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6 October 2017

Mr Chin Chan  
GM Market Management  
Australian Energy Market Operator  
Level 22, 530 Collins St  
Melbourne VIC 3000

Submitted electronically

Dear Mr Chan,

**Re: Notice of First Stage Consultation (Rule 8.9): Credit Limit Procedures – Modelling Parameter And MNSP Prudential Requirement Changes**

Red Energy (Red) and Lumo Energy (Lumo) welcome the opportunity to respond to the Australian Energy Market Operator (AEMO)'s consultation on the Credit Limit Procedure (CLP).

While we support AEMO undertaking a review of the CLP, we consider that the outcome of the changes to the CLP deliver increased costs. Red and Lumo emphasise the key points below for AEMOs consideration.

**Issues Paper - Part A & Part B**

Red and Lumo support AEMO's efforts to limit market participant's prudential exceedances but in doing so are concerned it will increase prudential costs. As market costs form part of end customer's bills, any increased costs as a result of the changes to the CLP may result in higher costs been passed through to electricity customers.

We do not support the proposed increase in the life of the National Electricity Market parameters from 10% to 20%. If implemented, the proposed increase would result in an increase to market participants' maximum credit limits and would have a consequential effect on prudential requirements leading to increased costs to businesses. This includes higher tangible costs, in the form of higher bank guarantee fees, business imposts from increased reallocation arrangements, and/or the opportunity cost on funds deposited with AEMO.

We believe there is further opportunity to mitigate the issues identified through additional modelling of market parameters scenarios that could be undertaken, such as a 13% and 15% weighting.

**About Red and Lumo**

Red and Lumo are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, New South Wales, South Australia and electricity in Queensland to over 1 million customers. For any further enquiries regarding this submission, please contact Stephanie Lommi, Industry Development Lead on 0414 183 880.

Yours sincerely

**Ramy Soussou**  
General Manager Regulatory Affairs & Stakeholder Relations  
**Red Energy Pty Ltd**  
**Lumo Energy Australia Pty Ltd**