

11 August 2016

Mr John Pierce
Chairman
Australian Energy Market Commission

10 Eagle Street
Brisbane QLD 4122
T 07 3347 3100

By email

Dear Mr Pierce

Submission to Draft Rule Determination – National Electricity Amendment (Application of Offsets in the Prudential Margin Calculation) Rule 2016

AEMO welcomes the opportunity to provide a submission on the AEMC's Draft Rule Determination on the above rule. AEMO is supportive of the Draft Rule as published. AEMO's submission is in regard to the transitional rules that impose a requirement to amend the reallocation procedures and the proposed commencement dates.

Amendment of procedures

The proposed Rule includes a transitional provision requiring AEMO to make amendments to its credit limit procedures and reallocation procedures by 1 July 2017. AEMO is comfortable with the proposed date, but we note the only required change to the current reallocation procedures would be to the reallocation timetable. Although that timetable is presently embedded in the reallocation procedures, AEMO intends to consult on a proposal to replace it with a standalone timetable under clause 3.15.11(d). Consultation is expected to commence in August 2016 as part of the package of amendments associated with the implementation of swap and option reallocations, following the necessary authorisation granted by ASIC earlier this year.

If the reallocation timetable were to be published separately, the reallocation procedures would not need to change as a result of the proposed Rule. To account for this possibility, we suggest that the transitional provisions should require AEMO to amend and publish the 'reallocation timetable' under clause 3.15.11(d), instead of amending the reallocation procedures. Of course, if the reallocation timetable remains within the procedures after AEMO's upcoming consultation, the timetable change would still have to be effected by way of a procedure change.

Proposed commencement dates

AEMO's objective is to take offsetting trading and reallocation amounts into account, where appropriate, in the MCL reviews that take effect for summer 2017/18. The summer season commences on 1 December (although the effective date for seasonal MCL review is adjusted if 1 December falls on a Monday or Friday, as it does in 2017). For this objective to be achieved, AEMO will need to rely on the Rules as amended when it determines Market Participant prudential settings in advance of 1 December 2017, in accordance with the amended credit limit procedures and AEMO's normal processes. If the substantive

provisions of the new Rule do not come into effect before that date, AEMO would not have the necessary authority to do this.

Because the proposed Rule gives AEMO the flexibility (rather than the obligation) to take positive trading and reallocation amounts into account, we suggest that both schedules of the proposed Rule could commence on the same date a short time after the Rule is made, as the Commission considers appropriate. The transitional rules could then indicate that the credit limit procedures and reallocation timetable (to be revised by 1 July 2017) must have an implementation date that requires AEMO to apply the amended methodology in determining prudential settings applicable to the summer season commencing on or around 1 December 2017. This should clarify that AEMO is not required to consider exercising its discretion in respect of those amounts before the summer 2017/18 review.

Please do not hesitate to contact myself or Chin Chan, Group Manager Market Management on (03) 9609 8345 if you require further details or to discuss specific drafting proposals with the Commission.

Yours sincerely



Peter Geers
Executive General Manager, Markets