



## **National Electricity Amendment (Reallocations) Rule 2007 No.1**

under the National Electricity Law as applied by:

- (a) the National Electricity (South Australia) Act 1996;
- (b) the Electricity (National Scheme) Act 1997 of the Australian Capital Territory;
- (c) the National Electricity (New South Wales) Act 1997 of New South Wales;
- (d) the Electricity - National Scheme (Queensland) Act 1997 of Queensland;
- (e) the Electricity - National Scheme (Tasmania) Act 1999 of Tasmania;
- (f) the National Electricity (Victoria) Act 2005 of Victoria; and
- (g) the Australian Energy Market Act 2004 of the Commonwealth.

The Australian Energy Market Commission makes the following Rule under the National Electricity Law.

A handwritten signature in black ink, appearing to read "John Tamblyn". The signature is fluid and cursive, with a large initial "J".

John Tamblyn  
Chairman  
Australian Energy Market Commission

## **National Electricity Amendment (Reallocations) Rule 2007 No.1**

### **1. Title of Rule**

This Rule is the *National Electricity Amendment (Reallocations) Rule 2007 No. 1*.

### **2. Commencement**

This Rule commences operation on 31 May 2007.

### **3. Amendment of the National Electricity Rules**

The National Electricity Rules are amended as set out in Schedule 1.

### **4. Notes**

Notes do not form part of this Rule.

## Schedule 1      Amendment of National Electricity Rules

(Clause 3)

### [1]      Rule 2.5B

After rule 2.5A, insert:

#### **2.5B      Reallocator**

- (a) A *Reallocator* is a person so registered by *NEMMCO* in order to participate in *reallocation transactions* under clause 3.15.11.
- (b) A person who is registered with *NEMMCO* as a *Reallocator* is:
  - (1) a *Registered Participant* for the purposes of clause 2.5B(b)(3) and rules 2.9, 2.10, 2.11, 8.2 and 8.9;
  - (2) taken to be a *Market Participant* for the purposes of rules 3.3 and 3.15 but is not regarded as a *Market Participant* for the purposes of clauses 3.3.2(a) and 3.15.1(b); and
  - (3) entitled to receive any information *NEMMCO* is required to *publish* or otherwise make available to *Registered Participants* (other than *confidential information* in respect of other *Registered Participants*),

but is not otherwise a *Registered Participant* or a *Market Participant* for the purposes of the *Rules* unless the person is also registered in another category of *Registered Participant* or *Market Participant*.

### [2]      Clause 2.12      Interpretation of References to Various Registered Participants

After clause 2.12(b)(4A), insert:

- (4B) a “*Reallocator*” applies to a person only in so far as it is applicable to matters connected with the person’s activities as a *Reallocator*;

### [3]      Clause 3.3.8      Maximum credit limit

Omit clause 3.3.8 and substitute:

#### **3.3.8      Maximum credit limit and prudential margin**

- (a) *NEMMCO* must determine for each *Market Participant* a *maximum credit limit* and *prudential margin*.

- (b) The *maximum credit limit* for a *Market Participant* is a dollar amount determined by *NEMMCO* applying the principles set out in schedule 3.3, being an amount determined by *NEMMCO* on the basis of a *reasonable worst case* estimate of the aggregate payments for *trading amounts* (after *reallocation*) to be made by the *Market Participant* to *NEMMCO* over a period of up to the *credit period* applicable to that *Market Participant*.
- (c) The *prudential margin* for a *Market Participant* is a dollar amount to be determined by *NEMMCO* applying the principles set out in schedule 3.3, being amount determined by *NEMMCO* on the basis of a *reasonable worst case* estimate of the aggregate of the expected *trading amount* and the *reallocation amount* owing by the *Market Participant* to *NEMMCO* in respect of the *reaction period*.
- (d) *NEMMCO* must *publish* details of the methodology used in determining *maximum credit limits* and *prudential margins*.
- (e) *NEMMCO* shall review the *maximum credit limit* and *prudential margin* of each *Market Participant* not less than once each year.
- (f) *NEMMCO* may change either or both of the *maximum credit limit* or *prudential margin* for a *Market Participant* at any time (whether by reason of an annual review or otherwise), provided that any change to the *maximum credit limit* or *prudential margin* will apply with effect from such time (not being earlier than the time of notification of the changed *maximum credit limit* or *prudential margin*, as the case may be, to the *Market Participant*) as *NEMMCO* specifies.
- (g) *NEMMCO* must notify the *Market Participant* of any determination or change under this clause 3.3.8 of that *Market Participant's* *maximum credit limit* or *prudential margin* (as the case may be) and, on request from that *Market Participant*, provide details of the basis for that determination or change, including the trading, price, volatility and *prospective reallocation* assumptions and the average *spot prices* and *ancillary service prices* and average *trading amounts*.

**[4] Clause 3.3.9 Outstandings**

Omit clause 3.3.9 and substitute:

**3.3.9 Outstandings**

At any time the *outstandings* of a *Market Participant* is the dollar amount determined by the formula:

$$OS = - (A + B + SDA)$$

where:

OS is the amount of the *outstandings* of the *Market Participant*;

A is the aggregate of the net *settlement amounts* payable in respect of *billing periods* prior to the current *billing period* which remain

unpaid by, or to, the *Market Participant* whether or not the *payment date* has yet been reached;

B is the net *settlement amount* payable by, or to, the *Market Participant* in respect of *transactions* for *trading intervals* that have already occurred in the current *billing period*; and

SDA is the balance (if any) of the *Market Participant* in the security deposit fund, in which case a credit balance will be a positive amount and a debit balance will be a negative amount.

The amounts to be used in this calculation will be the actual *settlement amounts* for *billing periods* where *final statements* have been issued by *NEMMCO* or *NEMMCO's* reasonable estimate of the *settlement amounts* for *billing periods* (where *final statements* have not been issued by *NEMMCO*).

**Note:** Where the value of *outstandings* of a *Market Participant* is a negative amount the absolute value of the *outstandings* amount will, for the purposes of clause 3.3, be treated as if it were an amount payable by *NEMMCO* to the *Market Participant*.

**[5] Clause 3.3.10 Trading limit**

Omit clause 3.3.10 and substitute:

**3.3.10 Trading limit**

The trading limit for a *Market Participant* is the dollar amount determined by *NEMMCO* on the basis of a *reasonable worst case* estimate by *NEMMCO* applying the principles in schedule 3.3 and determined using the following formula:

$$TL = CS - PM$$

where:

TL is the *trading limit*;

CS is the *credit support* provided by the *Market Participant*; and

PM is the *prudential margin* determined in accordance with clause 3.3.8(c).

**Note:** If the *prudential margin* exceeds the *credit support* the *trading limit* will have a negative value.

**[6] Clause 3.3.11 Call notices**

Omit clause 3.3.11(a) and substitute:

- (a) If at any time the *outstandings* of a *Market Participant* is greater than the *trading limit* for that *Market Participant*, NEMMCO may do either or both of the following:
- (1) give the *Market Participant* an “*interim statement*” covering any *transactions* for *trading intervals* not already the subject of issued *preliminary* or *final statements* or another *interim statement*, notwithstanding that the usual time for the issue of a *preliminary* or *final statement* for those *trading intervals* has not been reached; and
  - (2) give the *Market Participant* a notice (a “*call notice*”) that specifies an *invoiced amount*, the current *maximum credit limit* for the *Market Participant*, the current *trading limit* for the *Market Participant*, and the *call amount*, where:

$$\text{Call Amount} = \text{OS} - \text{TypA}$$

except where the formula produces a negative result, in which case the *call amount* is zero,

where:

OS is the *outstandings* for the *Market Participant* as at the date of the issue of the *call notice*; and

TypA is the *typical accrual* for the *Market Participant* as at the date of the issue of the *call notice*.

**Note:** If the value of *outstandings* of a *Market Participant* has a negative value and the *trading limit* also has a negative value, the *outstandings* will be greater than the *trading limit* if the absolute value of the *trading limit* is greater than the absolute value of the *outstandings*, in which case NEMMCO may exercise its powers under either or both of clauses 3.3.11(a)(1) or 3.3.11(a)(2).

**[7] Clause 3.3.12 Typical accrual**

After clause 3.3.12(a), insert:

**Note:** The value of the *typical accrual* of a *Market Participant* will be a negative amount if the average *settlement amount* of the *Market Participant* is a positive amount.

**[8] Clause 3.3.19 Consideration of other Market Participant transactions**

In clause 3.3.19(a), omit all the words after “considers appropriate” and insert a full stop.

**[9] Clause 3.15.10A Renumbered clause 3.15.11A**

Renumber clause 3.15.11A as clause 3.15.10A.

**[10] Clause 3.15.11 Reallocation transactions**

Omit clause 3.15.11 and substitute:

**3.15.11 Reallocation transactions**

- (a) A *reallocation transaction* is a *transaction* undertaken with the consent of two *Market Participants* and *NEMMCO*, under which *NEMMCO* credits one *Market Participant* with a positive *trading amount* in respect of a *trading interval*, in consideration of a matching negative *trading amount* debited to the other *Market Participant* in respect of the same *trading interval*.
- (b) *Reallocation transactions* may be of any type permitted in the *reallocation procedures*.
- (c) A *reallocation transaction* is initiated by a *reallocation request* lodged with *NEMMCO* by or on behalf of two *Market Participants*.
- (d) A *reallocation request* must:
  - (1) contain the information required by the *reallocation procedures*; and
  - (2) be lodged with *NEMMCO* in accordance with the *reallocation procedures* and the timetable for *reallocation requests* as published by *NEMMCO* from time to time (the **reallocation timetable**).
- (e) Upon receipt of a *reallocation request* *NEMMCO* must register the *reallocation request* within the time specified in the *reallocation procedures* and the reallocation timetable and may impose conditions on that registration as contemplated by the *reallocation procedures*.
- (f) After a *reallocation request* has been registered in respect of two *Market Participants*, *NEMMCO* may deregister the *reallocation request* if:
  - (1) the *prudential requirements* are not satisfied by either of those *Market Participants*;
  - (2) either of the *Market Participants* fails to comply with any conditions imposed by *NEMMCO* in respect of the *reallocation request* at the time it was registered;
  - (3) both *Market Participants* notify *NEMMCO* in accordance with the *reallocation procedures* that they require the *reallocation request* to be terminated; or

- (4) a *default event* occurs in respect of either of the *Market Participants* and *NEMMCO* exercises its powers under paragraph (1).
- (g) Deregistration of a *reallocation request* prevents *reallocation transactions* occurring in respect of all the *trading intervals* that occur after the time of deregistration.
- (h) *NEMMCO* must not deregister a *reallocation request* under paragraph (f) otherwise than in accordance with the *reallocation procedures*.
- (i) The *Market Participants* may agree to reverse the effect of a registered *reallocation request* by lodging a new *reallocation request* in accordance with the *reallocation procedures* and the reallocation timetable.
- (j) *NEMMCO* must include details of *reallocation transactions* in the *settlement statements* issued to all parties to those *reallocation transactions*.
- (k) Where there is a registration of a *reallocation request* in respect of a *trading interval* and that *trading interval* has occurred, a *reallocation transaction* occurs in accordance with that *reallocation request*.
- (l) If a *default event* occurs in relation to a party to a *reallocation request* when one or more of the *trading intervals* specified in the *reallocation request* has not occurred, *NEMMCO* may deregister the *reallocation request* by notice given at any time whilst the *default event* is subsisting.
- (m) The deregistration under paragraph (l) is effective immediately upon *NEMMCO* notifying both parties to a *reallocation request* of the deregistration and the deregistration:
  - (1) is effective for all *trading intervals* commencing after the time specified in the notice, and notwithstanding that the *default event* may be subsequently cured; and
  - (2) prevents the completion of the requested *reallocation transactions* in the *trading intervals* that commence at or after the time specified in the deregistration notice.
- (n) In addition to any other right *NEMMCO* may exercise following a *default event*, upon deregistration of a *reallocation request* *NEMMCO* may redetermine the *maximum credit limit* and *trading limit* for either or both of the parties to the *reallocation request*, having regard to the deregistration that has occurred.

### **3.15.11A Reallocation procedures**

- (a) *NEMMCO* must develop and *publish* procedures in accordance with the *Rules consultation procedures*, to enable *Market Participants* to create and record *reallocation requests* and *reallocation transactions* in accordance with clause 3.15.11 in respect of



electricity trading transactions other than those conducted through the *market* and/or establish mutual indemnification arrangements with other operators of markets for electricity-based trading (the “*reallocation procedures*”).

- (b) *NEMMCO* may, from time to time and in accordance with the *Rules consultation procedures*, amend or replace the *reallocation procedures*.
- (c) Paragraph (b) does not apply to amendments to the *reallocation procedures* that are of a minor or administrative nature and *NEMMCO* may make such amendments at any time.
- (d) *NEMMCO* must develop and *publish* the first *reallocation procedures* by 1 January 2008 and there must be such procedures available at all times after that date.
- (e) *NEMMCO* is not required to meet its obligations under paragraph (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*.

**[11] Schedule 3.3 Principles for Determination of Maximum Credit Limits**

Omit schedule 3.3 (including the heading) and substitute:

**Schedule 3.3 – Principles for Determination of Maximum Credit Limits & Prudential Margins**

This schedule sets out the principles to be followed by *NEMMCO* in determining the *maximum credit limit* and *prudential margin* for a *Market Participant*.

**S3.3.1 Principles for determining maximum credit limits**

- (a) The *maximum credit limit* should be set on the principle of imposing a guarantee of payment being made to *NEMMCO* to a level of a *reasonable worst case*.
- (b) When calculating the *maximum credit limit* *NEMMCO* should have regard to:
  - (1) impartial objectivity rather than subjectivity, though it is recognised that some key parameters will need to be subjectively estimated from a limited amount of data - the estimation should be as impartial as possible;
  - (2) the average level and volatility of the *regional reference price* for the *region* for which the *maximum credit limit* is being calculated, measured over a period of time comparable to the frequency of breaches of the *maximum credit limit*;

- (3) the pattern of the quantity of electricity recorded in the *metering data* for the *Market Participant*;
  - (4) the quantity and pattern of the *prospective reallocation* in the immediate future;
  - (5) the correlation between the metered amounts of electricity and the *regional reference price*;
  - (6) the length of the *credit period*, which is the number of days from the start of a *billing period* to the end of the *reaction period* taking into account:
    - (i) the length of the *billing period*;
    - (ii) the typical time from the end of the *billing period* to the day on which *settlement* for that *billing period* is due to be paid (the *payment period*);
    - (iii) any current written request from the *Market Participant* to *NEMMCO* for the *maximum credit limit* to be determined on a *payment period* taken, for the purposes of clause 3.3.8 and not otherwise, to be 14 days; and
    - (iv) the time from a *default event* to the suspension or other removal of the *defaulting Market Participant* from the *market*, being a period of up to 7 days (the *reaction period*);
  - (7) the statistical distribution of accrued amounts that may be owed to *NEMMCO*; and
  - (8) the degree of confidence that the *maximum credit limit* will be large enough to meet large defaults (i.e. the degree of reasonableness in a *reasonable worst case*).
- (c) As far as practicable, this schedule 3.3 must be read and construed as taking into account *market ancillary service transactions* for the calculation of the *maximum credit limit* for the relevant *Market Participant*.

### **S3.3.2 Principles for determining prudential margins**

The value of the *prudential margin* for a *Market Participant* is set on the same principles as the *maximum credit limit* except that:

- (1) if the aggregate of all *trading amounts* for the *Market Participant* is a positive amount the quantity and pattern of those *trading amounts* are not taken into account when determining the *prudential margin*;
- (2) if the aggregate of all *reallocation amounts* for the *Market Participant* is a positive amount the quantity and pattern of those *reallocation amounts* are not taken into account when determining the *prudential margin*; and
- (3) the *prudential margin* is calculated in respect of the *reaction period*.

**[12] Clause 8.2.1 Application and guiding principles**

In clause 8.2.1(h)(8), omit the words “or a *reallocation termination request*”.

**[13] Chapter 10 New Definitions**

In Chapter 10 insert, in alphabetical order, the following new definitions:

**prospective reallocation**

*A reallocation transaction that occurs in a trading interval that takes place at a time after the reallocation request is made.*

**prudential margin**

*A dollar amount to be determined by NEMMCO in accordance with clause 3.3.8.*

**reallocation amount**

*In respect of a Market Participant, the positive or negative dollar amount in respect of a reallocation transaction being an amount payable to or by the Market Participant.*

**reallocation procedures**

*The procedures published by NEMMCO under clause 3.15.11A.*

**Reallocator**

*A person registered as a Reallocator by NEMMCO in accordance with rule 2.5B.*

**reasonable worst case**

*A position that, while not being impossible, is to a probability level that the estimate would not be exceeded more than once in 48 months.*

**[14] Chapter 10 Deleted Definitions**

In Chapter 10 delete the following definitions:

**dollar reallocation transaction**

A *reallocation transaction* under which the *Market Participants* have requested *NEMMCO* to debit one of them with a dollar amount and credit the other with a similar dollar amount.

**prudential factor**

A factor to be determined and used by *NEMMCO* in accordance with clause 3.3.10 for the purpose of determining a *Market Participant's trading limit*.

**quantity reallocation transaction**

A *reallocation transaction* under which the *Market Participants* have requested *NEMMCO* to debit one of them with a *trading amount* (being a quantity multiplied by the *spot price* for a *region*) and credit the other with a similar *trading amount*.

**reallocated dollar amount**

In relation to a *dollar reallocation transaction*, the amount specified as such in the applicable *reallocation request*.

**reallocated quantity**

In relation to a *quantity reallocation transaction*, the amount specified as such in the applicable *reallocation request*.

**reallocation termination request**

A request to *NEMMCO* for early termination of a *reallocation*, pursuant to clause 3.15.11(d1).

**[15] Chapter 10 Amended Definition**

In Chapter 10, omit “3.15.11(d)” from the definition of **reallocation request** and substitute “3.15.11(c)”.

**[16] Chapter 11 Savings and Transitional Rules**

After rule 11.8, insert:

## **11.9 Rules consequent on the making of the National Electricity Amendment (Reallocations) Rule 2007**

### **11.9.1 Definitions**

For the purposes of this rule 11.9:

**Amending Rule** means the National Electricity Amendment (Reallocations) Rule 2007.

**commencement date** means the day on which the Amending Rule commences operation.

**existing reallocation** means a *reallocation* in place immediately before the commencement date.

**new reallocation** means a *reallocation* undertaken in accordance with the *Rules* after the date of *publication* of the *reallocation procedures* under clause 3.15.11A(d).

**transitional reallocation** means a *reallocation* in place immediately after the commencement date but prior to the date of *publication* of the *reallocation procedures* by *NEMMCO* under clause 3.15.11A(d).

### **11.9.2 Existing and transitional reallocations**

- (a) Subject to paragraph (c), an existing reallocation is to be treated as if the Amending Rule had not been made.
- (b) Subject to paragraph (c), a transitional reallocation is to be treated as if the Amending Rule had not been made.
- (c) A *Market Participant* who is a party to an existing reallocation or a transitional reallocation may elect to have the reallocation treated as a new reallocation if the participant obtains the agreement of the *Market Participant* who is the other party to the reallocation.

### **[17] References to clause 3.15.11A**

In the Rules, omit “3.15.11A” wherever occurring and substitute “3.15.10A”.

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