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Prudentials Department
Australian Energy Market Operator

To the Prudentials Manager,

Lodged by email: prudentials@aemo.com.au

AEMO 2017, Credit Limit Procedures – Modelling Parameter and MNSP Prudential Requirement Changes, First Stage of Consultation, 28 August 2017

EnergyAustralia is one of Australia's largest energy companies with over 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion dollar energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM).

We welcome the opportunity to comment on the proposed changes to the Credit Limit Procedures. We do not support the proposed change in methodology as it has been inadequately tested for long term suitability and is likely to unnecessarily increase costs to market participants, and ultimately customers.

Inadequate model testing

The reason that EnergyAustralia consider that the testing conducted on the proposed methodology is inadequate to justify a change in the calculation of Maximum Credit Limits (MCL) is that the modelling has been conducted and assessed on only one year of data. This is insufficient to demonstrate that the new methodology will be fit for future purpose as prices are expected to vary considerably year-to-year. The year used to assess the change, FY2017, was a year of historical price highs. Forward price curves for the NEM indicate that prices are likely to fall by up to 27% between 2017 and 2018,[1] indicating that the recent high prices are likely to be an anomaly rather than a sustained structural change in the market that needs to be addressed. The change in methodology appears to be a response to current short term deviations, rather than a consideration of how best to calculate appropriate credit limits in the future.

Increased costs to customers

While the new method would have ensured that the standard was met over Summer 16/17, when prices subsequently fell in Q2, the MCL would have been excess to requirements. Based

[1] Based on AER Quarterly base futures prices, data accessed 7 September 2017, https://www.aer.gov.au/wholesale-markets/wholesale-statistics/quarterly-base-futures-prices

on data provided in the consultation paper, MCLs would have been over 100% higher than actual outstandings. This excess generates considerable costs for participants who must pay financial services for every $1million of credit that is provided. By maintaining such a high MCL, participants, and customers, are exposed to unnecessary credit costs. As outlined above, prices are expected to continue to decrease and this new methodology will unreasonably weight high 2017 prices, leading to excessively high MCL requirements, at cost to customers.

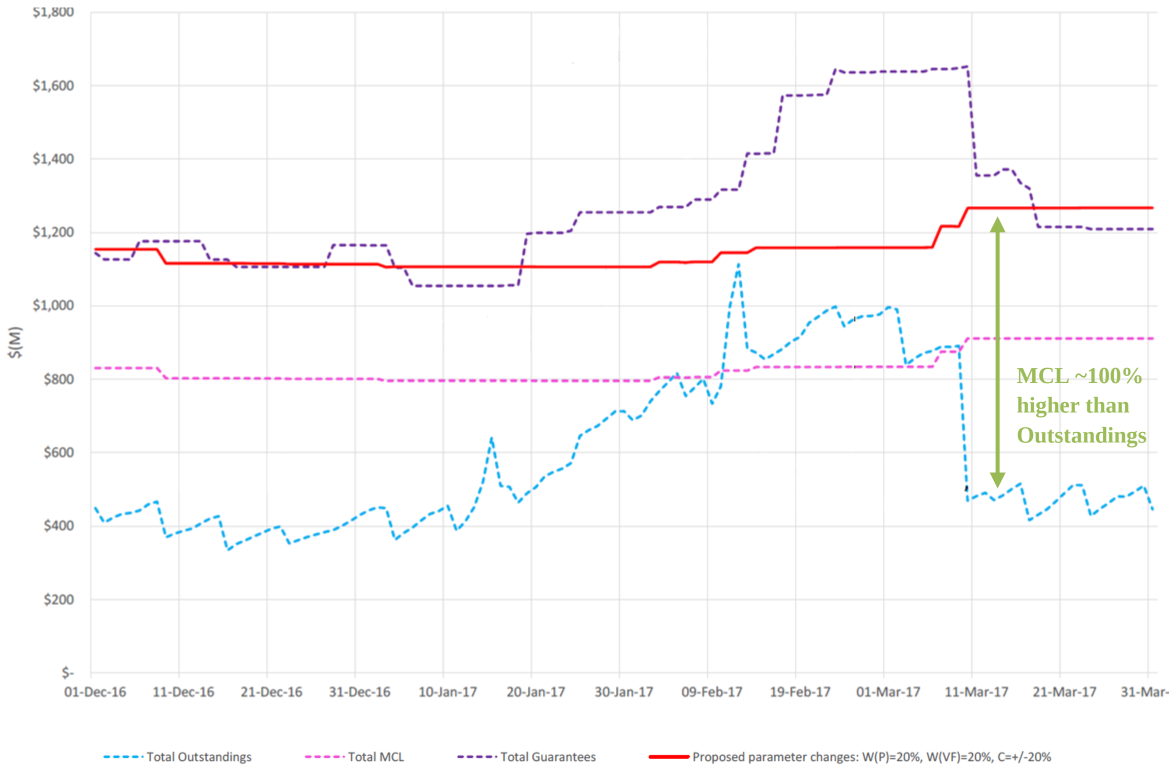

Chart Source: AEMO, Credit limit procedures – modelling parameters and MNSP prudential requirement changes Issues Paper

Preferred approach

Our preferred approach is for the current methodology to be retained. To address currently high prices, participants should be able to cover their risk with a voluntary top-up as participants were observed to do this year when high prices were witnessed. This will be preferable to changing a methodology which will have longer term detrimental impacts on the market.

If you would like to discuss this submission, please contact Georgina Snelling on (03) 8628 1126.

Regards

Melinda Green
Industry Regulation Leader