



AGL Energy Limited

T 02 9921 2999

F 02 9921 2552

agl.com.au

ABN: 74 115 061 375

Level 24, 200 George St

Sydney NSW 2000

Locked Bag 1837

St Leonards NSW 2065

Australian Energy Market Commission

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Allowing AEMO to accept cash as credit support under the National Gas Rules

AGL Energy (AGL) welcomes the opportunity to respond to Allowing AEMO to accept cash as credit support under the National Gas Rules consultation paper

Overview

AGL acknowledges that increased flexibility in credit support arrangements may benefit some gas market participants. However, any such changes must be carefully designed to avoid weakening the prudential framework or transferring default risk to other participants or consumers. A robust prudential framework is essential to maintaining market confidence and supporting reliable settlement for participants that supply energy on credit.

AGL recognises that allowing cash as credit support may reduce financing costs and barriers for some participants, particularly where access to traditional credit support arrangements has become more constrained. Increased flexibility may therefore support competition and market participation where appropriately designed.

However, cash as credit support inherently introduces insolvency and clawback risks that do not arise to the same extent under bank guarantees. These risks must be carefully constrained through strong legal, operational, and financial safeguards to ensure that the integrity of the prudential framework is maintained and that default risk is not shifted onto other participants or consumers.

At a minimum, any gas market rule change should adopt safeguards and risk management mechanisms that are broadly equivalent to those established under the related “Allowing AEMO to accept cash as credit support” rule change for the National Electricity Market. This includes legal protections, operational arrangements, and financial controls designed to mitigate insolvency risk and limit potential market exposure.

While the recent NEM rule change provides useful learnings, AGL considers that gas markets differ materially from electricity markets in terms of structure, settlement dynamics, and participant risk profiles. As a result, measures developed for the NEM should not be assumed to be directly transferable to gas markets without careful calibration to gas specific risks.

AGL strongly supports the application of a conservative cap on the use of cash as credit support in gas markets. Any such cap should be materially lower than \$20 million, reflecting typical gas market exposures and the need to minimise systemic risk and opportunities for gaming. An overly high cap would unnecessarily increase clawback exposure and could undermine confidence in the prudential framework. AGL further considers that cash as credit support should be treated as an exceptional option rather than a default replacement for bank guarantees. This should include eligibility criteria requiring participants to demonstrate that traditional credit support is unavailable or prohibitively expensive, ensuring that flexibility is targeted and proportionate. Any residual clawback risk that remains despite the application of safeguards should not be borne disproportionately by gas sellers or generators, who already supply energy to the market on credit. AGL considers that such risk should be shared equitably across market participants.

AGL supports greater consistency between electricity and gas prudential frameworks where such consistency strengthens financial security outcomes and reduces unnecessary complexity. However, consistency should not come at the expense of weakening existing protections or increasing systemic risk.



If you have queries re this submission, please contact Darshitha P P on DPuthoorPisharam@agl.com.au

Yours sincerely,

Chris Streets
Senior Manager Wholesale Markets Regulation

About AGL

Proudly Australian since 1837, AGL provides over 4.5 million gas, electricity, and telecommunications services to our residential, small, and large business, and wholesale customers across Australia. AGL operates the largest private electricity generation portfolio in Australia with a total operated generation capacity of almost 8000 MW across Australia as of 30 June 2025. AGL owns Australia's largest privately-owned fleet of hydro assets and operates the largest portfolio of renewables and storage assets of any ASX listed company. Since 2006, AGL has invested billions of dollars in the construction and delivery of over 2 GW of renewable and firming capacity in the National Electricity Market.

Question 3: Effectiveness of the proposed solution

Do you consider that allowing cash as credit support in the DWGM and STTM would resolve any of the issues identified earlier? If so, to what extent?

AGL considers that allowing cash as credit support in the DWGM and STTM could help address some of the identified issues by providing additional flexibility for participants facing constraints with traditional credit support.

That said, cash as credit support would not be a complete or universal solution. Its effectiveness would depend critically on the design of the framework, including robust safeguards to manage insolvency and clawback risks. AGL considers that cash should be treated as a supplementary and exceptional option rather than a wholesale replacement for existing credit support mechanisms.

Question 4: Benefits of the proposed solution

Do you consider that allowing cash as credit support in the DWGM and STTM would provide the proposed benefits? Do you see any additional benefits from allowing cash as credit support in the DWGM and STTM? How material would any benefits be?

AGL agrees that, where appropriately designed, allowing cash as credit support could reduce financing costs and lower barriers to participation for some gas market participants. This increased flexibility may support competition and market participation in circumstances where traditional credit support is unavailable or disproportionately costly.

AGL does not identify substantial additional benefits beyond those articulated. Any benefits are likely to be targeted rather than systemic and should be balanced carefully against the potential risks to the prudential framework. Accordingly, AGL considers the benefits to be modest but potentially meaningful for affected participants.



Question 5: Risks of cash as credit support

Do you agree with the risks identified? If yes, how material do you believe them to be? Do you perceive any other risks to AEMO, participants, or anyone else, from allowing cash as credit support? Do you consider that the measures applied for the NEM can mitigate these risks in the gas markets?

AGL agrees with the risks identified, particularly insolvency and clawback risks, which arise to a greater extent with cash than with bank guarantees. These risks are material and, if not properly managed, could undermine confidence in the prudential framework and shift default risk onto other participants or consumers.

AGL considers that legal, operational and financial safeguards similar to those adopted in the NEM are a necessary minimum to mitigate these risks. However, gas markets differ materially from electricity markets in structure, settlement dynamics and participant risk profiles. Accordingly, NEM measures should not be assumed to be directly transferable and would require careful calibration to gas specific risks.

AGL notes that any residual clawback risk should not be borne disproportionately by gas sellers or generators, who already supply energy on credit, and should instead be shared equitably across participants.

Question 6: Limit on cash as credit support

Should there be a limit on cash provided as credit support in the gas markets? If yes, do you propose having the same limit as in the NEM (i.e. \$20 million) or a different value? Does \$20 million (or your proposed limit) represent a reasonable balance between the benefits of cash as credit support and the level of risk the market is willing to accept?

AGL strongly supports the imposition of a conservative limit on the use of cash as credit support in gas markets. AGL does not consider the \$20 million cap adopted in the NEM to be appropriate for gas markets. Any cap should be materially lower than \$20 million, reflecting typical gas market exposures and the need to minimise systemic risk and opportunities for gaming. A lower cap would better balance the benefits of flexibility against the market's tolerance for risk and help maintain confidence in the prudential framework.

Question 7: Implementation considerations and costs

Are any additional considerations needed to implement the proposed solution in the gas markets? Do you propose any additional measures to support the effective implementation of cash as credit support in the gas markets? Do you consider any costs to arise from allowing cash as credit support in the gas markets?

AGL considers that additional implementation considerations would be required to adapt cash as credit support arrangements to gas markets, including gas specific legal protections, operational arrangements, and financial controls.

AGL also supports the inclusion of eligibility criteria requiring participants to demonstrate that traditional credit support is unavailable or prohibitively expensive. This would help ensure that cash as credit support is targeted and proportionate.

Some implementation and ongoing administrative costs are likely to arise, in establishing and managing the necessary safeguards. These costs should be considered carefully as part of the overall assessment.



Question 8: Timeline and transitional provisions

How soon should this rule change commence, if made, and what should be included in the transitional provisions?

AGL considers that, if made, the rule change should commence only once the necessary safeguards and operational arrangements are fully in place. Transitional provisions should be clearly defined and ensure an orderly introduction of cash as credit support without weakening existing prudential protections.