



Draft National Electricity Amendment (Reallocations) Rule 2006

under the National Electricity Law as applied by:

- (a) the National Electricity (South Australia) Act 1996;
- (b) the Electricity (National Scheme) Act 1997 of the Australian Capital Territory;
- (c) the National Electricity (New South Wales) Act 1997 of New South Wales;
- (d) the Electricity - National Scheme (Queensland) Act 1997 of Queensland;
- (e) the Electricity - National Scheme (Tasmania) Act 1999 of Tasmania;
- (f) the National Electricity (Victoria) Act 2005 of Victoria; and
- (g) the Australian Energy Market Act 2004 of the Commonwealth.

The Australian Energy Market Commission makes the following Rule under the National Electricity Law.

John Tamblyn
Chairman
Australian Energy Market Commission

Draft National Electricity Amendment (Reallocations) Rule 2006

1. Title of Rule

This Rule is the *National Electricity Amendment (Reallocations) Rule 2006*.

2. Commencement

This Rule commences operation on [INSERT DATE].

3. Amendment of the National Electricity Rules

The National Electricity Rules are amended as set out in Schedule 1.

4. Notes

Notes do not form part of this Rule.

Schedule 1 Amendment of National Electricity Rules

(Clause 3)

[1] Rule 2.5B

After rule 2.5A, insert:

2.5B Reallocator

- (a) A *Reallocator* is a person so registered by *NEMMCO* in order to participate in *reallocation transactions* under clause 3.15.11.
- (b) A person who is registered with *NEMMCO* as a *Reallocator* is:
 - (1) a *Registered Participant* for the purposes of rules 2.9, 2.10, 2.11, 3.3, 3.15, 8.2 and 8.9 and rule 2.5B(3);
 - (2) taken to be a *Market Participant* for the purposes of rules 3.3 and 3.15 provided that a person who is registered with *NEMMCO* as a *Reallocator* is not regarded as a *Market Participant* for the purposes of clauses 3.3.2(a) and 3.15.1(b); and
 - (3) entitled to receive any information *NEMMCO* is required to publish or otherwise make available to *Registered Participants* (other than confidential information in respect of one or more other *Registered Participants*),
but is not otherwise a *Registered Participant* or a *Market Participant* for the purposes of the *Rules* unless they are also registered in another category of *Registered Participant* or *Market Participant*.

[2] Clause 2.12 Interpretation of References to Various Registered Participants

After clause 2.12(b)(4A), insert:

- (4B) a “*Reallocator*” applies to a person only in so far as it is applicable to matters connected with the person’s activities as a *Reallocator*;

[3] Clause 3.3.8 Maximum credit limit

Omit clause 3.3.8 and substitute:

3.3.8 Maximum credit limit and prudential margin

- (a) *NEMMCO* must determine for each *Market Participant* a *maximum credit limit* and *prudential margin*.
- (b) The *maximum credit limit* for a *Market Participant* is a dollar amount determined by *NEMMCO* applying the principles set out in schedule 3.3, being an estimate by *NEMMCO* (on a *reasonable worst case* scenario basis) of the aggregate payments for *trading amounts* (after *reallocation*) to be made by the *Market Participant* to *NEMMCO* over a period of up to the *credit period* applicable to that *Market Participant*.
- (c) The *prudential margin* for a *Market Participant* is a dollar amount to be determined by *NEMMCO* applying the principles set out in schedule 3.3, being an estimate by *NEMMCO* (on a *reasonable worst case* scenario basis) of the aggregate of the expected *trading amount* and the *reallocation amount* owing by the *Market Participant* to *NEMMCO* in respect of the *reaction period*.
- (d) *NEMMCO* must *publish* details of the methodology used in determining *maximum credit limits* and *prudential margins*.
- (e) *NEMMCO* shall review the *maximum credit limit* and *prudential margin* of each *Market Participant* not less than once each year.
- (f) *NEMMCO* may change either or both of the *maximum credit limit* or *prudential margin* for a *Market Participant* at any time (whether by reason of an annual review or otherwise), provided that any change to the *maximum credit limit* or *prudential margin* will apply with effect from such time (not being earlier than the time of notification of the changed *maximum credit limit* or *prudential margin* (as the case may be) to the *Market Participant*) as *NEMMCO* specifies.
- (g) *NEMMCO* must notify the *Market Participant* of any determination or change under this clause 3.3.8 of that *Market Participant's* *maximum credit limit* or *prudential margin* (as the case may be) and, on request from that *Market Participant*, provide details of the basis for that determination or change, including the trading, price, volatility and *prospective reallocation* assumptions and the average *spot prices* and *ancillary service prices* and average *trading amounts*.

[4] Clause 3.3.9 Outstandings

Omit clause 3.3.9 and substitute:

3.3.9 Outstandings

At any time the *outstandings* of a *Market Participant* is the dollar amount determined by the formula:

$$OS = -(A + B + SDA)$$

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where:

- OS** is the amount of the *outstandings* of the *Market Participant*.
- A** is the aggregate of the net *settlement amounts* payable in respect of *billing periods* prior to the current *billing period* which remain unpaid by, or to, the *Market Participant* whether or not the *payment date* has yet been reached.
- B** is the net *settlement amount* payable by, or to, the *Market Participant* in respect of *transactions* for *trading intervals* that have already occurred in the current *billing period*.
- SDA** is the balance (if any) of the *Market Participant* in the security deposit fund, in which case a credit balance will be a positive amount and a debit balance will be a negative amount.

The amounts to be used in this calculation will be the actual *settlement amounts* for *billing periods* where *final statements* have been issued by *NEMMCO* or *NEMMCO's* reasonable estimate of the *settlement amounts* for *billing periods* (where *final statements* have not been issued by *NEMMCO*).

Note: Where the value of *outstandings* of a *Market Participant* is a negative amount the absolute value of the *outstandings* amount will, for the purposes of clause 3.3, be treated as if it were an amount payable by *NEMMCO* to the *Market Participant*.

[5] **Clause 3.3.10 Trading limit**

Omit clause 3.3.10 and substitute:

3.3.10 Trading Limit

The trading limit for a *Market Participant* is the dollar amount determined by *NEMMCO* on the basis of a *reasonable worst case* estimate by *NEMMCO* applying the principles in schedule 3.3 and determined using the following formula:

$$TL = CS - PM$$

where:

- TL** is the *trading limit*;
- CS** is the *credit support* provided by the *Market Participant*;
- PM** is the *prudential margin* determined in accordance with clause 3.3.8(c).

Note: If the *prudential margin* exceeds the *credit support* the *trading limit* will have a negative value.

[6] Clause 3.3.11 Call notices

Omit clause 3.3.11(a) and substitute:

- (a) If at any time the *outstandings* of a *Market Participant* is greater than the *trading limit* for that *Market Participant*, *NEMMCO* may do either or both of the following:
- (1) give the *Market Participant* an ‘*interim statement*’ covering any *transactions* for *trading intervals* not already the subject of issued *preliminary* or *final statements* or another *interim statement*, notwithstanding that the usual time for the issue of a *preliminary* or *final statement* for those *trading intervals* has not been reached; and
 - (2) give the *Market Participant* a notice (a ‘*call notice*’) that specifies an *invoiced amount*, the current *maximum credit limit* for the *Market Participant*, the current *trading limit* for the *Market Participant*, and the *call amount*, where:

$$\text{Call Amount} = \text{OS} - \text{TypA}$$

except where the formula produces a negative result, in which case the *call amount* is zero,

where:

OS is the *outstandings* for the *Market Participant* as at the date of the issue of the *call notice*; and

TypA is the *typical accrual* for the *Market Participant* as at the date of the issue of the *call notice*.

Note: If the value of *outstandings* of a *Market Participant* has a negative value and the *trading limit* also has a negative value, the *outstandings* will be greater than the *trading limit* if the absolute value of the *trading limit* is greater than the absolute value of the *outstandings*, in which case *NEMMCO* may exercise its powers under either or both of clauses 3.3.11(a)(1) or 3.3.11(a)(2) .

[7] Clause 3.3.12 Typical accrual

After clause 3.3.12(a), insert:

Note: The value of the *typical accrual* of a *Market Participant* will be a negative amount if the average *settlement amount* of the *Market Participant* is a positive amount.

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[8] Clause 3.3.19 Consideration of other Market Participant transactions

In clause 3.3.19(a), omit all the words after “considers appropriate” and substitute the matter “.”.

[9] Clause 3.15.10A Renumbered clause 3.15.11A

Omit clause 3.15.10A and substitute clause 3.15.11A renumbered as clause 3.15.10A.

[10] Clause 3.15.11A Goods and services tax

Omit clause 3.15.11A.

[11] Clause 3.15.11 Reallocation transactions

Omit clause 3.15.11 and substitute:

3.15.11 Reallocation transactions

- (a) *A reallocation transaction is a transaction undertaken with the consent of two Market Participants and NEMMCO, under which NEMMCO credits one Market Participant with a positive trading amount in respect of a trading interval, in consideration of a matching negative trading amount debited to the other Market Participant in respect of the same trading interval.*
- (b) *Reallocation transactions may be of any type permitted in the reallocation procedures.*
- (c) *A reallocation transaction is initiated by a reallocation request lodged with NEMMCO by or on behalf of two Market Participants.*
- (d) *In order to be valid, a reallocation request must contain the information required by, and be lodged with NEMMCO in accordance with, the reallocation procedures and timetable for reallocation requests as published by NEMMCO from time to time (‘the reallocation timetable’).*
- (e) *Upon receipt of a reallocation request NEMMCO must register the reallocation request within the time specified in the reallocation procedures and the reallocation timetable and may impose conditions on that registration as contemplated by the reallocation procedures.*
- (f) *After a reallocation request has been registered in respect of two Market Participants, NEMMCO may deregister the reallocation request if:*
 - (1) *the prudential requirements are not satisfied by either of those Market Participants;*

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- (2) either of the *Market Participants* fails to comply with any conditions imposed by *NEMMCO* in respect of the *reallocation request* at the time it was registered;
 - (3) both *Market Participants* notify *NEMMCO* in accordance with the *reallocation procedures* that they require the *reallocation request* to be terminated; or
 - (4) a *default event* occurs in respect of either of the *Market Participants* and *NEMMCO* exercises its powers under paragraph (1).
- (g) Deregistration of a *reallocation request* prevents *reallocation transactions* occurring in respect of all the *trading intervals* that occur after the time of deregistration.
 - (h) *NEMMCO* must not deregister a *reallocation request* under paragraph (f) otherwise than in accordance with the *reallocation procedures*.
 - (i) The *Market Participants* may agree to reverse the effect of a registered *reallocation request* by lodging a new *reallocation request* in accordance with the *reallocation procedures* and the reallocation timetable.
 - (j) *NEMMCO* must include details of *reallocation transactions* in the *settlement statements* issued to all parties to those *reallocation transactions*.
 - (k) Where there is a registration of a *reallocation request* in respect of a *trading interval* and that *trading interval* has occurred, a *reallocation transaction* occurs in accordance with that *reallocation request*.
 - (l) If a *default event* occurs in relation to a party to a *reallocation request* when one or more of the *trading intervals* specified in the *reallocation request* has not occurred, *NEMMCO* may deregister the *reallocation request* by notice given at any time whilst the *default event* is subsisting.
 - (m) The deregistration under paragraph (l) is effective immediately upon *NEMMCO* notifying both parties to a *reallocation request* of the deregistration and the deregistration:
 - (1) is effective for all *trading intervals* commencing after the time specified in the notice, and notwithstanding that the *default event* may be subsequently cured; and
 - (2) prevents the completion of the requested *reallocation transactions* in the *trading intervals* that commence at or after the time specified in the deregistration notice.
 - (n) In addition to any other right *NEMMCO* may exercise following a *default event*, upon deregistration of a *reallocation request* *NEMMCO* may redetermine the *maximum credit limit* and *trading*

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limit for either or both of the parties to the *reallocation request*, having regard to the deregistration that has occurred.

3.15.11A Reallocation procedures

- (a) *NEMMCO* must develop and publish procedures in accordance with the *Rules consultation procedures*, to enable *Market Participants* to create and record *reallocation requests* and *reallocation transactions* in accordance with clause 3.15.11 in respect of electricity trading transactions other than those conducted through the *market* and/or establish mutual indemnification arrangements with other operators of markets for electricity-based trading (the "*reallocation procedures*").
- (b) *NEMMCO*, may from time to time and in accordance with the *Rules consultation procedures*, amend or replace the *reallocation procedures*.
- (c) Paragraph (c) does not apply to amendments to the *reallocation procedures* that are of a minor or administrative nature and *NEMMCO* may make such amendments at any time.
- (d) *NEMMCO* must develop and publish the first *reallocation procedures* by 1 January 2008 and there must be such procedures available at all times after that date.

[12] Schedule 3.3 Principles for Determination of Maximum Credit Limits & Prudential Requirements

Omit schedule 3.3 and substitute:

Schedule 3.3 – Principles for Determination of Maximum Cost Limits & Prudential Margins

This schedule sets out the principles to be followed by *NEMMCO* in determining the *maximum credit limit* and *prudential margin* for a *Market Participant*.

S3.3.1 Principles for determining Maximum Credit Limits

- (a) The *maximum credit limit* should be set on the principle of imposing a guarantee of payment being made to *NEMMCO* to a level of a *reasonable worst case*.
- (b) When calculating the *maximum credit limit* *NEMMCO* should have regard to:
 - (1) impartial objectivity rather than subjectivity, though it is recognised that some key parameters will need to be subjectively estimated from a limited amount of data - the estimation should be as impartial as possible;

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- (2) the average level and volatility of the *regional reference price* for the *region* for which the *maximum credit limit* is being calculated, measured over a period of time comparable to the frequency of breaches of the *maximum credit limit*;
 - (3) the pattern of the quantity of electricity recorded in the *metering data* for the *Market Participant*;
 - (4) the quantity and pattern of the *prospective reallocation transactions* in the immediate future;
 - (5) the correlation between the metered amounts of electricity and the *regional reference price*;
 - (6) the length of the *credit period*, which is the number of days from the start of a *billing period* to the end of the *reaction period* taking into account:
 - (i) the length of the *billing period*;
 - (ii) the typical time from the end of the *billing period* to the day on which *settlement* for that *billing period* is due to be paid (the *payment period*);
 - (iii) any current written request from the *Market Participant* to *NEMMCO* for the *maximum credit limit* to be determined on a *payment period* taken, for the purposes of clause 3.3.8 and not otherwise, to be 14 days;
 - (iv) the time from a *default event* to the suspension or other removal of the *defaulting Market Participant* from the *market*, being a period of up to 7 days (the *reaction period*);
 - (7) the statistical distribution of accrued amounts that may be owed to *NEMMCO*;
 - (8) the degree of confidence that the *maximum credit limit* will be large enough to meet large defaults (i.e. the degree of reasonableness in a *reasonable worst case*).
- (c) As far as practicable, this schedule 3.3 must be read and construed as taking into account *market ancillary service transactions* for the calculation of the *maximum credit limit* for that *Market Participant*.

S3.3.2 Principles for determining prudential margins

The value of the *prudential margin* for a *Market Participant* is set on the same principles as the *maximum credit limit* except that:

- (1) if the aggregate of all *trading amounts* for the *Market Participant* is a positive amount the quantity and pattern of those *trading amounts* are not taken into account when determining the *prudential margin*;
- (2) if the aggregate of all *reallocation amounts* for the *Market Participant* is a positive amount the quantity and pattern of

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those *reallocation amounts* are not taken into account when determining the *prudential margin*; and

- (3) the *prudential margin* is calculated in respect of the *reaction period*.

[13] Chapter 10 New Definitions

In Chapter 10 insert, in alphabetical order, the following new definitions:

prospective reallocation

A *reallocation transaction* that occurs in a *trading interval* that takes place at a time after the *reallocation request* is made.

prudential margin

A dollar amount to be determined by *NEMMCO* in accordance with clause 3.3.8.

reallocation amount

In respect of a *Market Participant*, the positive or negative dollar amount in respect of a *reallocation transaction* being an amount payable to or by the *Market Participant*.

reallocation procedures

The procedures *published* by *NEMMCO* under clause 3.15.11(b).

Reallocator

A person registered as a Reallocator by *NEMMCO* in accordance with rule 2.5B.

reasonable worst case

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.

[14] Chapter 10 Deleted Definitions

In Chapter 10 delete the following definitions:

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dollar reallocation transaction

A *reallocation transaction* under which the *Market Participants* have requested *NEMMCO* to debit one of them with a dollar amount and credit the other with a similar dollar amount.

prudential factor

A factor to be determined and used by *NEMMCO* in accordance with clause 3.3.10 for the purpose of determining a *Market Participant's trading limit*.

quantity reallocation transaction

A *reallocation transaction* under which the *Market Participants* have requested *NEMMCO* to debit one of them with a *trading amount* (being a quantity multiplied by the *spot price* for a *region*) and credit the other with a similar *trading amount*.

reallocation termination request

A request to *NEMMCO* for early termination of a *reallocation*, pursuant to clause 3.15.11(d1).

[15] Chapter 10 Amended Definition

In Chapter 10, omit “3.15.11(d)” from the definition of **reallocation request** and substitute “3.15.11(c)”.

[16] Chapter 11 Savings and Transitional Rules

After rule 11.6, insert:

11.7 Rules consequential on the making of the National Electricity Amendment (Reallocations) Rule 2006

11.7.1 Definitions

For the purposes of this rule 11.7:

Amending Rule means the National Electricity Amendment (Reallocations) Rule 2006.

commencement date means the day on which the Amending Rule commences operation.

existing reallocation means a *reallocation* in place immediately before the commencement date.

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new reallocation means a *reallocation* undertaken in accordance with the *Rules* after the date of *publication* of the *reallocation procedures* under clause 3.15.11A(d).

transitional reallocation means a *reallocation* in place immediately after the commencement date but prior to the date of *publication* of the *reallocation procedures* by *NEMMCO* under clause 3.15.11A(d).

11.7.2 Existing and transitional reallocations

- (a) Subject to paragraph (c), any existing reallocation is to be treated as if the Amending Rule had not been made.
- (b) Subject to paragraph (c), any transitional reallocation is to be treated as if the Amending Rule had not been made.
- (c) A *Market Participant* who is a party to an existing reallocation or a transitional reallocation may elect to have the reallocation treated as a new reallocation if the participant obtains the agreement of the other *Market Participant* who is the other party to the reallocation.

[17] References to clause 3.15.11A

In the Rules, omit “3.15.11A” wherever occurring and substitute “3.15.10A”.
