

NEMMCO

NEM Reallocations and FOA

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- **Reallocations reallocate risk between two parties usually Retailers and Generators**

- **MWh and Dollar Reallocations**
 - **Commenced in 2005, changed legal structure in 2007 with Reallocations Rule change**

- **Swaps, Caps and Floors**
 - **Not active yet. Procedure available and systems available, awaiting ASIC authorisation.**

- **Futures offset – see next slide.**

Reallocations – Futures offset (FOA)

NEMMCO

- **Extensive detailed work carried out on a FOA model**
 - **Developed by ASX and NEMMCO in 2007**

- **This arrangements allowed for futures clearing participants and Retailers to register futures contracts with NEMMCO for a particular Retailer**

- **Once an FOA is registered NEMMCO would reduce the MCL for a participant in return for daily margin payments being made directly to NEMMCO rather than to the participant (as is the case now)**
 - **These daily margin payments would be managed as Security Deposit credits for the Retailer**

- During the development a number of unquantified risks were identified
- The model proposed that any MCL reduction would be scaled based on a 'B' factor
- This 'B' factor was to be determined by a subsequent risk review (not performed yet)
 - An example risk was
 - Ability to *deregister* or *not to deregister* offset arrangements at any time would be a key contributor to determining risk factor B
- If an FOA was cancelled, the Retailer would be immediately issued with a revised MCL and hence increased credit support requirements
- Note: current prudential arrangements have a base 'B' factor of 0.84

- **ASX advised NEMMCO in January 2008 they were ceasing work on the FOA model**
- **Rule change submitted to AEMC at the same time by APG, Infratil and Momentum**
- **Work has stopped pending AEMC determinations**
- **Full details of this model and all the work carried out are available on the AEMC website in the NEMMCO submission to the FOA Rule change**