16 December 2016

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submittted electronically

REF ERC0183: Retailer-Distributor Credit Support Requirements Draft Rule Determination

Dear Mr Pierce

The undersigned energy retailers welcome the opportunity to comment on the Australian Energy Market Commission's (**AEMC**) *Draft Rule Determination – National Electricity Amendment (Retailer-distributor credit support requirements) Rule 2016 and National Gas Amendment (Retailer-distributor credit support requirements) Rule 2016* (**the draft rule determination**).

We commend the AEMC's process which thoroughly investigated and assessed multiple rule change requests, and alternative options, to address the risks faced by distributors in the event of a retailer default to reach the proposed preferred rules explained in the draft rule determination. As smaller, competitive retailers operating in multiple markets and requiring relationships with numerous distributors, we believe that the AEMC's preferred rules address the concerns that we raised in previous submissions throughout the rule change process, including:

Minimising the impact on retail competition

Effective retail competition is recognised by the AEMC as promoting the long-term interests of consumers. For smaller retailers, many of whom are driving competitive behavior across the National Electricity Markets (**NEM**), the proposed rule changes and options under consideration by the AEMC presented potential increased cost burdens that may have hindered retailer entry and expansion. In particular, new and innovative retailers considering market entry may have been deterred by the potential costs, which is not a desired outcome in a rapidly changing, competitive market.

The draft rule determination and preferred rules allow retailers and distributors to retain their existing credit support arrangements or substantially limits when credit support requirements may be applied under new retailer-distributor arrangements. The preferred rules provide regulatory certainty to retailers for their current operations and that market expansion will result in limited new costs, as credit support requirements will only be triggered by retailer action. This certainty should serve to foster retail competition by increasing certainty for new entrant retailers and smaller retailers seeking to expand geographically.

Minimising the cost impact to consumers

Risk mitigation measures need to take into consideration the cost to effectively manage undesired events whilst not creating cost inefficiencies by over insuring for events with a low likelihood of occurring. As has been noted by the AEMC, there have been three small retailer defaults in the history of the NEM. Some of the options considered throughout this process sought to protect distributors from risk using ex-ante mechanisms would have increased obligations and on-going costs on retailers. Ultimately, such costs would be been borne by consumers.

We appreciate the AEMC's thoroughness in considering several options. However, the draft rule determination and preferred rules, by focusing on enhancement of the retailer insolvency cost pass-through, provides efficient risk mitigation mechanisms that will not increase on going costs to retailers or distributors. Whilst costs of a retailer default will still be borne by the consumer, this will be impact will be limited to the period of the recovery, and lost revenue and costs incurred by the distributor, rather than on going costs of insuring against a possible such event.

In summary, we thank the AEMC for its diligence in considering numerous options to address the risks faced by distributors in the event of a retailer default. We agree with the AEMC's conclusions in the draft rule determination that enhancement of the retailer insolvency cost pass-through is the most efficient means to ensure distributors risks are mitigated without imposing barriers to retail competition or unnecessarily increasing costs to consumers in the long terms.

Should the Commission have any questions about this submission, please contact Hilary Priest on 0419 818 115 or via email, hpriest@mojopower.com.

Yours sincerely,

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