

Review into the role of hedging contracts in the existing NEM prudential framework

Public Forum on the Draft Report - Introduction

Neville Henderson
Commissioner

AEMC Offices
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Today's agenda

- Introduction – **Neville Henderson – Commissioner**
- Summary of draft recommendations and reasoning - **AEMC**
- Stakeholder comments on draft report – **NGF**
- Stakeholder comments on draft report – **d-cyphaTrade**
- Open discussion
- Next steps – **Neville Henderson - Commissioner**

Background to the Review

- Reallocation Rule change in 2007, provision for Reallocator.
- AEMO/ASX work on framework to accommodate futures contracts – discontinued in January 2008.
- Futures Offset Arrangements (FOA) Rule change proposal in January, 2008.
- Commission draft determination in January 2009 not make the Rule or a preferred Rule, confirmed in April 2009.
- Commencement of Review under section 45 of the NEL in January 2009.

Purpose of the Review

- Two key elements to the Review:
 - investigating ways in which NEM participants' futures and other types of contracts can be integrated into the NEM prudential framework with the objective of enhancing the operation and efficiency of that regime; and
 - investigating the feasibility of incorporating futures prices in the MCL methodology, including
 - clarifying “reasonable worst case scenario” and
 - investigating alternative ways for the determination of the MCL.
- Provide advice to the Ministerial Council on Energy (MCE).

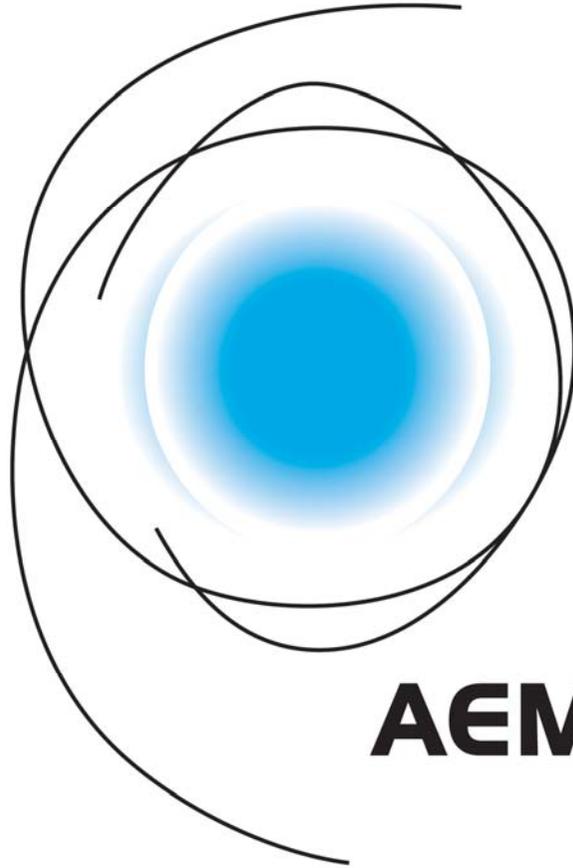
Timetable for the Review

Staged approach:

- Stage 1, Consult and provide a report to the MCE setting out the Commission's final recommendations, by May 2010.
- Stage 2, where appropriate, the Commission will draft Rules to support its recommendations in stage 1.
 - The Commission proposes to include draft Rules with the Final Report to the MCE,
 - draft Rules will reflect the Commission's final recommendations.

Summary of recommendations

- Work on MCL methodologies has been inconclusive, however some options have been identified for further investigation.
 - recommended that AEMO consider further development of the options as part of its review.
- Reallocation arrangements contribute to the NEO and should be continued with some clarifications and enhancements.
- Futures Offset Arrangements have the potential to contribute to the NEO and should be implemented in the NEM with:
 - AEMO holding an irrevocable power of attorney over retailers' funds in the CSA with the SFECF; and
 - a strengthened prudential margin.



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