



Consultation Notice

Review of Electricity Retailer and Distributor Credit Support Arrangements

May 2010

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SUBMISSIONS

Public involvement is an important element of the decision-making process of the Queensland Competition Authority (the Authority). The Authority is releasing this Consultation Notice as part of its Review of Electricity Retailer and Distributor Credit Support Arrangements. The issues on which comments are sought are not meant to be exhaustive and the Authority will take account of all submissions received by the due date.

Written submissions should be sent to the address below. While the Authority does not necessarily require submissions in any particular format, it would be appreciated if a printed copy is provided together with an electronic version on disk (Microsoft Word format) or by e-mail. Submissions, comments or inquiries regarding this paper should be directed to:

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The **closing date** for submissions is 18 June 2010.

For further enquiries contact Liam Stewart on (07) 3222 0561.

Confidentiality

In the interests of transparency and to promote informed discussion, the Authority would prefer submissions to be made publicly available wherever this is reasonable. However, if a person making a submission does not want that submission to be public, that person should claim confidentiality in respect of the document (or any part of the document). Claims for confidentiality should be clearly noted on the front page of the submission and the relevant sections of the submission should be marked as confidential, so that the remainder of the document can be made publicly available. It would also be appreciated if two copies of each version of these submissions (i.e. the complete version and another excising confidential information) could be provided. Again, it would be appreciated if each version could be provided on disk. Where it is unclear why a submission has been marked “confidential”, the status of the submission will be discussed with the person making the submission.

While the Authority will endeavour to identify and protect material claimed as confidential as well as exempt information and information disclosure of which would be contrary to the public interest (within the meaning of the *Right to Information Act 2009 (RTI)*), it cannot guarantee that submissions will not be made publicly available. As stated in s187 of the *Queensland Competition Authority Act 1997* (the QCA Act), the Authority must take all reasonable steps to ensure the information is not disclosed without the person’s consent, provided the Authority is satisfied that the person’s belief is justified and that the disclosure of the information would not be in the public interest. Notwithstanding this, there is a possibility that the Authority may be required to reveal confidential information as a result of a RTI request.

Public access to submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at the Brisbane office of the Authority, or on its website at www.qca.org.au. If you experience any difficulty gaining access to documents please contact the office (07) 3222 0555.

Information about the role and current activities of the Authority, including copies of reports, papers and submissions can also be found on the Authority’s website.

TABLE OF CONTENTS

	PAGE
1. INTRODUCTION	1
1.1 Purpose of the Consultation Notice	1
1.2 Review timetable	2
2. BACKGROUND	3
2.1 Credit support arrangements	3
2.2 Review of credit support arrangements in Queensland	3
2.3 Credit support arrangements in other jurisdictions	3
2.4 Current credit support arrangements in Queensland	4
3. ISSUES FOR COMMENT	5
3.1 Key elements of current credit support arrangements	5
3.2 Trigger mechanism	5
3.3 Form and provider of credit support	5
3.4 Amount of credit support	6
3.5 Review of credit support	6
3.6 Other issues	6
APPENDIX 1	8
APPENDIX 2	11

1. INTRODUCTION

Recent changes to the *Electricity Act 1994* (Electricity Act) and the *Queensland Competition Act 1997* (the QCA Act) require the Authority to develop guidelines for the credit support arrangements between Queensland's electricity retailers and distribution entities (**Appendix 1**).

Section 55DC of the Electricity Act makes it a condition of a retail authority that an electricity retailer must, if asked by their distributor, enter into and maintain credit support with that distributor. However, any credit support arrangements requested by the distributor must be consistent with the credit support guidelines developed by the Authority or as otherwise agreed to between the distributor and retailer.

Section 120ZN(1) of the Electricity Act requires that the credit support guidelines developed by the Authority must, at a minimum, include consideration of the following matters:

- (a) the circumstances in which a retailer may be required to enter into and maintain credit support with, or for the benefit of, a distributor (the trigger mechanism);
- (b) the types of credit support the Authority considers appropriate (the form of credit support);
- (c) the amount for which credit support should be provided (the amount of credit support); and
- (d) when and how credit support should be reviewed including the amount of credit support (review of credit support).

Section 120ZN(2) of the Electricity Act requires that the Authority consult with distributors and retailers before making the credit support guidelines.

The Authority understands that the existing credit support arrangements will remain in place until the Authority has issued its final Credit Support Guidelines. At that time, the legislative changes will be given effect and the Coordination Agreement contained in the Electricity Industry Code will be amended to reflect the new arrangements.

1.1 Purpose of the Consultation Notice

The purpose of this Consultation Notice is to seek submissions from interested parties on the possible form and substance that new credit support guidelines might take.

In order to assist stakeholders in preparing their submissions, some background information regarding existing credit support arrangement in Queensland and other Australian jurisdictions has been included in **Appendix 2** to this Consultation Notice.

1.2 Review timetable

The expected timetable for the review of the credit support arrangements is as follows:

Task	Timetable
Consultation notice released	25 May 2010
Submissions in response to consultation notice due	18 June 2010
Release of draft report and guidelines	19 August 2010
Submissions in response to draft report due	10 September 2010
Final Report released	19 November 2010

2. BACKGROUND

2.1 Credit support arrangements

Electricity distributors operate in a regulatory environment where they must provide access to their distribution networks to all licensed electricity retailers. Given this obligation, it is generally accepted that, where appropriate, a distributor should be able to manage its risk of non-payment for distribution services by a retailer by means such as credit support arrangements.

In this context, credit support arrangements refer to the commercial arrangements that an electricity retailer enters into with an electricity distributor to manage the risk to the distributor of the non-payment of its distribution charges by that retailer. While such arrangements are primarily designed to protect distributors, they are also aimed at protecting end-consumers by ensuring that distributors can continue to provide distribution network services of a quality demanded by the community.

AEMO credit support arrangements

The National Electricity Rules (NER) provide that participants in the National Electricity Market (NEM), including electricity retailers, may be required to provide credit support to the Australian Energy Market Operator (AEMO). While the credit support arrangements under the NER are similar to those discussed in this paper, they are separate arrangements and have no direct connection to the credit support required for the supply of network services by electricity distributors to electricity retailers.

2.2 Review of credit support arrangements in Queensland

This current review of credit support arrangements arose as a result of Government concern that the existing arrangements might not be the most efficient method of providing protection for distributors and may be creating too high a barrier for retailers to enter the electricity market in Queensland.

The Government also had concerns that the dispute resolution and enforcement processes provided for in the existing arrangements were unwieldy and could take many months, during which time there was no means for a distributor to limit a retailer's use of the network.¹

On 21 April 2010, the Electricity Act and the QCA Act were amended to give the Authority responsibility for making new credit support guidelines.

2.3 Credit support arrangements in other jurisdictions

In considering any new credit support guidelines to apply in Queensland, it is useful to look at the arrangements applying in other jurisdictions. To assist interested parties in this respect, a brief description of the arrangements which currently exist in the other states and territories is provided in **Appendix 2**.

The *National Energy Customer Framework* (NECF) second exposure draft released in November 2009 also included a proposed national Credit Support Regime. While it is the intention that, once agreed, these credit support arrangements will be adopted across the NEM, it not clear at this time when the new arrangements will be finalised and when they are expected to come into force.

¹ <http://www.parliament.qld.gov.au/view/legislativeassembly/tableOffice/documents/HALnks/100209/Mines&EnergyLegAmBill.pdf>

2.4 Current credit support arrangements in Queensland

In Australian jurisdictions where credit support arrangements are in place², the details of those arrangements are contained in either default ‘use of system’ agreements³ or ‘coordination’ agreements⁴. These default agreements are relied upon when a retailer and distributor agree on credit support arrangements.

In Queensland, the credit support arrangements are currently contained in clause 12 of the *Queensland Default Coordination Agreement* (Coordination Agreement) where they are referred to as the Retailer’s Performance Security. While the complete terms of the Coordination Agreement can be found in Annexure C of the Electricity Industry Code, a summary of the key elements of the credit support arrangements in Queensland is contained in **Appendix 2** and include:

- (a) distributors and retailers are free to negotiate their own credit support arrangements but, if they do not, the default Coordination Agreement applies;
- (b) under the agreement, distributors may request that a retailer provide an undertaking (credit support) if the retailer:
 - (i) does not have a, or has an unacceptable, credit rating;
 - (ii) has consistently failed to pay their bills by the due date;
 - (iii) has defaulted under the NER;
 - (iv) has ceased to be registered with AEMO; or
 - (v) has purchased energy from someone who has issued the retailer with a default notice; and
- (c) the distributor can request an amount of credit support of up to three months of estimated distribution charges in a form and from an issuer with which it is satisfied.

As noted previously, the existing credit support arrangements will remain in place until the Authority has issued its final Credit Support Guidelines. At that time, the legislative changes will be given effect and the Coordination Agreement contained in the Electricity Industry Code will be amended to reflect the new arrangements.

² Tasmania, Western Australia and the Northern Territory do not have credit support arrangements.

³ New South Wales, Victoria and the Australian Capital Territory.

⁴ Queensland and South Australia.

3. ISSUES FOR COMMENT

3.1 Key elements of current credit support arrangements

The Authority is seeking specific comments on those matters which are required by the legislation to be included in the guidelines, namely:

- (a) the trigger mechanism;
- (b) the form of credit support;
- (c) the amount of credit support; and
- (d) when credit support should be reviewed.

3.2 Trigger mechanism

The current Queensland credit support arrangements provide that a distributor may request that a retailer provide an unconditional undertaking in favour of the distributor if the retailer:

- (a) does not have, or has an unacceptable, credit rating;
- (b) has consistently failed to pay their bills by the due date;
- (c) has defaulted under the National Electricity Rules;
- (d) has ceased to be registered with AEMO; or
- (e) has purchased energy from someone who issues the retailer with a default notice.

The Authority seeks stakeholders' views on whether the current trigger mechanisms for requiring the provision of credit support:

- (a) are too easy or too difficult for a distributor to activate;**
- (b) disadvantage smaller retailers that may have difficulty obtaining a suitable credit rating or accessing alternate forms of financial backing;**
- (c) disadvantage prospective retailers, as incumbents are more likely be able to obtain a suitable credit rating;**
- (d) create a barrier to entry into the retail electricity market in Queensland; and**
- (e) impose an adequate incentive for distributors to properly manage their accounts receivable.**

The Authority also seeks stakeholders' comments on whether any other trigger mechanisms may be more appropriate.

3.3 Form and provider of credit support

The current Queensland credit support arrangements require retailers to provide credit support in the form of an unconditional undertaking issued by a bank or other body which satisfies the distributor.

The Authority seeks stakeholders' comments on whether an unconditional undertaking issued by a bank:

- (a) is the most cost effective means of obtaining a guarantee; and**
- (b) disadvantages small retailers that may be unable to obtain an unconditional undertaking from a bank or may face significantly higher costs than a larger retailer, relative to their size.**

The Authority also seeks stakeholders' comments on whether any other forms of credit support may be more appropriate.

3.4 Amount of credit support

The current Queensland credit support arrangements provide that a distributor may request an amount of credit support not exceeding three months estimated distributor charges to be incurred by the retailer's customers during the three months following the request.

The Authority seeks stakeholders' comments on whether requiring credit support equivalent to three months of estimated distributor charges:

- (a) is appropriate given that retailers have different billing cycles and therefore pose different risks to a distributor;**
- (b) creates an unacceptable barrier to entry for new entrants to the retail market by imposing a significant cost on start-ups which does not reflect their potential default risk to the distributor;**
- (c) imposes too high a cost on incumbent retailers if they are required to provide credit support.**

The Authority also seeks stakeholders' comments on whether any other approach to determining the amount of credit support may be more appropriate.

3.5 Review of credit support

The current Queensland credit support arrangements provide that the credit support undertaking must be released after six months (or before if agreed) if none of the triggers still apply.

The Authority seeks stakeholders' comments on whether other timeframes for reviewing credit support may be more appropriate.

3.6 Other issues

While stakeholders are welcome to comment on any issues they consider relevant to establishing appropriate credit support arrangements, the Authority would be interested to receive stakeholder views on the following additional issues.

When credit support may be drawn

The current Queensland credit support arrangements provide that a distributor may draw on credit support if the retailer has failed to comply with its payment obligations and the

distributor has provided three days notice to the retailer that it intends drawing on the credit support.

The Authority seeks stakeholders' comments on whether the current requirements for drawing on credit support provide sufficient time for retailers to fulfil their obligations.

The Authority also seeks stakeholders' comments on whether other requirements for allowing credit support to be accessed may be more appropriate.

Dispute resolution process

The dispute resolution process in the current Queensland credit support arrangements is outlined in Clause 17 of the Coordination Agreement.

It provides a mandatory period of 20 days in which the disputing parties must use reasonable endeavors to resolve the dispute amongst themselves. If the parties are unable to resolve the dispute after that time, either party may request that the dispute be determined by an independent expert. The independent expert will make a determination on the dispute which will be final and binding on the parties.

The Authority seeks stakeholders' comments on whether the existing dispute resolution process is adequate or whether alternate processes may be more appropriate.

General issues

The Authority also seeks stakeholders' comments on:

- (a) **whether the current credit support arrangements reflect best practice or whether**
 - (i) **there are other industries that may have adopted more suitable arrangements; or**
 - (ii) **the credit support arrangements applying in any other jurisdiction are seen as providing a better model; and**
- (b) **the extent to which the Authority should take account of the proposed national framework for credit support arrangements in developing its credit support guidelines.**

APPENDIX 1

Mines and Energy Legislation Amendment Bill 2010
Part 4 Amendment of Electricity Act 1994

[s 37]

Clause 37	Insertion of new s 55DC	1
	After section 55DB—	2
	<i>insert—</i>	3
	'55DC Additional condition about credit support	4
	'(1) It is also a condition of a retail authority that the retail entity must, if asked by a relevant distribution entity, enter into and maintain credit support with, or for the benefit of, the relevant distribution entity.	5 6 7 8
	'(2) However, the condition applies to a retail entity in relation to a relevant distribution entity only if the credit support requested by the distribution entity—	9 10 11
	(a) is consistent with the credit support guidelines; or	12
	(b) otherwise—is agreed to in writing by the distribution entity and the retail entity.	13 14
	'(3) In this section—	15
	<i>credit support</i> , in relation to a retail entity and a relevant distribution entity, means an arrangement to mitigate the risk of exposure of the distribution entity to non-payment by the retail entity of distribution non-network charges, network charges or any other charge payable by the retail entity to the distribution entity.	16 17 18 19 20 21
	<i>Example—</i>	22
	bank guarantee, third party guarantee or shareholder guarantee	23
	<i>distribution non-network charges</i> see section 90(10).	24
	<i>network charges</i> see section 90(10).	25
	<i>relevant distribution entity</i> means a distribution entity with which the retail entity has common customers.'	26 27
Clause 38	Insertion of new ch 5, pt 1B	28
	Chapter 5—	29
	<i>insert—</i>	30

Mines and Energy Legislation Amendment Bill 2010
Part 4 Amendment of Electricity Act 1994

[s 39]

'Part 1B	Credit support guidelines	1
'120ZN QCA must make credit support guidelines		2
'(1) QCA must make guidelines (the <i>credit support guidelines</i>) about the following matters—		3 4
(a) the circumstances in which a retail entity may be required to enter into and maintain credit support with, or for the benefit of, a distribution entity;		5 6 7
(b) the types of credit support QCA considers appropriate;		8
(c) the amount for which credit support should be provided;		9
(d) when and how credit support should be reviewed or revised, including the amount of credit support;		10 11
(e) any other matter relating to providing credit support that QCA considers relevant.		12 13
'(2) Before making the credit support guidelines, QCA must consult with distribution entities and retail entities.		14 15
'(3) QCA must publish the credit support guidelines on its website.		16 17
'(4) The credit support guidelines take effect on the day stated in the guidelines for that purpose.		18 19
'(5) In this section—		20
<i>credit support</i> see section 55DC(3).'		21
Clause 39	Amendment of sch 5 (Dictionary)	22
	Schedule 5—	23
	<i>insert</i> —	24
	<i>'credit support guidelines</i> see section 120ZN(1).'	25

Mines and Energy Legislation Amendment Bill 2010
Part 12 Amendment of Queensland Competition Authority Act 1997

[s 93]

Part 12	Amendment of Queensland Competition Authority Act 1997	1 2
Clause 93	Act amended	3
	This part amends the <i>Queensland Competition Authority Act 1997</i> .	4 5
Clause 94	Amendment of s 10 (Authority's functions)	6
	Section 10—	7
	<i>insert—</i>	8
	'(ka) to make credit support guidelines under the <i>Electricity Act 1994</i> ; and'.	9 10

APPENDIX 2

SUMMARY OF CREDIT SUPPORT ARRANGEMENTS ALL JURISDICTIONS^{1 2}

	QLD/SA	NSW	ACT	VIC	PROPOSED NATIONAL
Triggers for requiring credit support	Unacceptable credit rating. Regular failure to pay bills. Default under NERs. De-registered by AEMO. Default notice from energy supplier.	Unacceptable credit rating.	Unacceptable credit rating. Retailer under review by credit agency. Regular failure to pay bills. AEMO calls credit support.	Any time after average distribution service charges exceeds credit allowance.	Average distribution service charge exceeds credit allowance. Regular failure to pay bills. AEMO calls credit support.
Amount of credit support	3 months future estimated distribution charges.	90 days of estimated distribution charges.	3 months of estimated distribution charges.	Amount a retailer's average distribution charge exceeds credit allowance.	Amount a retailer's average distribution charge exceeds its credit allowance.
Form of credit support including the provider	Unconditional undertaking issued by a bank or other suitable body.	Guarantee or bank letter of credit.	Guarantee or bank letter of credit by distributor approved provider.	Unconditional undertaking issued by approved financial institution.	Irrevocable bank letter of credit issued by approved financial institution.
When credit support can be drawn	3 days after giving notice to the retailer.	5 days after giving notice to the retailer.	Anytime for amounts owing.	3 days after giving notice to the retailer.	3 days after giving notice to the retailer.
Review of credit support	6 months after undertaking was provided unless otherwise agreed. ³	At any time but must not be less than 10 days after credit support has been requested.	Within 10 days if credit rating at least BBB and no trigger events in past 12 months.	Not addressed	Distributor must cancel when required amount is zero.
Type of dispute resolution available	Procedures set out in Coordination Agreement.	Procedures set out in the <i>National Electricity Code</i> .	Procedures set out in the National Electricity Rules	Arbitration	Procedures set out in the National Electricity Law.

¹ The information contained in this table and the tables below are summaries of material which are publicly available or have been provided to the Authority on a non-confidential basis. The summaries are provided for comparative purposes and may not include all the terms and conditions contained in the various coordination agreements which exist across the jurisdictions.

² Tasmania and the Northern Territory do not have default credit support arrangements.

³ This requirement is not included in the South Australian Coordination Agreement.

QUEENSLAND AND SOUTH AUSTRALIA

Source	Queensland Default Coordination agreement: http://www.qca.org.au/files/ER-EIC-Ver4-AnnexC-0808.pdf South Australian Coordination Agreement
Triggers for requiring credit support	Distributors may request that a retailer provide an undertaking (credit support) if prior to that request the retailer cannot demonstrate that: <ul style="list-style-type: none"> • it has a Standard and Poor's credit rating of at least BBB – or its equivalent or that the performance of the retailers payment obligations are guaranteed by another entity who has an acceptable credit rating; • within the previous 12 months the retailer has failed to pay in full: <ul style="list-style-type: none"> - 3 invoices by the due date; - 2 consecutive invoices by the due date; or - 1 invoice within 25 days of the due date; • a default event occurs in relation to the retailer under the National Electricity Rules; • the retailer (or its NEM representative) ceases to be registered with AEMO; or • the retailer purchases energy from someone and that person issues the retailer with a default notice.
Amount of credit support	The distributor can request an amount of up to the next 3 months estimated distributor charges.
Form of credit support including the provider	An unconditional undertaking given within 10 days of being requested which is in a form and is issued by a financial institution which satisfies the distributor.
When credit support can be drawn	The distributor may draw on the credit support if the retailer has failed to comply with its payment obligations at any time after 3 days of giving notice to the retailer that it intends doing so and there is no dispute about those payments.
Review of credit support	The undertaking must be released after 6 months (or before if agreed) if none of the triggers still applies. ⁴
Type of dispute resolution available	Binding decision by independent expert.

⁴ This requirement is not included in the South Australian Coordination Agreement.

NEW SOUTH WALES

Source	<p>Clauses 11-16 of the <i>Market Operations (Network Use of Systems) Rule No.2 of 2001</i> which is made pursuant to Section 63C of the <i>Electricity Supply Act 1995</i>.</p> <p>http://www.industry.nsw.gov.au/energy/files/electricity_market_market_operations_rule_no2_of_2001.pdf</p>
Triggers for requiring credit support	<p>A distributor may require a retailer to provide credit support if, at any time, the retailer does not have an unqualified credit rating of at least:</p> <ul style="list-style-type: none"> • BBB from Standard and Poor's (Australia) Pty Ltd; or • Baa from Moody's Investor Service Pty Ltd, or an equivalent.
Amount of credit support	<p>The amount of credit support is capped at the amount of charges the distributor reasonably anticipates to be payable by the electricity supplier in the next 90 days. The retailer must provide the credit support within 5 business days.</p>
Form of credit support including the provider	<p>The credit support must be in the form of a guarantee or bank letter of credit acceptable to the distributor. The guarantee provider must have a credit rating of:</p> <ul style="list-style-type: none"> • AA from Standard and Poor's (Australia) Pty Ltd, or • AA from Moody's Investor Service Pty Ltd; or an equivalent.
When credit support can be drawn	<p>The distributor can only draw on credit support if they:</p> <ul style="list-style-type: none"> • have given notice requesting credit support; and • have given 5 business days notice of intention to draw on the credit support; and • an outstanding amount remains is still due on the date on the credit support is drawn. <p>If a disputed amount is determined to be payable by a retailer to a distributor, the distributor may draw on the credit support to pay that debt.</p>
Review of credit support	<p>The distributor may review (or a retailer may request a review) of the credit support amount no less than 10 days after a notice requiring credit has been issued.</p>
Type of dispute resolution available	<p>Contained in the National Electricity Code.</p>

AUSTRALIAN CAPITAL TERRITORY

Source	<i>Electricity Network Use of System Code</i> (Oct 2007) contains a <i>Default Use of System Agreement</i> (Clause 10) http://www.icrc.act.gov.au/_data/assets/pdf_file/0020/67601/NUoS_DI_Code_and_Agreement_FINAL_2.pdf
Triggers for requiring credit support	The distributor may require credit support if a retailer: <ul style="list-style-type: none"> • does not have a credit of at least BBB or equivalent; • is placed under review by a credit agency; • if the retailer has (within the past 12 months) failed to pay: <ul style="list-style-type: none"> - an invoice within 10 days of being due; - any invoice by the due date for payment in 2 consecutive billing periods; - any 3 invoices by the due date for payment; or • if AEMO, or any other supplier of energy, calls on credit support from the retailer supplier.
Amount of credit support	The amount of credit support is capped at the amount of charges the distributor reasonably anticipates to be payable by the electricity supplier in the next three months. The retailer must provide the required credit support within 10 business days of receiving a notice.
Form of credit support including the provider	A guarantee, bank letter of credit or other form of security acceptable to the distributor.
When credit support can be drawn	The distributor may set off, apply or draw on the credit support any amount owed by the retailer at any time from the business day following the day on which the amount becomes owing.
Review of credit support	The distributor must release credit support within 10 days of retailer's request if the retailer's credit rating is at least BBB and no other of the trigger events have occurred in the previous 12 months.
Type of dispute resolution available	National Electricity Rules

VICTORIA

Source	Default services agreement http://www.esc.vic.gov.au/public/Energy/Regulation+and+Compliance/Decisions+and+Determinations/DUos+Credit+Support+Arrangements/
Triggers for requiring credit support	Retailers are required to provide credit support to a distributor when the amount of the retailer's average distribution service charges liability exceeds its credit allowance.
Amount of credit support	<p>The amount of credit support provided will equal: the retailer's <i>average distribution services charges</i> less the retailer's <i>credit allowance</i>.</p> <p><i>Average distribution service charges</i></p> <p>A retailer's average billed and unbilled distribution service charges liability will be calculated as: $(A \times 2/3) + B + C$ where:</p> <p>A = 90 days forecast monthly billed Distribution Service Charges relating to customers of the retailer, and B = 90 days forecast quarterly billed Distribution Service Charges relating to customers of the retailer. C = any Distribution Services Charge on which interest must be paid.</p> <p><i>Credit allowance</i></p> <p>The credit allowance of a retailer will be deemed to be zero if any one of the following applies at the time of the distributor's request for credit support:</p> <ul style="list-style-type: none"> • within the previous 12 months the retailer has failed to pay in full: <ul style="list-style-type: none"> - 3 invoices within the required time limit for payment; - 2 consecutive invoices within the required time limit for payment; - 1 invoice within 25 Business Days of the due date; • AEMO calls upon any credit support provided by the retailer or its guarantor, • the retailer ceases to be registered with the National Electricity Market, or • where the retailer purchases energy under an agreement with a person registered with the NEM and that person either issues a notice of default to the retailer, or that person ceases to be registered with the NEM.

Otherwise, a retailer's credit allowance is calculated as the percentage of the relevant distributor's Maximum Credit Allowance corresponding to the retailer's credit rating as determined by the Standard and Poor's credit rating system (or equivalent). The distributor's Maximum Credit Allowance will equal 33.33 per cent of the distributor's annual Distribution Service Charges revenue for the most recent year reported to the Commission.

Example for a retailer with a Standard & Poor's credit rating.

For a distributor whose annual distribution charges revenue is \$100, the Maximum Credit Allowance is equal to one third of \$100, or \$33.33. A retailer with a BBB- credit rating would have a Credit Allowance of 48 per cent of the distributor's Maximum Credit Allowance, or \$16 (\$33.33 x 48 per cent).

If the retailer's Distribution Service Charges liability is \$20, then the level of credit support provided is \$4 (\$20-\$16). In contrast, if the retailer's Distribution Service Charges liability were \$12, then the retailer would provide no credit support because its liability would be less than its Credit Allowance.

Form of credit support including the provider

Credit support must be provided within 10 days in the form of an unconditional undertaking issued by either an Australian bank or any other financial institution approved by the distributor.

When credit support can be drawn

The distributor may only draw on the credit support where there is an outstanding debt (about which there is no dispute) and 3 days notice is given that the distributor intends drawing on the credit support.

Review of credit support

Not addressed

Type of dispute resolution available

Clause 12-14 of UoSA

PROPOSED NATIONAL FRAMEWORK

Source	National Energy Customer Framework (November 2009) Second Exposure Draft. It is proposed that the national credit support rules will be located within a new Chapter 6B of the NER.
Triggers for requiring credit support	A distributor may require credit support when a retailer's <i>distribution service charges liability</i> exceeds its <i>credit allowance</i> .
Amount of credit support	<p>A retailer's credit allowance will be deemed be zero if, at the time of the distributor's request, any of the following apply:</p> <ul style="list-style-type: none"> • within the previous 12 months the retailer has failed to pay in full: <ul style="list-style-type: none"> - 3 statements of charges by the due date; - 2 consecutive statements of charges by the due date; - 1 statement of charges within 25 business days of the due date; or • AEMO calls on any credit support provided by the retailer or its guarantor. <p>Otherwise, to determine the required credit support amount, a distributor must calculate the amount by which the <i>distribution service charges liability</i> of a retailer exceeds the <i>credit allowance</i> of that retailer.</p> <p><i>The distribution services charges liability</i></p> <p>A distributor must estimate an amount which is equal to a retailer's average billed and unbilled distribution service charges liability (DSCL), calculated as: $DSCL = \Sigma DSCLc$</p> <p>Where DSCLc means the forecast daily distribution service charges relating to those of customers of the retailer for which the maximum days outstanding (MDO) is the same, multiplied by that MDO where MDO for each customer is calculated as: $MDO = FCCP/2 + DRIP/2 + IPPL$</p> <p>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 distributor to the retailer in respect of that customer's consumption of electricity</p> <p>DRIP (distributor retailer invoicing period) is the number of days in the retail billing period applicable to the retailer; and</p>

IPPL (invoice preparation and payment lag) is 28 days.

Retailer credit allowance

A retailer's credit allowance is: $CA = MCA \times CA\%$

MCA is the maximum credit allowance for that distributor which is its total annual amount of distribution service charges x 33.33%.

CA% means the credit allowance percentage for a retailer which corresponds to the credit rating applicable to the retailer.

Form of credit support including the provider

Credit support must be provided within 10 days in:

- the form of an irrevocable bank letter of credit issued by either an Australian bank or any other financial institution approved by the distributor which is capable of paying on the credit support in Australia when demanded; or
- a form agreed by a distributor and a retailer.

When credit support can be drawn

The distributor may only draw on the credit support where there is an outstanding debt (about which there is no dispute) and 3 days notice is given that the distributor intends drawing on the credit support.

Review of credit support

If the required credit support amount is zero, a distributor must pay, cancel or return to a retailer any balance of credit support outstanding after payment of all amounts owing by the retailer to the distributor.

Type of dispute resolution available

Part 10 of the National Electricity Law
