50 Camberwell Road Hawthorn East VIC 3123

21 November 2024

Mr Phillip Munro-Laylim
Project Leader
Australian Energy Market Commission
Lodged online at: AEMC consultation portal

Dear Mr Munro-Laylim,

Response to AEMC's consultation paper on rule change request to allow AEMO to accept cash as credit support

The Clean Energy Investor Group (CEIG) welcomes the opportunity to provide feedback on the AEMC's consultation paper on the rule change request to allow AEMO to accept cash as credit support published in October 2024.

CEIG represents domestic and global renewable energy developers and investors, with more than 16GW of installed renewable energy capacity across more than 76 power stations and a combined portfolio value of around $38 billion. CEIG members' project pipeline is estimated to be more than 46GW across Australia. CEIG strongly advocates for an efficient transition to a clean energy future on behalf of the investors who will provide the low-cost capital required for this transition.

Key Points

- **CEIG does not support the proposed rule change.**
- However, should the rule change progress, **CEIG proposes that any generator seeking to use cash as credit support must also provide a notice of closure within 3.5 years.**
- **The current credit support rules are established for sound reasons, and no other market participants are currently exempt from these requirements.**
- CEIG believes the inability of Delta to secure traditional credit support due to lender ESG policies **should be viewed as a market signal rather than as grounds for an exemption.**
- Allowing cash as a form of credit support in response to a single participant's difficulty **undermines the market and regulatory shift to clean energy and dilutes**

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the standards set by current rules.

- CEIG highlights that supporting this rule change would **compromise the emissions reduction criteria of the NEO.**
- **CEIG believes further analysis is necessary to quantify the potential reliability gap,** factoring in new renewable and storage projects expected to come online.

GENERAL COMMENTS

CEIG understands that this rule change proposal has been initiated by Delta Electricity, which is seeking to allow cash to be provided as an alternative form of credit support under the National Electricity Market (NEM) arrangements.

CEIG does not support the proposed rule change

CEIG acknowledges Delta's concerns regarding the challenges in obtaining acceptable credit support, such as a bank guarantee or a letter of credit. However, CEIG believes that the current credit support rules are established for sound reasons, and no other market participants are currently exempt from these requirements. The inability of Delta to secure traditional credit support due to lender Environmental, Social, and Governance (ESG) policies should be viewed as a market signal rather than as grounds for an exemption.

Maintaining long-term grid reliability requires generation assets to manage their financial and operational risks to a level acceptable to credit counterparties. Allowing cash as credit support increases risks to consumers in the event of insolvency by reducing the number of financially involved counterparties.

CEIG understands that Delta has only been offered finance for mine rehabilitation and renewable energy power purchase agreements, with lenders showing little willingness to provide funding for other purposes due to its association with thermal coal.

Lender ESG policies reflect the broader market and regulatory transition towards clean energy investments and should be viewed as a market signal that the asset is no longer viable or consistent with Australia's decarbonisation pathway. Allowing cash as a form of credit support in response to a single participant's difficulty undermines this shift and dilutes the standards set by the current rules. Importantly, supporting such a rule change would also compromise the emissions reduction criteria of the National Electricity Objective (NEO), a critical factor in assessing any rule change proposal.

Regarding system reliability and security concerns, CEIG believes further analysis is necessary to quantify the potential reliability gap, factoring in new renewable and storage projects expected to come online. Prioritising coal-fired generation as a solution should not be the first response when considering potential reliability gaps.

If the rule change is progressed

Nevertheless, CEIG recognises that the sudden deregistration of critical generation assets unable to secure necessary credit support could pose risks to system reliability and security.

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Should the rule change be progressed, CEIG proposes the following amendments:

- If AEMO accepts cash as credit support from a market-registered generator, it should trigger a notice of closure period of 3.5 years.
- This deadline should remain firm, even if the generator later secures traditional credit support, ensuring the generator is deregistered as planned.
- An exception should only be made if governments provide a guarantee for the asset, and only in cases where system reliability is at significant risk.

This approach would align with the NEO assessment criteria, balancing grid reliability and security while recognising the withdrawal of credit support as a signal that an asset may no longer be viable or consistent with Australia's decarbonisation pathway.

CEIG thanks the AEMC for the opportunity to provide feedback on its consultation paper and looks forward to continued engagement on those issues. Our Head of Policy and Advocacy can be contacted at marilyne.crestias@ceig.org.au if you would like to further discuss any elements of this submission.

Yours sincerely,

Marilyne Crestias
Head of Policy and Advocacy
Clean Energy Investor Group Ltd
w: www.ceig.org.au