

# Allowing AEMO to accept cash as credit support

## We have made a more preferable final rule to allow cash as credit support

**The Australian Energy Market Commission (AEMC) has made a more preferable final rule to allow participants to provide cash as credit support in the National Electricity Market (NEM).**

Allowing cash as credit support reduces risks and costs for participants, which will be most beneficial for small and prospective retailers. The final rule will also enable a more timely distribution of delayed credit support payments to participants.

Our final determination has been shaped by stakeholder feedback, including submissions we received on the draft determination. In particular, while this rule change was originally proposed by the proponent in relation to specific issues they experienced, the Commission has recognised, based on feedback from other stakeholders, that issues in the existing credit support arrangements have broader relevance, in particular for smaller retailers. We have made a final rule that reflects the broader benefits to many participants and consumers from allowing cash as credit support.

## Allowing cash as credit support will reduce costs and risks for participants

In the NEM, the prudential framework allows AEMO to manage financial risks in the event that a participant defaults and is unable to pay its outstanding settlement. Market participants are required to provide credit support as part of their prudential requirements when they are net debtors in the NEM (typically retailers). Under the existing arrangements, participants are only allowed to provide guarantees or bank letters of credit to AEMO.

The final rule will allow participants to provide cash as credit support in the NEM, up to a limit of \$20 million for each participant. The use of cash as credit support presents a new option that will enable several key benefits for participants:

- **reduced costs:** participants will be able to provide credit support using the least cost option available to them and can avoid fees associated with guarantees by using cash
- **reduced risks of failing to provide credit support:** participants can use cash if they are unable to obtain other forms of credit support or need to provide credit support on short notice, as there is no reliance on a third-party.

These benefits will have a positive impact by supporting retailers in offering lower prices to consumers, increasing investment in service innovation, and/or expanding offerings for consumers. This will be most beneficial to small and prospective retailers, who play a critical role in driving competition and value for consumers but typically have higher financing costs and lower access to capital. In turn, the final rule supports increasing competition in, and reducing barriers to entry into, the retail market which will lead to consumer benefits.

Additionally, allowing participants to provide cash as credit support to AEMO without reliance on a third-party will also address the issue raised by the proponent. In the rule change request, the proponent noted that it was unable to obtain credit support from lenders under the existing arrangements due to their exposure to fossil fuels.

## The final rule seeks to reduce and manage potential risks from allowing cash

In making our final rule, we have sought to reduce and manage clawback and insolvency-related risks associated with allowing cash as credit support. A market participant that uses cash as credit support, but becomes insolvent, could lead to a liquidator seeking to

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**From 1 November 2026, market participants will be allowed to provide up to \$20m in cash as credit support**

clawback that cash. If a clawback were to occur, this would create a shortfall which the market would need to bear.

The final rule includes multiple layers of protection that will reduce and manage these clawback and insolvency-related risks:

- seeking to clarify that the whole default procedure, including the provision and use of cash as credit support, will fall within the Corporations Act displacement provisions in the National Electricity Law (NEL)
- granting AEMO a first ranking charge, return rights, and set off rights over cash provided as credit support
- limiting the amount of cash each participant can provide as credit support to \$20 million, in turn limiting the maximum size of a clawback in respect of a single participant
- participants receiving payments from AEMO (typically generators) bearing any clawback costs, avoiding any exposure to AEMO and reducing risks of contagion.

We consider that these layers of protection will allow the strength of the prudential framework to be maintained while enabling material net benefits from allowing cash as credit support.

However, we recognise that an amendment to the NEL could provide absolute certainty to stakeholders on the elimination of clawback and insolvency-related risks. Given some stakeholders expressed support for such an amendment, we recommend Energy Ministers approve appropriate amendments to the NEL to explicitly remove any potential residual clawback and insolvency-related risks associated with cash credit support.

### **The final rule will reduce impacts from delayed credit support payments**

Under the existing arrangements, if credit support does not pay out within a short time period, participants could be left short paid for up to 12 months. This is because, AEMO distributes any delayed payments to participants at the end of financial year (EOFY).

The final rule will reduce the impacts of this existing issue by enabling a more timely distribution of delayed credit support payments to participants. AEMO will distribute any delayed credit support payments to any short-paid participants through the routine revised statements process. When the *Shortening the settlement cycle* rule commences on 9 August 2026 (prior to the commencement of this final rule), the earliest routine revised statements will be issued by AEMO at 20 business days following the end of a billing period.

### **The final rule will commence on 1 November 2026**

The final rule will commence on 1 November 2026. This commencement date has been informed by AEMO's draft High Level Implementation Analysis, which recommended the rule commence on 1 November 2026 to allow sufficient time for AEMO to implement any changes. Given other reforms currently being implemented in the settlement and prudential areas, AEMO cannot implement the changes required any earlier than this date.

There are transitional provisions in the final rule for AEMO to develop and publish cash security guidelines at least three months before the final rule commences. AEMO will have sufficient time to consult and develop these guidelines, while providing participants with at least three months to become familiar with the guidelines prior to the implementation of the final rule.

### **For information contact:**

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