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Submitted via email: prudentials@aemo.com.au

Draft Report and Determination - Credit Limit Procedure, Modelling Parameters and MNSP Prudential Requirements Changes

Alinta Energy (**Alinta**) appreciates the opportunity to provide a submission to the Australian Energy Market Operator's (**AEMO**) Draft Report and Determination; *Credit Limit Procedures – Modelling Parameters and MNSP Prudential Requirement Changes* (**Draft Report**).

Alinta is both a generator and retailer of electricity and gas in the east and west coast energy markets. It has an owned and contracted generation portfolio of 1957MW, including 1700MW of gas-fired generation facilities, and in excess of 830,000 customers including more than 300,000 in east coast markets. As an active and growing market participant Alinta expects to be directly impacted by the implementation of the credit limit procedure changes.

Additional analysis is appreciated

In response to submissions received, Alinta notes the additional analysis undertaken by AEMO in modelling alternative parameter weighting changes, including a 15% parameter scenario. Such additional analysis and inquiry has improved the quality of the consultation overall and Alinta appreciates the work undertaken by AEMO.

Proposed changes will invite materially higher prudential costs for market participants

As noted in Alinta's and other participant's responses to AEMO's issues paper, the effect of raising the magnitude of the parameter's to 20% will act to increase market participant's Maximum Credit Limit (**MCL**) requirements substantially and thus incurring non-trivial costs to prudential management overheads. In Alinta's view this will constrain working capital which could otherwise be used for productive purposes and act as a raised barrier of entry for new entrant retailers.

Nonetheless, Alinta recognises the importance and benefit the 2% prudential standard provides in ensuring that in the event of a default, there is enough credit to support the orderly exit of a participant who may be unable to cover their outstanding debts. Alinta is cognisant of, and appreciates the obligations and responsibility AEMO has in meeting that 2% prudential standard.

AEMO should begin canvassing alternative and dynamic prudential management strategies

At present, the National Electricity Market (**NEM**) is experiencing tight supply conditions, especially in summer months. As AEMO acknowledged in its Draft Report, these higher prices and volatilities may continue, potentially increasing participant's prudential management costs for the foreseeable

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future. In Alinta's view this may significantly constrain the ability of new entrant retailers to allocate their capital to product innovation and growth.

This outcome is less than ideal, and invites the question that a more dynamic approach in managing MCL's in the market is needed and that new and alternative prudential management practises should begin to be investigated by AEMO. As Alinta outlined in its submission to the issues paper, one alternative approach may be to place a greater reliance on short term MCL top-up mechanisms in response to peak summer periods.

Another approach may be for AEMO to begin giving some thought to the length of the settlement cycle and the resulting impact this has on participant's MCLs. Primarily the level of risk exposure in the market is dependent on the length of time between consumption and completion of settlement, with a longer time period allowing for further accumulation of debts.

This not only increases business operating costs for individual participants, but increases the risk of defaults arising from changing trading limits. A shorter settlement cycle would reduce counterparty credit exposure and thus reduces the net cost of providing prudential services, increasing economic efficiency in the NEM.

Whilst these options are clearly beyond the scope of this specific consultation, it is worth raising them as issues which AEMO should be actively canvassing both internally and externally in the near future as issues regarding prudential management are only likely to increase in magnitude.

Conclusion

Alinta appreciates the additional analysis and modelling undertaken by AEMO, and thanks them for their time taken to improve the quality of consultation undertaken.

It is worth noting that it has been a significant period of time since a broader review of the prudential management systems in the NEM has been undertaken, and as such, Alinta suggests that a more dynamic prudential management approach may be needed going forward and Alinta encourages AEMO to begin giving thought to such reforms.

Please contact Mr Anders Sangkuhl via email: anders.sangkuhl@alintaenergy.com.au or by phone 09 9375 0992 if you have any queries in relation to this submission.

Yours sincerely

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