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Australian Energy Market Commission

## **Genuity - Response to AEMC, Allowing AEMO to accept cash as credit support, Consultation paper, 24 October 2024 (ERC0403)**

Genuity welcomes the opportunity to respond to the AEMC's 24 October 2024 - Allowing AEMO to accept cash as credit support consultation paper ERC0403, (Consultation paper). Our general and specific comments to the Consultation paper are set out below.

### General Comments

Subject to specific comments outlined below, Genuity supports Delta Electricity's (Delta) proposed Rule change.

Further, Genuity believes that broadening the suite of credit support mechanisms acceptable to AEMO is a procedural matter that will have longer term benefit for all market participants in addition to addressing the near-term credit accessibility issues currently being faced by Delta.

### Specific Comments

#### 1. Sourcing acceptable credit support

Genuity acknowledges Delta's current difficulties in sourcing acceptable forms of AEMO credit support. Further, we expect that this will be an enduring issue as other thermal plants reach the end of their existing credit facilities. Without reform, the procedural matter of providing credit support can result in insolvency events and subsequent sudden supply disruptions impacting both market price and system reliability.

Our experience identifies there is only a limited number of banks that provide lending & banking services to thermal plant. This subset is further refined by the number that can also provide Letters of Credit (LC) and working capital facilities.

AEMO's current credit support mechanism is therefore no longer reflective of current and prospective participants' ability to source cost efficient credit.

#### 2. Cash as Credit support – Market Benefits

Genuity believes the benefits identified by AEMO in its 2011 Energy Market Prudential Readiness Review<sup>1</sup> support the use of cash as credit support and offers commentary on these as follows:

- *Reduction in the risk of default due to administrative difficulties resulting in a Participant not meeting the timeframes for lodging a bank guarantee.*

Genuity believes that by not making the Rule to allow AEMO to accept cash backing, market participants will face an increased risk of insolvency from otherwise financially viable businesses based upon essentially a restrictive procedural matter.

- *Flexibility for Participants to choose the least cost option for provision of collateral, including for example by providing a base level of guarantee, supplemented by cash to meet seasonal variations.*

<sup>1</sup> AEMO, Energy Market Prudential Readiness Review - Final Report to the MCE, April 2011, p.44.

An ability to choose from a broad suite of credit support mechanisms including cash backing allows participants to best tailor the most efficient mechanism to meet their respective credit obligations. Further, including a cash backing option is likely to increase the credit standing of all participants by respectively lowering the overall cost of providing credit to AEMO through the ability to match credit to operational profiles and business models.

- *Reduction in administration costs for both Participants and AEMO in arranging and administering bank guarantees.*

Genuity believes that broadening the suite of acceptable credit mechanisms to include cash backing will also benefit smaller new entrants who currently may be locked into costly credit support arrangements due size, perceived higher risk and lack of credit history.

- *Access to the advantage that cash collateral is readily accessible at short notice, and does not rely on the timely conversion of a bank guarantee in the event it needs to be called upon*

Immediacy of accessing credit support – once the cash facility is established, cash transfers should they be required to meet a credit obligation, is same/next day as opposed to drawing upon LC's which take a minimum of 5 to 10 business days. This ensures AEMO is immediately kept whole upon calling in credit support. Further, Genuity notes that changes to LC facilities typically requires several weeks to months before a replacement can be put in place.

### 3. Cash as credit support – Market Costs

Genuity notes there will be an initial cost to setting up a cash facility although we would expect this to be less than that for an equivalent LC. Set up administration costs could be further lowered using a standard AEMO agreement. Concerns around participant insolvency risks can be managed through the standard agreement by acknowledging the purpose of the cash facility, its standing in each participants' capital structure, and its position in an insolvency event.

### 4. Alternative Credit Support mechanisms

Genuity encourages AEMO in addition to accepting cash as credit backing, to also consider broadened their credit standards to include a wider list of banks and acceptable credit levels that is reflective of the set of banks able to provide credit facilities.

Genuity would welcome the opportunity to discuss this submission if you would find that helpful. If you have any questions on the issues raised in this submission, please contact me at [rpane@genuity.com.au](mailto:rpane@genuity.com.au).

Yours sincerely



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