



22 June 2012

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235

Via [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Mr Pierce

### **NEW Prudential Standard and Framework in the NEM**

Alinta Energy welcomes the opportunity to make a submission in response to the Australian Energy Market Commission's (AEMC) draft determination on the National Electricity Amendment (New Prudential Standard and Framework in the NEM) Rule 2011, proposed by the Australian Energy Market Operator (AEMO).

Alinta Energy is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta Energy has over 2500MW of generation facilities in Australia (and New Zealand), and maintains retail energy customers in Western Australia, South Australia and Victoria with a commitment to growth in the National Electricity Market (NEM).

Alinta Energy is committed to contributing to energy market developments across Australia and in all regions of the NEM as it pursues its forward growth strategy.

### **Alinta Energy supports the proposed changes to the Prudential Standard**

Prudential considerations have a significant impact on the operation of firms in the NEM and as such Alinta Energy endorses efforts to improve clarity and operation of the existing framework. As previously indicated, Alinta Energy believes the revision of the current approach and removal of the reasonable worst case provision, abandonment of the Reduced Maximum Credit Limit (RMCL), and introduction of seasonable and load factors represent sensible enhancements to the prudential framework.

Alinta Energy has previously observed that the proposal, if implemented, will:

- strengthen the relationship between minimum credit support obligations for retailers and the risks arising from the factors affecting individual firms;
- provide a signal to retailers to appropriately manage risk, and incentivise retailers to, for the most part, take account of their potential failure on the market;

- improve transparency and clarity of the prudential framework, and clarify the probability of generator exposure to short-payment; and
- reduce the cost of capital, reduce credit support in most regions, and better match credit support with risks over time and by season.

Alinta Energy supports the AEMC's conclusion that the proposal satisfies the National Electricity Objective as: "it facilitates improved economic utility of the prudential framework, improves transparency of the market arrangements and provides greater certainty for participants and AEMO."

Alinta Energy endorses the AEMC's conclusion this will reduce barriers to entry, facilitate competition and is in the long-term interests of consumers.

Additionally, the draft rule, when made, will provide a platform for future enhancements to the prudential framework should they be justifiable. This includes any possible revision to the 2% probability of loss given default value via the standard rule change process.

#### **AEMO Credit Limits Procedure**

Alinta Energy notes the Credit Limit Procedure was recently released and this procedure is still being considered. Any issues that arise will therefore be addressed through that separate but related consultation process.

#### **Conclusion**

Alinta Energy welcomes the draft determination and looks forward to further reform of the prudential framework moving forward.

Should you have any queries in relation to this submissions, please do not hesitate to contact me on, telephone, 02 9372 2633.

Yours sincerely,



**Jamie Lowe**  
Manager, Market Regulation