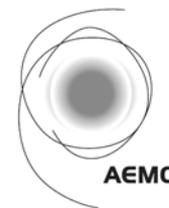


Public forum

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

Monday, 12 April 2010
Hawkesbury Room, AEMC offices, Sydney

2.00 pm	Introduction Neville Henderson, Commissioner
2.15 pm	Draft recommendations and reasons Rory Campbell, Senior Director/ Kamlesh Khelawan, Director <ul style="list-style-type: none">• MCL methodology• Offset arrangements• Reallocation arrangements• Futures offset arrangements
2.30 pm	Stakeholder comments – NGF
2.45 pm	Stakeholder comments – d-cyphaTrade
3.00 pm	Afternoon tea
3.15 pm	Open discussion
3.45 pm	Concluding comments on the review process Neville Henderson, Commissioner
4.00 pm	Close



Summary of Discussion

On 12 April 2010, the Australian Energy Market Commission (Commission/AEMC) held a public forum on the Draft Report on the Commission's review into the role of hedging contracts in the existing National Electricity Market (NEM) prudential framework (Review).

Commissioner Neville Henderson welcomed all participants to the public forum. In a brief presentation, he provided the background, scope and timetable for the Review and summarised the draft recommendations. Mr Henderson invited all attendees to outline their concerns, views and opinions at the forum and through formal submissions to the consultation.

Rory Campbell and Kamlesh Khelawan of AEMC outlined the Review process to date, the framework for assessment of options and provided more details on the Commission's draft recommendations and reasoning in the areas of:

- Maximum credit limit methodology (MCL);
- Reallocation arrangements;
- Futures offset arrangements (FOA); and
- Internal offset arrangements.

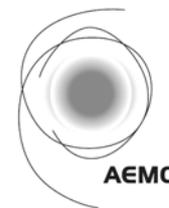
Mark Frewin, representing the National Generator's Forum (NGF) made a presentation on the NGF's preliminary views on the Commission's draft recommendations. In summary, the NGF:

- generally supports recommendations on reallocation arrangements;
- is of the view that security under FOAs was inadequate, that benefits are unlikely to warrant the costs and that FOAs should not be implemented; and
- supports further consideration on the MCL under the AEMO process.

The NGF stated that it needed access advice provided by Allens Arthur Robinson to fully understand the Commission's proposals and requested that the Commission release that advice.

Dean Price of d-cyphaTrade outlined his concerns in relation to the FOAs. In summary, d-cyphaTrade stated that the National Electricity Objective is undermined because the Commission's draft FOA formula is fatally flawed for the following reasons:

- the formula places prohibitive inefficiency (and cost) on FOAs;
- the Commission's FOA risk/reward analysis ignored extensive futures based efficiencies for other NEM participants (not just AEMO);
- is anti competitive; and
- is contrary to derivative market reform.



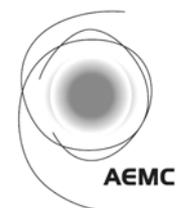
d-cyphaTrade states that this can be easily fixed and has provided an amended FOA MCL formula for consideration by the Commission.

Stakeholders sought clarification and commented on issues during the presentations and the open discussion session that followed the presentations. The main areas of discussion (*together with clarification by AEMC at the forum in italics*) included:

- surety of margin payments under FOAs under the proposal for 'irrevocable power of attorney' (*in its draft report, the Commission has acknowledged that the 'irrevocable power of attorney' does not provide assurance that margin payments will be fully met and as a result has recommended a 'package' of measures to mitigate risk, the main being an increased prudential margin*);
- impact of additional prudential margin on benefits and competitiveness of FOAs (*refer to comments above*);
- confidentiality and legal concerns with proposal to provide early warning to counter parties when a call notice is issued (*the Commission's draft recommendation presents this as an option for further investigation by AEMO in consultation with stakeholders*); and
- whether the requirement that offset arrangements to be underpinned by underlying contracts should apply to all types of reallocation arrangements (*the draft report notes that reallocation arrangements were implemented to avoid circular cash flows arising from bilateral hedge transactions and to provide MCL relief under ex-ante reallocation arrangements*).

Commissioner Neville Henderson thanked all attendees for participating in the forum and encouraged interested parties to continue their participation in the Review. Commissioner Henderson stressed the importance of stakeholder input to the Review and requested the participants make written submissions to the Commission by 30 April 2010.

Copies of all presentations are available on the AEMC's website.



Participants

The Commission invited all industry stakeholders to attend the Public Forum. The following attended the forum.

Name	Company
Neville Henderson	AEMC (Meeting chair)
Rory Campbell	AEMC
Kamlesh Khelawan	AEMC
Catriona Webster	AEMC
Nyrie Palmer	I&I NSW
Mark Frewin	NGF
Marc Berry	Tarong Energy
Simon Lipert	Delta Electricity
Hannah Cole	Origin Energy
Dean Price	d-cyphaTrade
Gabriel Lee	EnergyAustralia
Craig Parr	AEMO
Murray Chapman	AEMO
Patricia Boyce	Seed Advisory
Peter Eben	Seed Advisory
Ezra Beeman	Energia