

Sydney

25 January 2007

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box H166
Australia Square NSW 1215

Dear John

Submission on Draft Reallocation Rule Determination

I refer to the Draft Rule Determination "Draft National Electricity Amendment (Reallocations) Rule 2006" published on 23 November 2006. NEMMCO is pleased with the draft position taken by the Commission in that the Draft Rule proposal is seen to contribute to the NEM Objective.

Please find attached a submission from NEMMCO on the Draft Rule that the Commission is requested to consider when making their final decision.

Yours sincerely


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NEMMCO Submission on Draft National Electricity Amendment (Reallocations) Rule 2006

1. NEMMCO considers that the Commission's transitional arrangements for the reallocation procedures are appropriate.
2. The development of the first reallocation procedures under the new Rule by 1 January 2008 is achievable.
3. The Rule amendments proposed by the Commission as enhancements to that drafted by NEMMCO add value to the Rule proposal but in restructuring the Rule proposal the following matters are noted: (using the numbering as in the AEMC draft Rule).

- [11] 3.15.11A (c)

The reference to "Paragraph (c)" should read "Paragraph (a)".

- [11] 3.15.11A

In forming this new clause from the previous Rule clause 3.3.19 the important qualification in 3.3.19 (b) has been omitted. It is suggested that a new clause (e) be added to 3.15.11A as:

"(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 moneys owed to it in accordance with any provisions of the *Rules*."

- [13] **Chapter 10 New Definitions**

reallocation procedures

The reference to "clause 3.15.11 (b)" should read "clause 3.15.11A".

- [14] **Chapter 10 Deleted Definitions**

It is suggested that the following definitions also be deleted as they are not referred to in the new clause 3.15.11 or elsewhere in the *Rules*.

reallocated dollar amount

reallocated quantity

- A further consequential amendment should be Rule clause 8.2.1 (h) (8) as there is now no concept of a "reallocation termination".

8.2.1 (h) (8) should read:

"a decision by NEMMCO under clause 3.15.11 to reject a *reallocation request* or a ~~reallocation termination request~~."

4. Futures Offset Arrangements

Some interested parties and the ASX put forward a submission to the Rule amendment request and supported an arrangement utilising futures positive margin payments as an alternative to reallocation. In the draft determination on the proposed draft Rule amendment the AEMC requested NEMMCO and the proponents of the futures margin scheme to meet to see if that scheme can be accommodated in the reallocation procedures. A joint submission from the ASX and NEMMCO addresses that request.

In summary the Futures Offset Arrangement is that NEMMCO would be provided with some futures contract positive margin payments that result from the current quarter futures contracts price movements, and that the margin payments would be held as credit against the relevant NEM Participant's NEMMCO settlement obligations. By accepting this arrangement NEMMCO should accept a defined lower level of Credit Support on behalf of the NEM Participant.

While NEMMCO sees potential merit in the use of futures contracts margin payments as part of a suite of Credit Support and reallocation solutions, further analysis is required to determine whether the risks identified to date can be satisfactorily addressed.

The current Rule change proposed by NEMMCO provides the potential for the essence of the Futures Offset Arrangement to be incorporated as a form of reallocation in the Reallocation Procedures. In particular:

- the Clearing Participant who is to provide NEMMCO with the margin payments would register as a Reallocator,
- the timing, payment calculations and obligations would be defined in the reallocation procedures, and
- the extent to which the scheme has benefit in reducing the credit risk of Retailers to NEMMCO would then be reflected in any allowed reduction in required Credit Support.

Expert advice will be provided to the market as part of the reallocation procedure consultation process and the Maximum Credit Limit determination process.

Thus NEMMCO does not see any conflict in the utilisation of futures contracts positive margins and the NEMMCO Reallocations Rule change package.