15 November 2024

Anna Collyer
Chair
AEMC

Submitted online: www.aemc.gov.au

Dear Ms Collyer,

Allowing AEMO to accept cash as credit support – Consultation paper

Origin Energy Limited (Origin) welcomes the opportunity to comment on the AEMC's consultation paper on allowing the Australian Energy Market Operator (AEMO) to accept cash as credit support.

If the proposed rule were made, we expect most credit support would continue to be in the form of bank guarantees rather than cash due to the comparative cost. Cash (in the form of a security deposit with AEMO) is generally more expensive than a bank guarantee facility even allowing for interest paid by AEMO. However, the ability to utilise cash would provide market participants with increased flexibility to manage their credit support requirements. Outside of the specific circumstances identified by the rule change proponents, this could be particularly beneficial for Bi-Directional Unit (BDU) operators.

BDU projects will often be owned by an SPV with retailers signing offtake agreements for the energy produced. It is also currently a requirement of the Capacity Investment Scheme for projects to be structured as an SPV. A BDU will naturally not accrue large outstandings (i.e. amounts payable to AEMO) and therefore not pose significant credit risk to market participants. The Maximum Credit Limit (MCL) of a BDU is currently set at $10k per 100MW capacity which is not a material amount for the market to absorb in the case of an insolvency. The proposed rule change would allow a BDU to avoid the expense and administrative burden of applying for bank a guarantee facility (likely backed by cash provided to the issuer) and instead post cash directly with AEMO.

The ability to provide cash would also help mitigate circumstances where additional credit support is sought by AEMO but a bank guarantee facility cannot be extended. A BDU's MCL could be raised in two scenarios: if the outstandings of BDUs are collectively assessed and the current $10k per 100MW is found to be insufficient, or if a review by AEMO is triggered by repeated breaches of their Outstandings Limit (OL). While a BDU will generally have a positive settlement balance with AEMO due to economic operation of the asset, circumstances could arise where this is not the case such as during commissioning or extreme market conditions.

Notwithstanding the above, we acknowledge the risk identified in the consultation paper associated with cash being clawed back in the event of insolvency, and agree this should be carefully considered. Certainly the proposed rule should not be made unless steps are made to limit the risk of clawback. At a minimum this would include security deposit arrangements as suggested by the AEMC.

The AEMC should also consider the impact of the shorter settlement cycle rule change currently being considered by the AEMC. This would reduce the Outstandings Limits of some participants but may increase the risk that a BDU will accrue liabilities. This is because positive settlements from only two previous billing periods will be available to cover negative settlements from a period of uneconomic operation. We also understand that AEMO is considering ways to improve the security deposit arrangement process. This might involve a web portal or similar for participants to more easily provide cash to AEMO.

While possibly out of scope for this process, a final matter to consider is the role and scope of reallocations within the prudential framework. Reallocations allow for off-market transactions to be considered in AEMO's settlement and prudential calculations and can act to reduce participants' MCL. This recognises that creditors and debtors to AEMO will often have offsetting hedges in place which

Origin Energy Limited ABN 30 000 051 696 • Level 32, Tower 1, 100 Barangaroo Avenue, Barangaroo NSW 2000
GPO Box 5376, Barangaroo NSW 2000 • Telephone (02) 8345 5000 • Facsimile (02) 9252 9244 • www.originenergy.com.au

reduce their exposure to the spot market. Swap and option offset reallocations are available which correspond to typical exchange traded products. Origin has previously put a proposal to AEMO to allow for *meter following offset reallocations* in recognition of the large volume of energy traded under PPA type arrangements. Our proposal aims to overcome the difficulty of using the current suite of reallocation types for renewable assets with variable output, as the volume in the reallocation agreement could then match the volume of the related PPA. The introduction of this type of reallocation would give participants an additional option to decrease credit support costs.

Please contact Ben Hayward on 03 9067 3403 if you wish to discuss any aspect of this submission.

Shaun Cole
Group Manager, Regulatory Policy

Origin Energy Limited ABN 30 000 051 696 • Level 32, Tower 1, 100 Barangaroo Avenue, Barangaroo NSW 2000
GPO Box 5376, Barangaroo NSW 2000 • Telephone (02) 8345 5000 • Facsimile (02) 9252 9244 • www.originenergy.com.au