



Ref: ERC0188
B/D/16/1300

4th February 2016
Submitted online

Dear Ms Ross,

I write to inform you of CS Energy's opinion in regard to the Rule change proposal Offsets in the Prudential Margin.

CS Energy believes the amendment will satisfy the National Electricity Objective because it is more allocatively efficient than the present Rule.

CS Energy has the following answers to the consultation questions:

- 1) Yes, the restriction of offsets in the Prudential Margin has no clear reasoning.
- 2) (a) Yes, the Rule will result in cost savings to Participants. CS Energy considers AEMO's estimate of \$12M for the difference in credit support requirements, when compared to AEMO proposed rule, significantly understates the benefit. If requested, CS Energy can provide example calculations to justify this point.
(b) Holding excess collateral for Participants that have hedged their position and present little risk of loss given default does not assist in maintaining the Prudential Standard at 2% probability of loss given default.
- 3) (a) Yes, CS Energy is satisfied that adequate processes exist to determine the firmness of offsets from credit reallocations or electricity generation. CS Energy understands AEMO has in place triggers to instigate a Maximum Credit Limit (MCL) review should it have concerns over a credit reallocation or low generation event.
(b) Yes, AEMO has adequate powers to deregister a reallocation and reject reallocation termination requests.
- 4) CS Energy has investigated the firmness of reallocations during the reaction period and believes it will survive a default of one party, so NEM creditors are not exposed to the reallocation amounts.
- 5) (a) CS Energy considers the concerns raised over AEMO's discretion in relation to prospective reallocations when calculating the Prudential Margin are unfounded. In any case, AEMO must use its discretion in determining the MCL in accordance with the Credit Limit Procedures (CLP) for expected generation and load.
(b) No, the Rules set the overarching requirement on AEMO and the CLP set out the details. It is not important for the Rules to be overly prescriptive.
(c) CS Energy does not have any suggestions and is satisfied with the proposed Rule.

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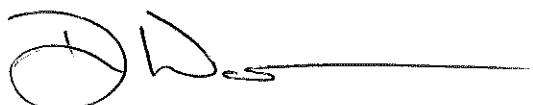
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- 6) CS Energy considers the Rules and CLP should require an efficient level of collateral to be provided for each Participant depending on the way they have hedged their exposure to pool prices. In this case the current Rule requires excess collateral for a participant that has hedged using an OTC derivative and a credit or debit reallocation.
- 7) (a), (b) See answer to Q2.
(c) Consumers will benefit from reduced costs being placed on electricity retailers and generators with these savings passed through in electricity prices.

CS Energy was supportive of the new Prudential Standard that enshrined the concept of probability of loss given default. This was because the new Standard was far more allocatively efficient than the previous standard and hence satisfied the NEO. The new Prudential Standard includes a number of participant specific assumptions to calculate the Outstandings Limits and Prudential Margin, such as estimated daily electricity load, generation and participant risk adjustment factors. CS Energy anticipates further opportunities for incremental improvements to the Rules or the CLPs to improve the allocative efficiency of the NEM.

Yours sincerely,



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