

13 November 2024

Mr Sebastien Henry

Project Sponsor ERC0403

Australian Energy Market Commission

sebastien.henry@aemc.gov.au

Dear Mr Henry,

RE: Proposed rule change ERC0403 allowing AEMO to accept cash as credit support submitted by Delta Electricity

Perpetual Energy (PE) wishes to make the following submission in **support** of the proposed rule change.

While the proposed rule change is specifically applicable to the National Electricity Market (NEM) and the National Electricity Rules (NER) and Perpetual Energy is currently only registered as a Natural Gas Retailer, we believe this rule change is a necessary and prudent measure to help the Energy markets move forward. We are in support of this rule change in the NER and would subsequently support an identical rule change in the NGR shortly following as we believe all the same points highlighted as issues with the current Electricity Rule is applicable to the Gas Market. We would see this rule change as an important and necessary step in getting an equivalent rule change accepted in the Gas Market.

Perpetual Energy submits the following responses to the consultation questions raised in the AEMC consultation paper regarding the proposed rule change published on 24 October 2024.

Question 1: Do the current available options for credit support create problems in the NEM?

How likely is it that other participants may face issues in the future obtaining bank guarantees or letters of credit, similar to the issues currently faced by Delta or otherwise?

Could the current options for credit support create risks to the supply of electricity? Are these short-term risks or longer-term risks to the broader NEM?

Are there any other issues faced by market participants due to the current options to provide credit support?

PE Response

While PE does not currently experience the same issues raised by Delta Electricity (DE) we agree that these issues are only going to worsen in the near future with financial institutions taking a more environmentally conservative approach and removing backing of fossil fuels.

While PE does not participate in the NEM, we believe the current options for credit support in the Gas Markets do add unnecessary challenges and complexities that increase the risk of issues such as ROLR events which lead to potential market supply shortage and curtailment events.

The current options for credit support in the NEM and Gas Markets provide additional barriers to entry to the market for new participants who find great difficulty in securing bank guarantees from the approved financial institutions due to their lack of proven historical operation and unfairly assists incumbent participants who will have access to cheaper sources of bank guarantees for this reason. This subsequently contributes to less competition in the market and a poorer outcome for customers.

Question 2: What are the potential benefits of allowing cash to be provided as credit support?

What benefits do you consider there to be from allowing cash to be provided as credit support?

If there are benefits, how material could they be?

PE Response

The primary benefit is this will allow a more readily accessible and cheaper option for credit support be available to market participants, including retailers, leading to lower operating costs.

The difference between the cost of a bank guarantee and the cost of cash to PE is around 15% of the total value of the credit support provided to AEMO.

Question 3: What are the potential costs of allowing cash to be provided as credit support?

What are your views on risks to AEMO and markets participants from insolvencies if cash is provided as credit support? Are these risks sufficiently material to outweigh any benefits of the proposal?

What do you consider would be the likely impact on emissions by allowing cash to be provided as credit support?

Are there any other potential costs from allowing cash to be provided as credit support?

If there are costs, how material are they?

PE Response

PE does not believe that there are additional risks to AEMO if cash is used as credit support in the event of a market participant insolvency. We do not believe administrators would have access to cash held by another entity and therefore would consider cash held by AEMO as credit support just as secure as bank guarantees. We also believe the same inherent risks apply with administrators, whether the security used for credit support is cash or bank guarantees.

Question 4: Are there any provisions that could enable AEMO to sufficiently manage insolvency risks when accepting cash as credit support?

If cash is accepted as a form of credit support, do insolvency risks to AEMO and the market need to be managed? If so, could risks be satisfactorily managed by: socialising costs from cash clawbacks among market participants, instead of AEMO bearing the costs?

Guidance to AEMO on conditions for which cash could be provided as credit support?

AEMO registering a security interest in the cash on the Personal Property Securities Register?

PE Response

As per previous response, PE does not believe there are additional insolvency risks associated with cash held by AEMO being subjected to clawback.

Question 5: Would transitional rules be needed?

We note that Delta's current bank guarantee facilities are expiring at the end of 2024.

If a rule was made to allow AEMO to accept cash as credit support, would transitional rules be needed to enable Delta or other participants to provide cash as credit support during an interim period? If so, what would be an appropriate form of transitional rules?

PE Response

PE does not believe transitional rules are required due to the simple nature of the proposed rule change.

Question 6: Are there any additional variations or alternative options to Delta's proposal?

PE Response

PE would like this same rule change applied to the NGR and associated Gas Markets as we believe the same issues presented in this proposed rule change apply to the NGR.

Question 7: Assessment framework

PE Response

PE does not believe emissions reductions should be a considered criteria as this proposed rule change would apply to all electricity (and in the future potentially) gas market participants, irrespective of the emissions generated by the participant. DE being the proponent of this rule change would not stop a solar farm providing cash as credit support for example so we do not believe it is relevant for the consideration of the rule change.

Yours sincerely,

A handwritten signature in black ink, appearing to read "CM", with a horizontal line extending to the right.

Christopher Mouradjallian

Managing Director