

## Appendix A Format for submissions for Improving prudential security arrangements

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Questions	Comments
<b>Q1.</b> Do you agree that the current risk profile of the prudential framework is appropriate? If not, why/how should risk be redistributed?	Yes, broadly. Targeting a probability of loss given default of about one-quarter protects generators while keeping prudential cash requirements survivable for smaller and growing retailers. We support keeping that overall risk target, while improving the mechanics so cash is only held when it truly covers risk.
<b>Q2.</b> Do you agree that the issues identified by the Authority are worth addressing?	Yes. Lodestone operates generation and a growing retail book, and our portfolio runs short in winter when customer demand rises. If we are not appropriately hedged, prudential security calls can become a binding cash risk precisely when prices and volumes peak. The framework should recognise real differences in risk and cash coverage across retailers: a small retailer with no generation but strong, reliable customer cash flow that demonstrably covers its position should not face the same prudential burden as a party with weaker cash coverage or a poorly matched hedge stack. Calibrating prudentials to verified risk cover (including recognised hedges and evidenced customer cash inflows) lowers unnecessary cash lock-up, supports fair competition, and still protects generators from non-payment.
<b>Q3.</b> Are there other issues with the current prudential security settings that we have not identified but are worth addressing?	Two points. First, the timing of cash: prudential top-ups often land the same days as wholesale market settlements and futures margin calls, while some settlement-account or escrow-style arrangements require pre-funding; together these stack demands and trap money in multiple places at once, which bites smaller retailers hardest. Second, recognise all offsets from variable-volume, fixed-price renewable power purchase agreements where delivered volumes are verifiable from meter data—apply conservative adjustments for profile, losses, and correlation, cap the offset to the genuinely covered portion, and let that verified cover reduce the



	prudential requirement so cash is only tied up once for the same exposure.
<b>Q4.</b> Do you consider that there are other adjustments that the Authority could make that would better reduce cost and enhance efficiency in prudential requirements for small retailers without significantly increasing credit risk for generators.	Yes—make low-friction process fixes that cut cash drag without changing protection: send automatic early-warning notices as coverage nears thresholds; return surplus funds by midday the next business day; allow same-day substitution between cash and bank guarantees; standardise bank-guarantee wording and fee bands with major banks; credit daily interest on held cash (paid monthly); and provide simple forecast tools with twice-daily coverage statements from the clearing manager.
<b>Q5.</b> Do you support the transition to a more dynamic adder? If not, what are your concerns?	Support. A seasonal and volatility-sensitive add-on would scale prudentials up when market risk is objectively higher and down when it is lower. That keeps the same overall risk protection but smooths cash demands across the year. The method should be published, and updated at least quarterly, so retailers can forecast their cash needs.
<b>Q6.</b> Do you support the proposal to allow reductions in the post-default exit period? Why/why not?	Yes. If the process for moving customers after a retailer failure is shortened, the time that needs covering is shorter, so prudentials can be reduced without adding risk for generators. Moving from eighteen days to fourteen days for smaller retailers is consistent with that logic and should be implemented as soon as systems allow.
<b>Q7.</b> Do you agree that the threshold for qualifying for a reduced post-default exit period should be 1,000 ICPs?	Reasonable as a first step. It targets the retailers that face the tightest cash constraints, while the Authority improves the systems that handle large customer books. Apply a substance-over-form test across related entities so the threshold cannot be gamed, then review the data after twelve months.
<b>Q8.</b> If broader changes to the trader default process make it feasible to reduce the post-default exit period for all independent retailers, should the Authority pursue this? Why/why not?	Yes. Once customer switching and registry tools move faster for business sites as well as homes, a shorter exit period should apply to all independent retailers. That lowers prudential exposure across the system without changing the underlying risk balance.
<b>Q9.</b> Do you agree with the proposal to reallocate residual funds to retailers on a scaled basis?	Support. Residual balances largely arise from interest earned on retailer-funded cash. Returning a share of that interest to those who provided the funds reduces default risk and supports competition, without



	changing the level of protection for generators. A split that shares benefits between generators and retailers is a fair starting point.
<b>Q10.</b> Is there an alternative model by which residual funds could be reallocated to retailers in a fair manner that still achieves the policy objectives?	A tiered approach would balance fairness and incentives. For example, return a portion based on each party's share of purchases, a portion evenly across independent retailers to support competition, and a small portion based on strong prudential behaviour, such as the fewest coverage shortfalls. That rewards actions that reduce system-wide risk while still recognising volume.
<b>Q11.</b> Do you support a possible physical and futures offsetting arrangement? Why/why not?	Yes. Prudentials should directly recognise (a) exchange-traded futures and (b) variable-volume, fixed-price renewable power purchase agreements lodged with the clearing manager as offsets to spot exposure. Where positions are recorded and volumes are metered, the covered portion should reduce cash on a like-for-like basis so we are not funding the same risk twice. This materially lowers unnecessary cash lock-up for Lodestone while preserving protection for generators.
<b>Q12.</b> Are existing market-based work arounds to physical and futures offsetting arrangements sufficient for managing the issue?	They're helpful in specific cases but not a complete solution. Flexible bank guarantees, converting exchange futures into lodged over-the-counter contracts, and quicker return of surplus cash can ease pressure, yet they're bespoke, unevenly available, and add cost and delay—especially for smaller retailers. A clearer, codified approach that recognises verified hedges (including variable-volume, fixed-price renewable agreements) and standardises instruments would provide more predictable, lower-friction outcomes, while the existing workarounds remain useful tools where appropriate.
<b>Q13.</b> If ASX futures positions could offset spot market prudential requirements, would you be more likely to trade in the futures market?	We already trade on the ASX. That said, treating cleared exchange positions as a direct prudential offset would still help by reducing duplicate cash funding. It would also materially improve access for smaller retailers: participation on the exchange requires substantial credit arrangements with a broker or the clearing house, so these positions are, by design, creditworthy. Counting verified exchange positions as prudential offsets would lower cash drag, broaden participation, and better align prudentials



	with true net risk—even if it doesn't, on its own, solve today's liquidity gap.
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