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A few words.

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Istvan Szabo
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Lodged Online: www.aemc.gov.au

Dear Mr Szabo

Rule Change Request–Market Participant Suspension Framework

AGL Energy Ltd (AGL) welcomes the opportunity to comment on the AEMC's consultation paper on the rule change request regarding the Market Participant Suspension Framework.

AGL has a keen interest in the market participant suspension framework as it is a market participant of the National Electricity Market (the NEM), operating a retail business with over 3.7 million gas and electricity customers and operates a power generation portfolio of over 10,500MW. AGL also appreciates the important role the framework plays in underpinning the financial stability and security of the National Electricity Market (NEM).

The proposed rule change by the Council of Australian Government Energy Council (COAGEC) aims to provide AEMO with discretion regarding the suspension from the NEM of a participant that is under external administration, which it stated in its rule change "…will improve the way in which market arrangements could facilitate an appropriate response to a participant failure'. It also outlined three main benefits of the proposal: 1. To allow more time for the troubled company to explore ways to recover; 2. Mitigate the risk of security of supply issues; and 3. Limit the risk of financial contagion caused by the immediate suspension of a participant.

AGL is generally supportive of the proposal and mostly agrees with the benefits outlined by the COAGEC. However, AGL wishes to raise the following issues for further discussion.

Potential benefits may be limited

AGL considers that the proposal may be more likely to delay the suspension of the troubled participant rather than enable it to recover in the long term. This is because of the difficulties participants under external administration would face in obtaining hedge cover. Hedge cover is a key risk management tool used by market participants to minimise exposure to the spot price. In the case of a partially suspended retailer, that is, a retailer that was suspended in one region because of a default, it would possibly face difficulties procuring hedge cover in the NEM overall, given the likely state of the market and its reduced credit worthiness. Accordingly, changes to the suspension framework may merely serve to delay the inevitable, as it is difficult to see how long a retailer that was even only partially suspended could continue in the market without sufficient hedge cover.

Similarly, a troubled generator could also face difficulties obtaining hedge cover to minimise its exposure to the market. So, while the rule change envisages a scenario whereby the retail arm of gen-tailer is suspended and the generator is allowed to continue to minimise security of supply issues. It is doubtful how long the generator can continue to operate to minimise the risk of security of supply if it has problems obtaining hedge cover.

Furthermore, allowing a participant to continue trading through partial suspension, could possibly exacerbate the spread of financial instability in the market. This is because participants that do decide to enter into hedge contracts with the troubled entity would, all else being equal, face a greater credit risk.

AEMO Discretion

In addition, AGL considers that there needs to be further consideration of the factors that AEMO must have regard to in deciding whether to allow the operation of a participant under external administration. For example, key factors include:

- whether the participant has sufficient funds and resources to continue operating in the NEM;
- What market benefit would be attained from deciding not to suspend the relevant participant. For example, would it reduce the possibility of a supply shock or risk of financial contagion?;
- What impact does the decision have on related markets such as the gas market?; and
- Are there any conditions or time limits that are able to be placed on the troubled entity - if it was allowed to continue to operate?

In conclusion, AGL sees some merit in the rule change proposal. However, it is important to appreciate that the benefit of this proposal is likely to be limited to extending the time the market has to adjust to the potential exit of a financially troubled participant. It is difficult to see how a participant under external administration will be able to continue to operate in the long term given their reduced credit worthiness – particularly if they were partially suspended in one aspect of their operation. In addition, there should be a further regard to the factors that AEMO must consider in exercising the discretion.

If you have any queries about the submission or require further information, please contact Josynta Singh at or on 03 8633 6628.

Yours sincerely,

Simon Camroux
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AGL Energy Ltd