA-	Aa1, Aa2, Aa3	Minimal	100.0
A+, A, A-	A1, A2, A3	Very Low	100.0
BBB+	Baa1	Low	52.9
BBB	Baa2	Average	37.5
BBB-	Baa3		22.0
BB+	Ba1		17.0
BB	Ba2	Moderate	11.0
BB-	Ba3	High	6.7
B+	B1	Very High	3.3
B	B2		1.4
B-	B3	Severe	0.9
CCC/CC	Caa, Ca, C		0.3

APPENDIX C - PRESCRIBED FORM OF UNCONDITIONAL UNDERTAKING FOR CREDIT SUPPORT

(Section 4.2)

In this deed:

- (a) ABC Ltd (ACN) is the **Retailer**; and
- (b) DEF Ltd (ACN) is the **Distribution Network Service Provider**; and
- (c) GHI Ltd (ACN) is the Financial Institution.

The Financial Institution unconditionally undertakes to pay, on demand by the **Distribution Network Service Provider**, to the **Distribution Network Service Provider** any sum or sums up to a maximum aggregate of \$.....

The payment or payments are to be made forthwith and unconditionally, without reference to the **Retailer**, and despite any instruction from the **Retailer** not to make the payment or payments.

A demand for payment under this deed is to be made on behalf of the **Distribution Network Service Provider** by[*name of person authorised to act on behalf of the Distribution Network Service Provider*]

This deed is terminated if:

- (a) the **Distribution Network Service Provider** notifies the Financial Institution that it no longer requires the Financial Institution's undertaking; or
- (b) the Financial Institution pays to the **Distribution Network Service Provider** a sum or sums amounting to its maximum aggregate liability under this deed; or
- (c) the parties agree to terminate it.

Executed as a deed at this day of.....20.....

APPENDIX D - CREDIT SUPPORT ARRANGEMENTS WORKED EXAMPLES

(New section to clarify how credit support amounts would be calculated.)

The worked examples below are intended to illustrate how the following items would be calculated:

- (a) *Network Charge Liability*;
- (b) *Credit Allowance* for a *Retailer*; and
- (c) *Maximum Credit Allowance*.

Example 1 – Network Charge Liability

The *Network Charge Liability* is based on:

- (a) the forecast daily *Network Charges* of customers; and
- (b) the maximum days a *Network Charge* will be outstanding (*Maximum Days Outstanding*).

Distribution Network Service Provider will determine the various forecast daily *Network Charges* of their customers based on consumption patterns or other measures. For the purposes of this example, it is assumed that the forecast daily *Network Charges* of two groups of customers are as follows: Group A customers (\$5 per day); and Group B customers (\$12 per day).

The formula for calculating the *Maximum Days Outstanding* for each customer is:

Maximum Days Outstanding = Final Customer Consumption Period/2 + Retailer Billing Period/2 + Invoice Preparation and Payment Lag.

It is based on:

- (a) the *Final Customer Consumption Period*:
 - (i) this is the number of days in the average period of consumption covered in a *Statement of Charges* issued by the *Distribution Network Service Provider* to the *Retailer* in respect of a customer's consumption of electricity; and
 - (ii) in this case, it is assumed that meter readings are undertaken for Group A each month (*30 days*), and Group B each three months (*90 days*).
- (b) the *Retailer Billing Period* – this is defined in the Guidelines as a calendar month or another retail billing period agreed between the parties. In this case, it is assumed that a *30 day* retail billing period has been agreed.
- (c) the *Invoice Preparation and Payment Lag* – this is the number of days between the end of a *Retailer Billing Period* and:

- (i) the date of issue of a *Statement of Charges* – under the Guidelines, this can be no more than 10 *Business Days* after the end of the *Retailer Billing Period*. Assuming the maximum 10 *Business Days* are taken, this would equate to 14 days; and
 - (ii) the number of days allowed by payment of the *Network Charges* – under the Guidelines, this must be 10 *Business Days* from the date of issue of the *Statement of Charges*. In this case, it is assumed that 10 *Business Days* equates to 14 days.
- (d) The *Invoice Preparation and Payment Lag* will therefore be 28 days (14 days plus 14 days).

Based on these assumptions, the *Maximum Days Outstanding* for Group A customers can be calculated as follows:

(a) *Maximum Days Outstanding* = *Final Customer Consumption Period*/2 + *Retailer Billing Period*/2 + *Invoice Preparation and Payment Lag*.

$$= 30/2 + 30/2 + 28$$

$$= 15 + 15 + 28$$

$$= 58$$

The *Maximum Days Outstanding* for Group B customers is calculated as:

(b) *Maximum Days Outstanding* = *Final Customer Consumption Period*/2 + *Retailer Billing Period*/2 + *Invoice Preparation and Payment Lag*.

$$= 90/2 + 30/2 + 28$$

$$= 45 + 15 + 28$$

$$= 88$$

To determine the *Network Charge Liability* component for each group of customer, the forecast daily *Network Charges* for each customer is multiplied by the *Maximum Days Outstanding* for the customer.

For each Group A customer, this would be determined as:

(c) *Network Charge Liability* = daily *Distribution Service Charges* x *Maximum Days Outstanding*

$$= \$5.00 \times 58$$

$$= \$290$$

For each Group B customer, this would be determined as:

(d) *Network Charge Liability* = daily *Network Charges* x *Maximum Days Outstanding*

$$= \$12.00 \times 88$$

$$= \$1,056$$

Assuming the **Retailer** has 20,000 Group A customers, the **Network Charge Liability** component for that group will be \$5,800,000 (\$290 x 20,000).

Assuming the **Retailer** has 5,000 Group B customers, the **Network Charge Liability** component for that group will be \$5,280,000 (\$1,056 x 5,000)

The **Network Charge Liability** component for Group A and Group B customers will be \$11,080,000 (\$5,800,000 + \$5,280,000).

Example 2 – Credit Allowance for a Retailer

A **Credit Allowance** for a **Retailer** is calculated by multiplying the **Distribution Network Service Provider’s Maximum Credit Allowance** by a **Credit Allowance Percentage** for a **Retailer**.

An example of how to calculate a **Distribution Network Service Provider’s Maximum Credit Allowance** is provided in Example 3 below. For the purposes of this example, the **Maximum Credit Allowance** is assumed to be \$100 million (or 25% of **Total Annual Retailer Charges** of \$400 million).

The **Credit Allowance Percentage** for a **Retailer** may be based on their own credit rating, or that of a guarantor. In certain circumstances, such as where a **Retailer** fails to pay two consecutive **Statements of Charges** by the due date, no **Credit Allowance** will be provided.

Standard and Poor’s AAA credit rating

In this example, it is assumed the **Retailer** has a Standard and Poor’s credit rating of AAA. In accordance with the table in Appendix B, their **Credit Allowance Percentage** will be 100%. The **Credit Allowance** for the **Retailer** is calculated as follows:

(a) **Credit Allowance = Maximum Credit Allowance x Credit Allowance Percentage**

$$= \$100,000,000 \times 100\%$$

$$= \$100,000,000$$

Moody’s Ba2 credit rating

In this example, it is assumed the **Retailer** has a Moody’s credit rating of Ba2. In accordance with the table in Appendix B, their **Credit Allowance Percentage** will be 11%. Their **Credit Allowance** is calculated as follows:

(b) **Credit Allowance = Maximum Credit Allowance x Credit Allowance Percentage**

$$= \$100,000,000 \times 11\%$$

$$= \$11,000,000$$

No credit allowance percentage

In this example, the **Retailer** has failed to pay two consecutive **Statements of Charges** by the due date. Under Clause 3.5 of the Guidelines, no **Credit Allowance** will be granted, regardless of the value of their credit rating.

(c) **Credit Allowance = Maximum Credit Allowance x Credit Allowance Percentage**

$$= \$100,000,000 \times 0$$

$$= \$0$$

Example 3 – Maximum Credit Allowance

The *Maximum Credit Allowance* is calculated by multiplying a *Distribution Network Service Provider's Total Annual Retailer Charges* by 25%.

For example, if the *Total Annual Retailer Charges* of a *Distribution Network Service Provider* in 2009 was \$1,300 million, its **Maximum Credit Allowance** would be \$325 million

(a) $\text{Maximum Credit Allowance} = \text{Total Annual Retailer Charges} \times 25\%$

$$= \$1,300,000,000 \times 25\%$$

$$= \$325,000,000$$

[End of Draft Guidelines]