



25 January 2007

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Commissioner
Australian Energy Markets Commission
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By email: submissions@aemc.gov.au

Amendment to National Electricity (Reallocations) Rules

d-cyphaTrade welcomes the opportunity to contribute to the 2nd round of submissions to the Amendment to National Electricity (Reallocations) Rules. The AEMC should be aware of the risk that NEM Participants may incorrectly perceive that NEMMCO's existing (and proposed) ex ante reallocation derivative market (without futures) provides the same level of market transparency, fairness and prudential safeguards as a licensed derivatives exchange and clearing house such as the Sydney Futures Exchange and Sydney Futures Exchange Clearing Corporation.

Reallocation market design failings, including the non-firmness of NEMMCO reallocation derivatives and inability for participants to recoup forward mark to market profits owed to them if NEMMCO sets the derivative contracts aside, have been highlighted in previous submissions to the AEMC¹.

Ex ante reallocation derivative arrangements allow generators (without prudential support from licensed futures clearing participants such as banks) to short-sell derivatives relying on a promise to generate electricity in the future, to meet future contract-for-difference payment obligations. This creates extreme systemic risk for NEM Participants at times of unforeseen generation outages. A timely warning of the significant risks to participants of an energy-dependent derivative market of the type proposed by NEMMCO was provided by the Victorian power crisis and Queensland intra-regional constraints of January 2007, when widespread unforeseen generation supply outages coincided with spot prices of between \$6,000/MWh to \$10,000/MWh.

NEMMCO has suggested that s 3.15.11A should include: "(e) NEMMCO is not required to meet its obligations under clause 3.15.11A (a) in any way which increases NEMMCO's risks in the collection of money owed to it in accordance with any provisions of the Rules."

The AEMC may wish to consider the following revised wording of s.15.11A which would support greater independence of the application of 3.15.11A while ensuring that a wider and more relevant test of risk is applied:

"(e) NEMMCO is not required to meet its obligations under clause 3.15.11A (a) in any way which increases NEMMCO's overall financial risk."

¹ See www.aemc.gov.au :

1. Joint Submission from 20 NEM Industry Participants;
2. Submission from the ASX; and
3. d-cyphaTrade Presentation (AEMC Hearing) 15 Dec 2006.

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