



AEMC Prudential Review into the role of hedging contracts in the NEM

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Overview

- 1. Reallocations
 - Support AEMC recommendations
- 2. Futures Offset Arrangements
 - Do not support recommendations
 - Proposed security arrangements not adequate
 - Benefits not apparent
- 3. MCL
 - Support need for further analysis
 - Defer this to AEMO review

Status of NGF analysis

- NGF still assessing details
- Need access to AAR advice to fully understand proposal
 - Request that the Commission release this advice.
- Preliminary views outlined below based on our current understanding.
 - Will firm up positions prior to final submission.

1. Reallocations

- NGF comfortable with existing arrangements
- Recommendation to allow AEMO to release information to reallocation counterparties interesting
 - Consideration of market information asymmetry needed
 - Balance needed between distressed parties interest and efficient market information
 - NGF will consider further
- Overall NGF supportive of AEMC direction.

2. Futures Offset Arrangements

- NGF not supportive of current proposal
- Note increased Prudential Margin
 - More neutral with Reallocations – supported.
- Discount in MCL is based on access to Variation Margin
 - Proposed security arrangements inadequate
 - Power of Attorney does not create security
 - Propose that a charge may be needed over clearing account
 - Establish that AEMO has greater rights than unsecured creditors

2. Futures Offset Arrangements

- Complexity likely to outweigh benefits
 - Will MCL reduction be attractive to retailers?
 - Complex arrangement proposed
 - Currently does not deliver adequate security
 - Complexity would further increase to make this model work
- NGF not convinced that this proposal would satisfy the NEO cost benefit assessment.

2. Futures Offset Arrangements

- NGF prefers the existing Reallocation participant approach
 - Consistent with current market framework
 - AEMO credit assessment outsourced to banks
 - Allows complexities to be dealt with off-market
 - Would allow FOA or other innovative approaches
 - Supported by external risk capital

3. MCL

- Proposed direction of focusing on PM adequacy is supported
- NGF concerned that existing RMCL may not be consistent with NER prudential objective
 - If normal MCL is based on standard – how can the RMCL be as well??
- Support for further work on this via the AEMO review
 - Any reforms under this process will need AEMC sign off via rule change process
 - so no need for duplicate review.

NGF Draft Recommendations

1. Implement reallocation proposals
2. Do not implement Futures Offset proposal
 - Proposed security inadequate – unsafe to implement
 - In any event - benefits unlikely to warrant the cost
3. Support further MCL consideration under the AEMO process