

6 March 2009

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Dr Tamblyn

**Futures Offset Arrangement (FOA) Rule Change Proposal 2008
Submission to second round consultation**

Thank you for the opportunity to provide this submission to the above Rule change consultation.

NEMMCO supports the development of further options for the management of credit support costs associated with the NEM prudential process. The proposed FOA mechanism would provide a means for users of electricity futures to reduce their spot market credit support requirements, and may therefore have value as a means of reducing prudential risks for participants.

Comments of Draft Rule Determination

Given the criticality of the prudential regime within the NEM it is essential that any changes are clearly defined, and that any risks are exposed and managed. NEMMCO supports the AEMC's efforts in that regard, and the proposed prudential offsets review as measures to ensure decisions in respect of the FOA mechanism are well informed. NEMMCO will actively participate and support the review, however we recommend that the AEMC considers the following proposed change to the scope of the review.

In its draft determination, the AEMC has stated in respect of the performance target of the current MCL process that:

*"However, the Commission will consider the merits of clarifying this target, as part of its review process, if it forms a relevant part of the scope of the review."*¹

¹ AMEC Draft Rule Determination – National Electricity Amendment (Futures Offset Arrangements (FOAs)) Rule 2008 – 22 January 2009, page 34.

Although the AEMC has made this statement within the body of the determination, consideration of the MCL performance target has not been recognised in the scope of the review. NEMMCO recommends that the clarification of the target as discussed on page 34 be included within the scope of the review, as analysis of prudential risk often needs to be considered relative to the target. Therefore, if the target is difficult to interpret, as explained by NEMMCO in its submission to the first round of consultation, the success of the MCL regime and of proposed changes to it can be similarly difficult to quantify.

AEMC Public Hearing 12 February 2009

At the public hearing, stakeholders advised that they would be making a detailed submission to address the risks and issues identified within the draft rule determination.

In the event that the additional information to be provided to the AEMC gives cause for a material change in position from the draft determination, NEMMCO would appreciate a further opportunity to assess the new information and to comment on it prior to the making of a final determination.

We look forward to the Commission's consideration of our submission. If there are any queries about this submission, please do not hesitate to contact Craig Parr on 02 8884 5030 or myself on 02 9239 9106.

Yours sincerely



Murray Chapman
Acting General Manager Market Operations