

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

Introduction to the Review

John Ryan
Commissioner

HILTON MELBOURNE AIRPORT
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AEMC

TODAYS AGENDA

- Introduction to the Review – **John Ryan - Commissioner**
- NEM prudential framework – **Craig Parr - NEMMCO**
- Original Futures Offset Arrangements (FOA)/Retailer FOA – **Thomas Schmitz – d-cyphaTrade**
- NEMMCO ASX FOA – **Craig Parr - NEMMCO**
- Assessment framework and issues – **Kam Khelawan/Ignatius Chin**
- Listen to stakeholders and answer your questions

Interactive sessions - stakeholders encouraged to seek clarification and to comment on matters

CONTEXT FOR THE REVIEW

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

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)

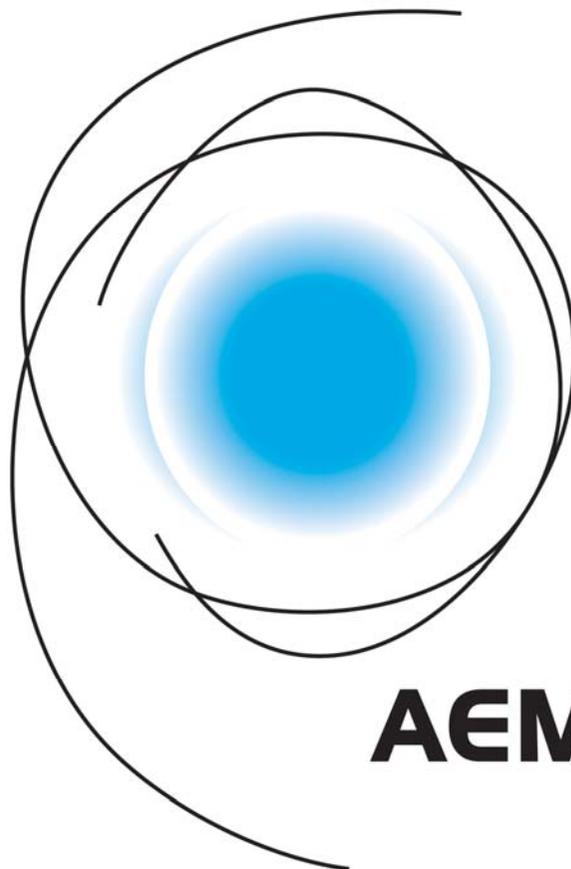
KEY CONSIDERATIONS

- prudential quality of the NEM;
- cost of capital to trade in the NEM wholesale market; and
- operational effectiveness.

TIMETABLE FOR THE REVIEW

Staged approach:

- Stage 1, Consult and provide a report to the MCE setting out the Commission's final recommendations:
 - Submission due by 24 April 09
 - Stage 1 Draft Report June 09 [recommendations]
 - Stage 1 Final Report to MCE September 09
- Stage 2, where appropriate, the Commission will draft recommended Rules to support its recommendations in stage 1.
 - draft Rules to the MCE, where appropriate, December 09
 - opportunity for stakeholders to comment on draft Rules.
- Working Group established to provide expert advice relating to the Review



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