



NEMMCO

**National Electricity Market
Management Company Limited**
ABN 94 072 010 327

Sydney Office
Level 22, Norwich House
6-10 O'Connell Street
Sydney NSW 2000
Tel: (02) 9239 9199
Fax: (02) 9233 1965

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Dr John Tamblyn
Chairman
Australian Energy Markets Commission
Level 16
1 Margaret Street
SYDNEY NSW 2000

By email: submissions@aemc.gov.au

Dear Dr Tamblyn

**Amendment to National Electricity (Reallocations) Rules: Joint Submission
from ASX and NEMMCO**

In the draft Rule determination the AEMC requested that NEMMCO and the submitters of the Futures Offset Arrangement (FOA) proposal meet and see if the FOA proposal could be incorporated into reallocation procedures under the draft Rule amendment currently before the AEMC.

The ASX, d-cyphaTrade (the lead architects of the FOA proposal) and NEMMCO have met and agreed that the FOAs, subject to an independent assessment of legal and risk issues, may be able to be incorporated into reallocation procedures under the draft Rule amendments currently before the AEMC.

Subject to the draft Rule amendments being approved, the ASX and NEMMCO have agreed to jointly fund an independent legal and risk assessment to inform the market as to whether the incorporation of FOAs into the reallocation procedures would impact upon the integrity of the prudential framework that currently exists for generators within the NEM.

If the independent assessment is positive and the draft Rule amendments are approved, NEMMCO will use the Rules consultation procedure to progress as one of the reallocation options, the introduction of the FOA reallocation procedures and any changes to the Maximum Credit Limit procedures.

It is noted that this agreed position does not preclude parties progressing the FOAs via a Rule change.

Attached to this submission is an agreed timetable for incorporating FOAs into the reallocation procedures under the draft Rule amendment currently before the AEMC together with a high level summary of the scope for the independent advice that will be sought.

Yours sincerely



Brian Spalding
Chief Operating Officer
NEMMCO



Anthony Collins
General Manager – Emerging Markets
ASX Ltd

Attachment

Timetable

Action	Due Date
1. NEMMCO and ASX to draft detail of FOA proposal	One month after AEMC final determination
2. Independent advice on legal issues and risks	Advice received two months after 1. above
3. (subject to 2) Development of reallocation procedures for FOAs and any changes to the MCL procedures via the Rules consultation procedure	No later than the latter of 1 January 2008 or six months after 2. above. NEMMCO will undertake its best efforts to complete sooner.

Scope of Advice

- ASX and NEMMCO will jointly fund an independent legal and risk assessment as to whether incorporation of FOAs into the procedures would impact upon the integrity of the prudential framework that currently exists for generators within the NEM.

Both the legal advice and risk assessment would be available to inform the market as a part of the reallocation and MCL consultations.

1. Legal Issues

External legal advice will cover the areas of:

- Security of paid and owed amounts under insolvency.
- Cancellation requirements.
- Priority in the application of funds.
- ASIC requirements.

2. Risk Issues

The areas to be explicitly covered by this risk assessment would be:

- Firmness of the arrangement.
- Timing and accuracy of futures pricing.
- Credit support requirements, if any,
- Extent of MCL reductions.