

GIC INSOLVENT RETAILERS WORKSTREAM

Submission prepared by: Contact Energy

QUESTION	COMMENT
Q1: Do you have any comments or concerns on the summary of standard insolvency arrangements provided in this section?	No.
Q2: Do you have any comments on the summary of physical and contractual characteristics of the New Zealand gas market set out above?	No.
Q3: Are you aware of any reason(s) why a gas retailer may become insolvent in addition to those mentioned in this section?	Contact would add to this that it is possible that a retailer's customer book may contain a large number of customers who are a poor credit risk (an expansion of cash flow risks described in the paper).
Q4: Are there other likely scenarios of how a gas retailer insolvency might play out that have not been discussed above?	Contact agrees with the scenarios set out in this paper and has no additional scenarios to add at this time.
Q5: Do you agree with the description of customers' perceptions of the risk of insolvency, and the likely customer experience when their retailer becomes insolvent?	Yes.
Q6: Do you agree with this discussion of the incentives that apply in an insolvency event?	Yes.

QUESTION	COMMENT
Q7: Do you agree with the market failures identified?	Contact agrees with the externalities identified.
Q8: Do you agree that the market failures identified will only eventuate if an insolvency practitioner disclaims customer contracts or if an acquiring retailer does not acquire the whole customer base in a sale process?	Yes.
Q9: Do you agree that contracts provide some ability for gas industry participants to manage the costs that they might bear if their counterparty becomes insolvent?	In Contact's view contracts in the gas industry provide some level of protection for gas distributors where a counter party becomes insolvent. However, as the paper notes, as an unsecured creditor, the funds may simply not be there in the case of liquidation.
Q10: Based on the issues discussed above and for the market failures identified, do you consider that there is a need for regulatory intervention beyond using the urgent regulation-making powers in the Gas Act?	Contact considers that the GIC needs to be prepared for retailer insolvency, but does not believe a retailer of last resort, or regulatory intervention beyond using the urgent regulation-making powers in the Gas Act regime is required at this time.