



# Prudential Standard Rule Change

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Consultation Workshop

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# Recap of Topic

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- Significant recent work on Prudential arrangements
- Readiness Review
  - Many conclusions / ideas for reform
- AEMC Hedging Review (FOA Rule Change)
- This Rule Change constitutes the 'next step'

# What is the AEMC being asked to change?

- Replace “reasonable worst case” with P(LGD)
- AEMO required to calculate Prudential Settings [Outstandings Limit, Prudential Margin] to obtain 2% P(LGD)
- Enshrine new Prudential Settings in the Rules [MCL = OSL + PM]; and remove the ‘Reduced’ MCL.
- Language to effect that AEMO’s calculation of the settings will more explicitly consider:
  - Seasonal patterns of volatility in load and price
  - Relative peakiness of load for each participant

# What is the AEMC *not* being asked to change?

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- Detailed calculation procedures of OSL, PM in order to get 2% P(LGD)
- Other broader ideas for reform put forward in the Readiness Review or elsewhere (e.g. responses to the Reviews)

# What is the AEMC asking stakeholders?

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- Should we replace “reasonable worst case” with something else?
- Is the frequency-based statistic of P(LGD) a good statistic to use? Is 2% an appropriate target?
- Are the accompanying proposed changes to the procedural guidelines appropriate?
- Are there any reforms to the Prudential Arrangements that should be considered prior to these changes being considered?