



27 July 2011

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

FROM THE OFFICE OF THE
CHIEF EXECUTIVE OFFICER

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By online submission

Dear Mr Pierce *John,*

National Electricity Rules – New Prudential Standard and Framework

AEMO requests the AEMC to consider making a Rule change under section 91 of the National Electricity Law. This request arises from one of the key recommendations from AEMO's 2010 Energy Market Prudential Readiness Review. The proposed Rule would:

- Establish a new prudential standard of 2% probability of loss given default. This would replace the existing "reasonable worst case" definition.
- Establish a new framework to require AEMO to develop new credit limit procedures that include the methodology AEMO will use to determine the minimum amount of credit support Market Participants must provide AEMO to meet the proposed prudential standard.
- Require AEMO to review the effectiveness of the new methodology against the proposed prudential standard and publish a report annually on any findings and recommendations for the improvement of the methodology.

The attached documents provide additional information in support of this request. Further details of AEMO's consultation, submissions received in response to the various stages of consultation and AEMO's response are included in its draft report and its final report to the MCE. These can be found on AEMO's website at:

http://www.aemo.com.au/electricityops/prudential_review.html

AEMO would be pleased if you could have these matters considered by the AEMC. For further details, please do not hesitate to contact Terry Grimwade on 03 9609 8520.

Yours sincerely

Matt Zema
Managing Director and Chief Executive Officer

Encl.

National Electricity Rule Request – New Prudential Standard and Framework
Appendix 1 - New Prudential Standard and Framework Draft Rule
Attachment A – Proposed Changes to Establish the New Credit Limit Procedures