

NEMMCO

NEM Prudential Overview

Craig Parr

Head of Metering and Settlements

- **Rules framework**
- **Settlement Cycle**
- **Core Prudential processes**
 - **Maximum Credit Limit (MCL)**
 - **Credit Support**
 - **Daily Prudential's**
 - **Call Notices , Default and Suspension**

- **NEMMCO is responsible for the prudential supervision of Market Participants in connection with the operation and administration of the market**

- **Prudential Supervision Framework is defined in Chapter 3 of the National Electricity Rules**
 - **section 3.3 and 3.15**

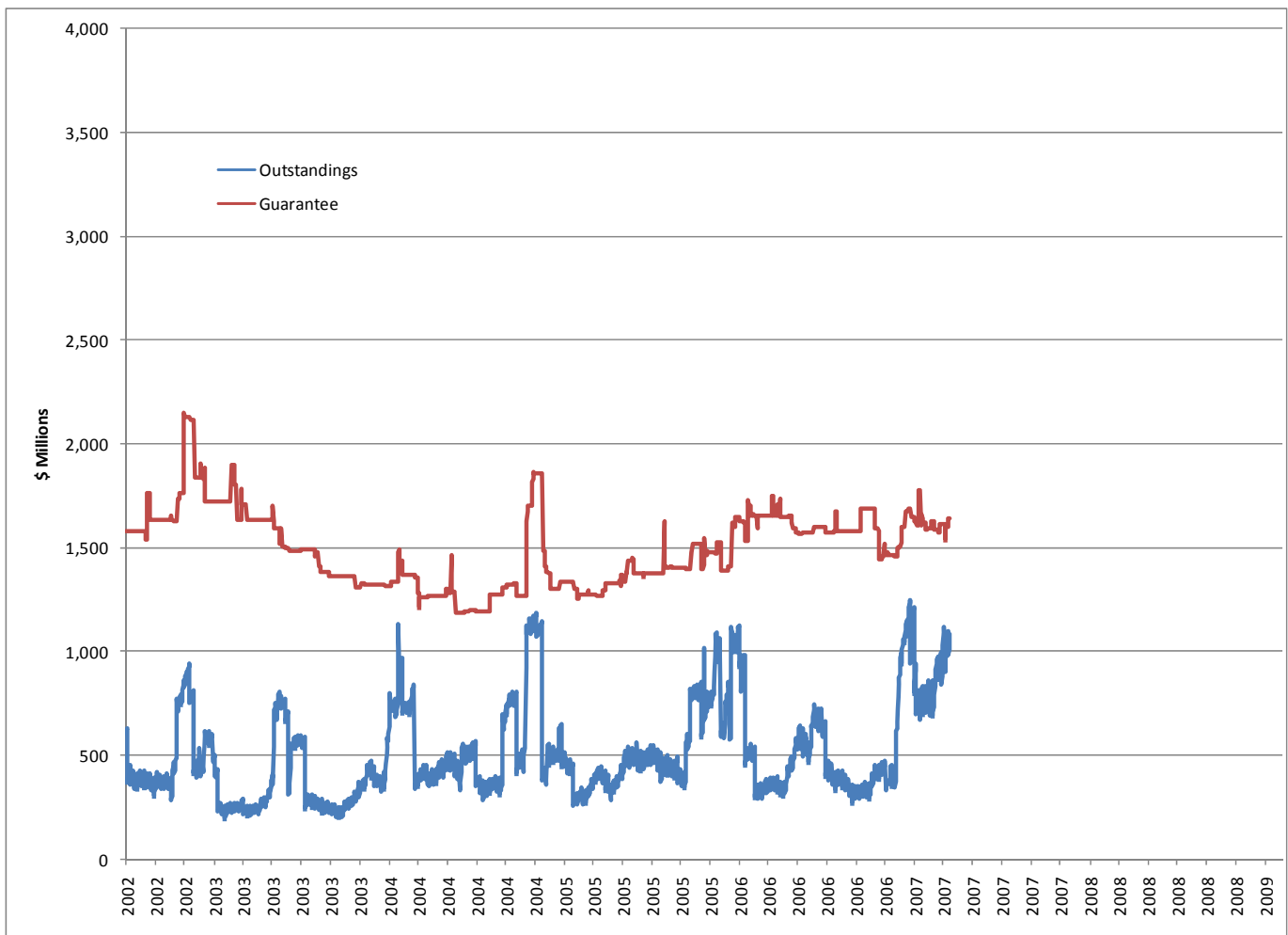
Why have a prudential framework

NEMMCO

- **The prudential framework aims to provide certainty of payment to generators in the event of a debit party not paying (usually a Retailer in this context)**
 - **The intent is that Generators will not price payment risk into their bids**
 - **Any short payment is spread pro-rata across the those owed money**

Prudential's to 2006

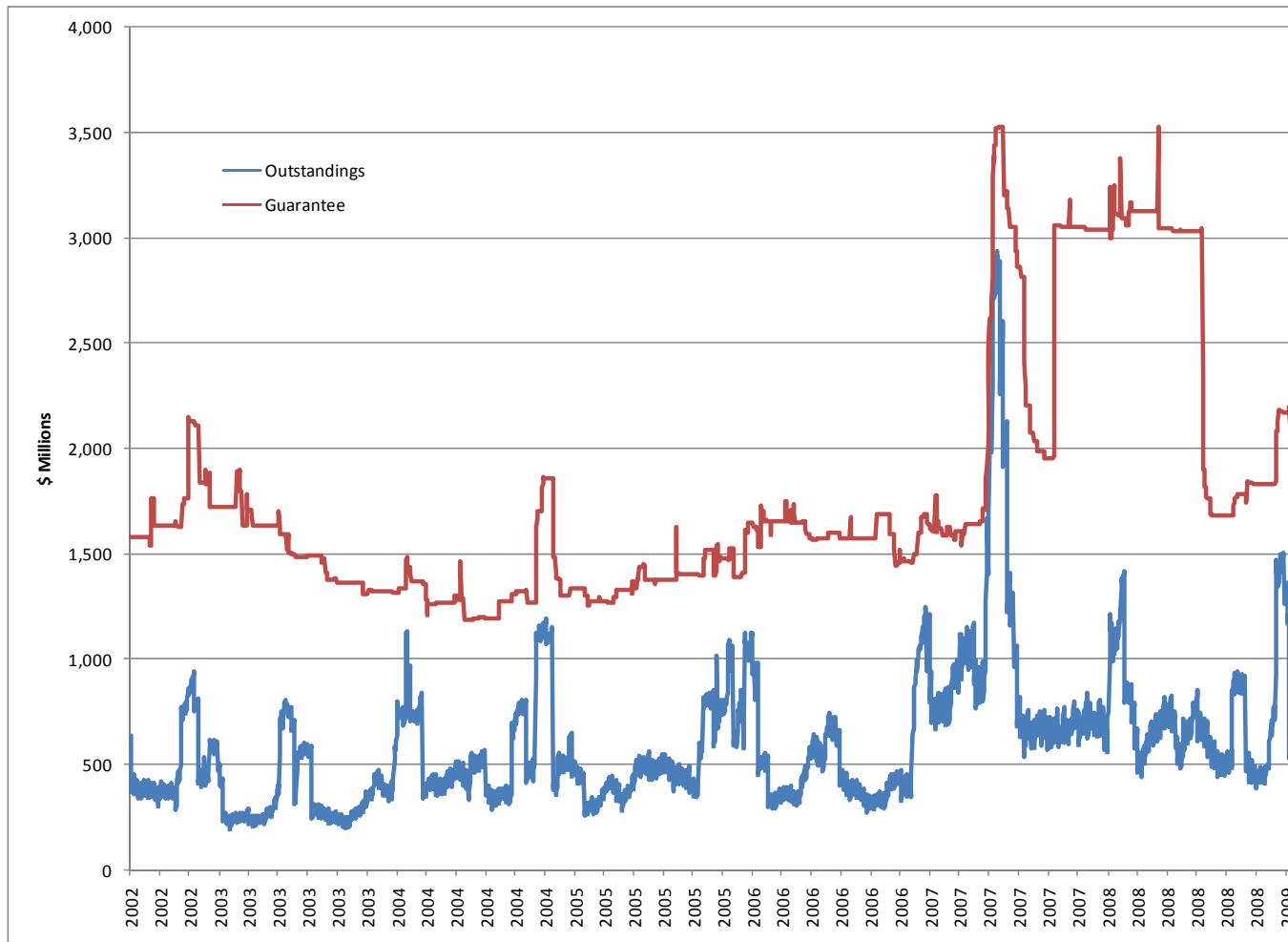
➤ **\$7 Billion Market, Largest Settlement \$800 Mil**



Prudential's Now

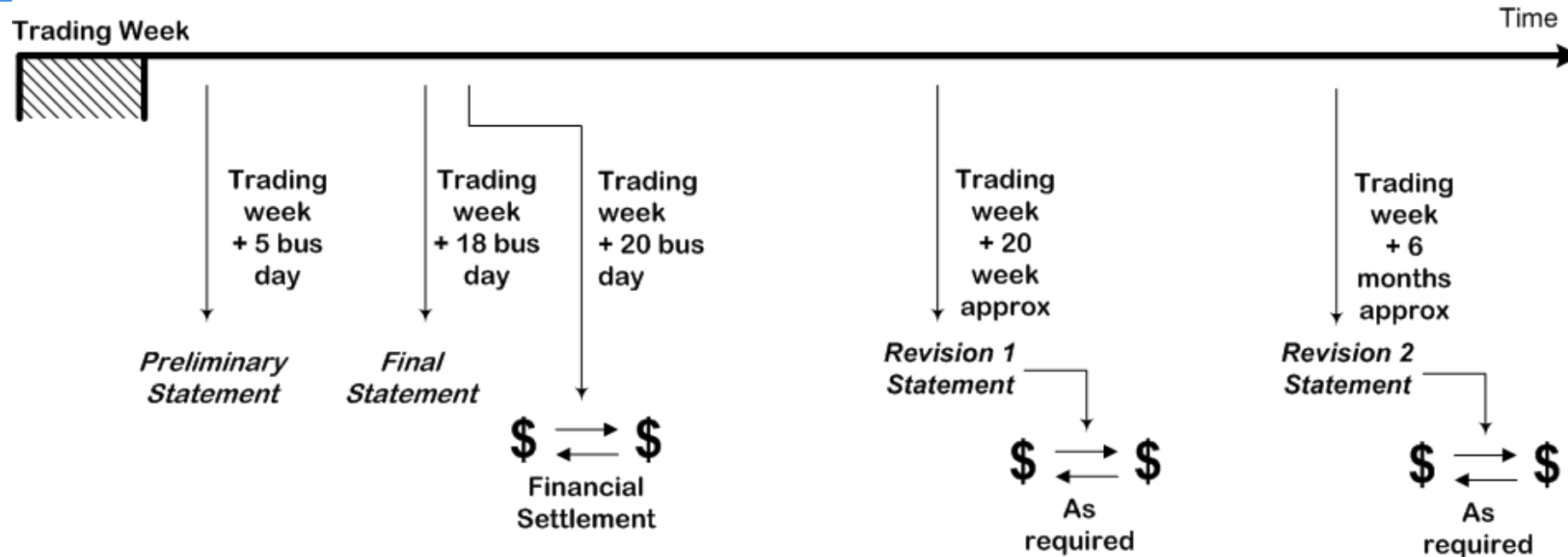
NEMMCO

➤ **Now \$11.5 Billion dollar market, Largest Settlement \$1.2 Billion**



Settlement cycle

NEMMCO



- **Weekly Settlement is at 20 business days after the end of the trading week - usually Friday**
- **This results in a settlement every week, 20 business days in arrears**



Prudential Risk



- **Maximum Credit Limit (MCL)**
 - **Forward risk assessment**

- **Credit Support (Bank Guarantees)**

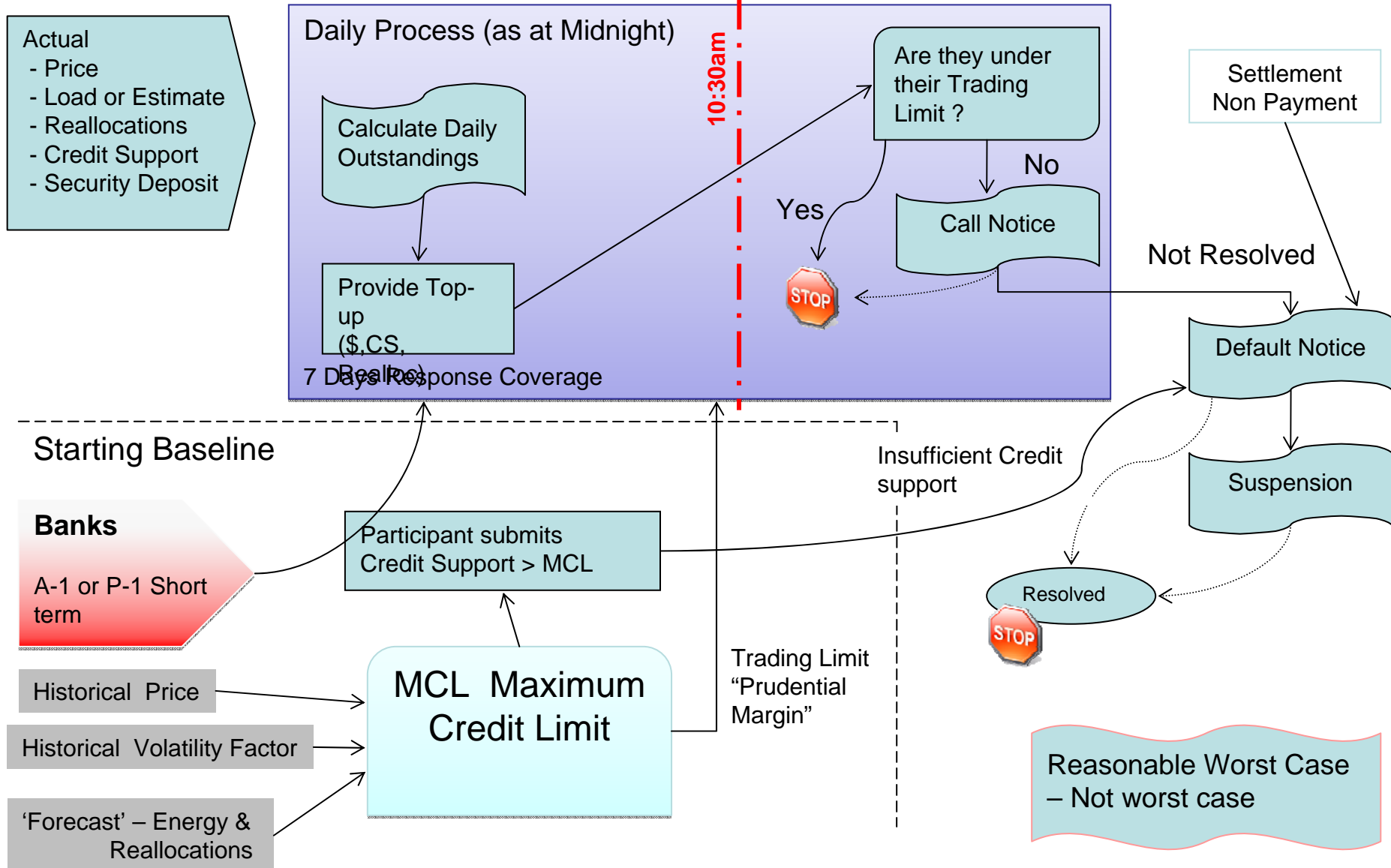
- **Daily Prudential Monitoring**
 - **Actual NEM financial position**

- **Settlement**

- **Call Notice , Default Notice , Suspension , Retailer of Last Resort (RoLR)**

NEM Prudential Risk Framework

NEMMCO



- **Forward risk assessment of the “reasonable worst case exposure”**
 - **Not worst case**
 - **Reasonable worst case is a position that, while not being impossible, is to a probability level that the estimate would not be exceeded more than once in 48 months**

- **MCL reviewed quarterly or more often as needed**
- **Carried out in accordance with MCL Methodology**
 - **MCL Principles are in the Rules**
 - **Based on**
 - **Historical Prices**
 - **Historical Price volatility**
 - **Forecast Energy**
 - **Forecast Reallocations**

- **Also determine the prudential margin (7 day buffer) - explained later**

- **The total MCL must be covered by Credit Support (Bank Guarantees) at all times where the market participant does not meet the acceptable credit criteria**
 - Only the banks meet the acceptable credit criteria
- **Failure to maintain sufficient credit support is a default event (Rule 3.15.21a(3))**
- **Credit support must be an unconditional payment undertaking from a suitably rated institution (A-1, P-1 short term rating), and supervised by APRA**
- **At least 60% of the MCL must be covered by 1 hour response credit support**

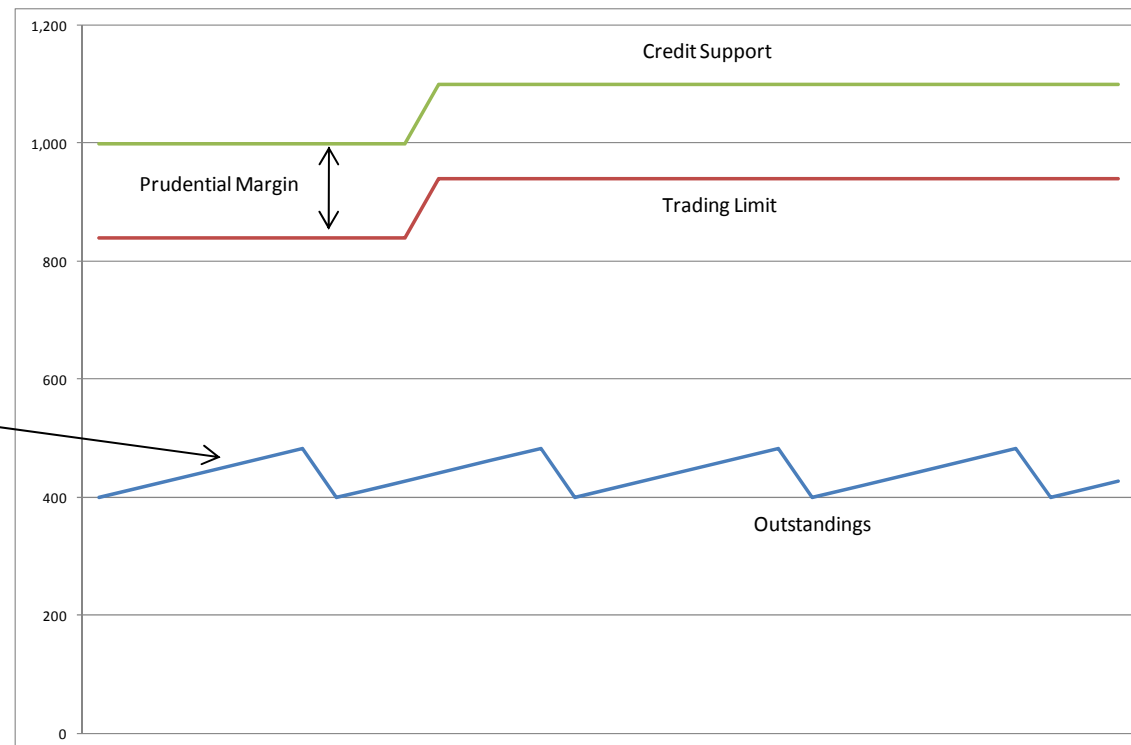
- **If there is insufficient credit support – Default event**

Daily Prudential Management

NEMMCO

- The prime risk management process
- If at any time a participant outstandings breach the trading limit, NEMMCO may issue a Call Notice
- The trading limit is determined by Credit Support held less prudential margin

Outstandings is the amount owed to the NEM



- **Business daily assessment of each market participants position (up to 12am EST)**

- **If the trading limit is breached**
 - **Response can be**
 - **Cleared Cash (called a security deposit or SDA)**
 - **Energy or Dollar reallocations**
 - **Additional credit support**

- **Position must be closed out by 10:30am Sydney time**

- **May issue call notice (prior to 12noon)**

- **Once issued the Market participant must respond by 11am the next business day if issued before 12pm that day.**
- **The call notice effectively has a penalty factor built in**
 - **Outstandings under a call notice must be reduced to typical levels, not just under the trading limit**
 - **A \$50,000 trading margin breach, could result in a multi million dollar call notice.**
 - **Reported to jurisdictions, no public announcements**
- **If the call notice is not responded to, NEMMCO may issue a default notice (rule 3.15.21b)**

- **The 15 default events are listed in Rule 3.15.21a**

- **Once issued the participant must respond by 1pm the next calendar day**

- **Publication**
 - **Confidential event - Reported to jurisdictions, no public announcements**
 - **A default notice may be reportable event to the ASX for listed companies**

- **If the participant has not responded by 1pm to a default notice a suspension notice can be issued**

- **If a retailer market participant has been issued a suspension notice**
 - **They may no longer trade in the market**
 - **Retailer of Last Resort (RoLR) will be activated (where the jurisdiction has advised of a RoLR)**
 - **Or a request to disconnect the customers must be given to the AER, whereby the AER must go to Court to seek disconnection**

- **Public announcement**

Prudential Dashboard – Participants View

NEMMCO

This is what participants can see about their prudential position.

Prudential Dashboard for Typical Retailer

Select Region: NSW1

Cumulative Price: 86,249.89

Average Price for 04 Jul 2007

- History of Outstandings (OS)
- Credit Support (CS)
- Trading Limit (TL)

Today's Outstandings %

Max Credit Limit	\$ 1,000,000
Credit Support	\$ 1,200,000
Prudential Margin	\$ 160,000
Trading Limit	\$ 1,040,000
Trading Margin	\$ 32,197
Outstandings	\$ 1,007,803
Typical Accrual	\$ 775,000

**Prudential Status as at
13:06 (EST) on 04 Jul 07**

Outstandings Components CSV

Year	Week	Version	Status	Amount
2007	23	1	PRELIM	\$ 104,916
2007	24	3	PRELIM	\$ 44,475
2007	25	3	PRELIM	\$ 297,871
2007	26	CURRENT	ESTIMATE	\$ 294,079
2007	27	CURRENT	ESTIMATE	\$ 346,462
SUB TOTAL				\$ 1,087,803

Security Deposits CSV

ID	Amount	Lodged	Matures
20070704.SD0101	\$ -50,000	04/07/2007	09/07/2007
SUB TOTAL	\$ -50,000 in 1 item Incl in Final \$ 0 NET CREDIT \$ -50,000		

Reallocations CSV

ID	Amount	Start	End
20070704.RS101	\$ -30,000	03/07/2007	03/07/2007
SUB TOTAL	\$ -30,000 in 1 item		

Calendar Dates			
Next	Prelim	Final	Settle-ment
Date	06 Jul 2007	05 Jul 2007	09 Jul 2007
For Week	26	23	23
Of Year	2007	2007	2007