



CREDIT LIMIT PROCEDURES: APPLICATION OF OFFSETS IN THE PRUDENTIAL MARGIN CALCULATION CONSULTATION

DRAFT REPORT AND DETERMINATION

Published: **3 May 2017**





NOTICE OF SECOND STAGE CONSULTATION – CREDIT LIMIT PROCEDURES: APPLICATION OF OFFSETS IN THE PRUDENTIAL MARGIN CALCULATION

National Electricity Rules – Rule 8.9

Date of Notice: 3 May 2017

This notice informs all Registered Participants and interested parties (Consulted Persons) that AEMO is commencing the second stage of its consultation on proposed amendments to Credit Limit Procedures.

This consultation is being conducted under clause 3.3.8 of the National Electricity Rules (NER), in accordance with the Rules consultation requirements detailed in rule 8.9 of the NER.

Invitation to make Submissions

AEMO invites written submissions on this Draft Report and Determination (Draft Report).

Please identify any parts of your submission that you wish to remain confidential, and explain why. AEMO may still publish that information if it does not consider it to be confidential, but will consult with you before doing so.

Consulted Persons should note that material identified as confidential may be given less weight in the decision-making process than material that is published.

Closing Date and Time

Submissions in response to this Notice of Second Stage of Rules Consultation should be sent by email to prudentials@aemo.com.au, to reach AEMO by 5.00pm (Melbourne time) on 19 May 2017.

All submissions must be forwarded in electronic format (both pdf and Word). Please send any queries about this consultation to the same email address.

Submissions received after the closing date and time will not be valid, and AEMO is not obliged to consider them. Any late submissions should explain the reason for lateness and the detriment to you if AEMO does not consider your submission.

Publication

All submissions will be published on AEMO's website, other than confidential content.

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EXECUTIVE SUMMARY

The publication of this Draft Report and Determination (Draft Report) commences the second stage of the Rules consultation process considering proposed amendments to Credit Limit Procedures: Application of offsets in the Prudential Margin calculation under the NER.

On 22 September 2016, the Australian Energy Market Commission (AEMC) made the *National Electricity Amendment (Application of Offsets in the Prudential Margin Calculation)* Rule 2016 (PM Offsets Rule).

Effective from 20 October 2017, the PM Offsets Rule gives AEMO the ability to offset trading amounts against reallocation amounts when determining a Market Participant's prudential margin (PM), as part of its prudential settings in the National Electricity Market (NEM). This allows the PM for a Market Participant to be reduced if:

- The Market Participant has negative aggregate trading amounts (i.e. load) and positive aggregate reallocation amounts (i.e. credit reallocations). The PM will be based on the load offset by the credit reallocations.
- The Market Participant has negative aggregate reallocation amounts (i.e. debit reallocations) and positive aggregate trading amounts (i.e. generation). The PM will be based on the debit reallocations offset by the generation.

AEMO is required to amend its Credit Limit Procedures (CLP) as necessary, to take account of the PM Offsets Rule by 1 July 2017.

First stage Rules consultation

During the first stage of consultation, the proposed amendments were presented to AEMO's NEM Wholesale Consultative Forum, and provided to the Australian Financial Markets Association (AFMA) Reallocations Working Group and AEMO's Settlement Managers Working Group.

AEMO received three written submissions in response to the first stage consultation from the Australian Energy Council (AEC), ERM Power (ERM) and Basslink. The AEC and ERM Power support AEMO's approach to the PM offsets Rule change, and believe the PM Offsets opt in – opt out concept, put forward by AEMO, provides participants with flexibility to determine how best to manage their reallocation arrangements. Basslink raised concerns about introducing Maximum Credit Limits (MCLs) for Market Network Service Providers (MNSPs).

Basslink has asked AEMO to treat its submission as confidential, so AEMO is not publishing the submission on AEMO's website. However, AEMO is including the material issues raised by Basslink that it considers relevant to the matters under consultation.

The key issues arising from the first stage submission were:

- Opting in or out of PM Full Offsets.
- The process for estimated generation.
- Security deposits not taken into account in Outstandings Limit (OSL) calculation.
- Negative settlement residue management

After reviewing the submissions received, AEMO is proposing further minor changes to clause 9.4.3 on Estimated Generation, and AEMO's draft decision is to amend the CLP in the form published with this Draft Report.

Key proposals summary

This Draft Report discusses the following changes to the CLP:

1. Amend the CLP in line with the PM Offsets Rule to:



- Reflect the PM Offsets Rule by introducing an alternative PM calculation to include offset between trading amounts and reallocation amounts.
 - Clarify when and how AEMO can offset trading and reallocation amounts when determining a Market Participant's PM.
 - Clarify that the PM cannot be negative, in accordance with the PM Offsets Rule.
2. Minor changes to the CLP identified through the first stage consultation process are:
- Clarification of the PM calculation for Market Participants that do not opt in to the 'PM Full Offsets' calculation.
 - Updating the process for generation estimation amounts where there is material variation in past levels.
3. Proposed amendments identified by AEMO to clarify and/or improve other areas of the CLP are:
- Determine an MCL for MNSPs, reflecting observed changes in the operation of MNSP services which have resulted in prudential risks inconsistent with the prudential standard.
 - Encourage Market Participants to pre-emptively manage prudential risks arising as a result of the transition between MCL seasons.
 - Update the impact of the repealed Clean Energy Act 2011.
4. Proposed consequential changes to the reallocation timetable and the MCL calculator are:
- Updates to the reallocation timetable.
 - Updates to the MCL Calculator.



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1. STAKEHOLDER CONSULTATION PROCESS

As required by clause 3.3.8 of the NER, AEMO is consulting on proposed amendments to the CLP in accordance with the Rules consultation procedures in rule 8.9 of the NER. In addition, AEMO is seeking feedback on its proposed changes to the reallocation timetable published under clause 3.15.11 of the NER.

AEMO's indicative timeline for this consultation is outlined in Table 1. Future dates may be adjusted depending on the number and complexity of any issues raised in submissions.

Table 1 – Consultation timeline

Deliverable	Indicative date
Notice of first stage consultation and Issues Paper published	23 Feb 2017
First stage submissions closed	31 Mar 2017
Draft Report & Notice of second stage consultation published	3 May 2017
Submissions due on Draft Report	19 May 2017
Final Report published	28 Jun 2017

The publication of this Draft Report marks the commencement of the second stage of consultation.



2. BACKGROUND

2.1 NER requirements

Under NER clause 3.3.8, AEMO is responsible for developing and publishing the CLP, which may be amended or replaced from time to time. AEMO must comply with the 'Rules consultation procedures' set out in NER rule 8.9 when making or amending the CLP.

2.2 Context for this consultation

The initial CLP was implemented in November 2013, following a 2012 rule change to introduce the 'New Prudential Standard and Framework in the NEM' (the New Framework).

A key aspect of the New Framework was the concept of a 'prudential standard', defined as a 2% prudential probability of exceedance (POE). This effectively requires the prudential arrangements to ensure that no payment shortfall will arise in 98 out of 100 instances of a Market Participant default that is not remedied. In the remaining 2% of cases, Generators would face a potential shortfall. The maximum credit limit (MCL), which is the outstandings limit plus the prudential margin, is calculated to meet the prudential standard.

On 22 September 2016, the AEMC made the PM Offsets Rule following consultation on a rule change request from AEMO. From 20 October 2017, the PM Offsets Rule will give AEMO the ability to offset positive reallocation amounts against trading amounts in PM calculations. A reallocation is a process under which two Market Participants ask AEMO to match debits and credits to the financial position of those Market Participants with AEMO. Clause 3.3.8(e) of the NER currently precludes such offsets in the PM from being applied to reduce collateral required to cover trading amounts, and vice versa. The Rule is expected to allow for a more efficient use of Market Participant collateral, reduce barriers to entry and meet the prudential standard at a lower cost.

AEMO must amend the CLP, including the reallocation procedures and/or the reallocation timetable as required, to account for the PM Offsets Rule by 1 July 2017. As well, AEMO has identified clarifications and improvements in other areas of the CLP, through the first stage consultation process as well as through operational experience, which are included in this consultation for clarity and efficiency.

2.3 First stage consultation

AEMO issued a Notice of First Stage Consultation on **23 February 2017**. The original proposal was to amend the CLP, and amend the reallocation timetable and MCL calculator.

An issues paper was published containing details of the proposed amendments, and is available on the AEMO website <http://aemo.com.au/Stakeholder-Consultation/Consultations/Credit-Limit-Procedures--Application-of-offsets-in-the-Prudential-Margin-calculation>.

AEMO received three written submissions as a result of the first stage of consultation. Submissions were received from the AEC, ERM and Basslink. Basslink has asked AEMO to treat its submission as confidential, so AEMO is not publishing the submission on AEMO's website. However, AEMO is including the material issues raised by Basslink that it deems relevant to this consultation. During the consultation, proposed changes to the CLP were raised at AEMO's NEM Consultative Forum, while AEMO's Settlement Managers Working Group and AFMA Reallocations Working Group also received the consultation notification.

AEMO held meetings with Basslink during the consultation, while discussions were also held with the AEC and ERM Power about their submissions after the first stage closure.

Copies of all written submissions (excluding any confidential information) have been published on AEMO's website at: <http://aemo.com.au/Stakeholder-Consultation/Consultations/Credit-Limit-Procedures--Application-of-offsets-in-the-Prudential-Margin-calculation>.



2.4 Proposed CLP amendments

AEMO proposes the following amendments to the CLP.

1. Amendments to the CLP in line with the PM Offsets Rule are:
 - Reflect the PM Offsets Rule by introducing an alternative PM calculation to include offset between trading amounts and reallocation amounts.
 - Clarify when and how AEMO can offset trading and reallocation amounts when determining a Market Participant's PM. To access this option, Market Participants will need to meet an extended prospective reallocations timetable requirement (14 days ahead) and opt in to the 'PM full offset' calculation. Market Participants will also need to maintain reallocations in accordance with the extended timetable for the purposes of their outstandings limit (OSL) calculation.
 - Clarify that the PM cannot be negative, in accordance with the PM Offsets Rule.
2. Minor changes to the CLP identified through the first stage consultation process are:
 - Clarification of the PM calculation for Market Participants that do not opt in to the 'PM Full Offsets' calculation: Market Participants who do not meet the outlined criteria or do not opt in to the 'Full PM offsets' calculation will have their PM calculated according to the current PM calculation (PM Limited Offsets).
 - Update the process for generation estimation amounts where there is material variation in past levels. The process for estimating generation amounts has been reviewed and updated to protect the prudential standard. Where a generator exhibits significant differences in generation levels between 35-day outstandings periods within the past 12 months, an assessment of daily generation for inclusion in the MCL calculation may consider the lowest average generation over an appropriate period (where no outage has occurred). Where a seasonal pattern is clearly evident, AEMO may take into account seasonal variation.
3. Proposed amendments identified by AEMO to clarify and/or improve other areas of the CLP are:
 - Determine an MCL for MNSPs, reflecting observed changes in the operation of MNSP services, resulting in prudential risks inconsistent with the prudential standard. Historically, the estimated load and estimated generation for a MNSP has been assigned as zero, resulting in zero credit support being required. However, recent experience confirms that MNSPs can frequently flow against price. This results in the NEM being exposed to a prudential risk inconsistent with the prudential standard. AEMO proposes the MCL for an MNSP be based on its highest level of accrued liability in the preceding 12 months.
 - Encourage Market Participants to pre-emptively manage prudential risks arising as a result of the transition between MCL seasons. AEMO recognises that the transition between seasons creates issues for prudential management, where large reductions in MCL can lead to an exposure which is not consistent with the prudential standard. AEMO has proposed provisions to recognise this issue and promote pre-emptive action by Market Participants to reduce the risk of prudential breaches.
 - Update the impact of the repealed Clean Energy Act 2011.
4. Proposed consequential changes to the reallocation timetable and the MCL calculator are:
 - Updates to the reallocation timetable. The ex-ante reallocations timetable is extended from the current seven business days to 14 business days for Market Participants who wish to opt in to full offsets in the PM calculation.



- Updates to the MCL Calculator: The MCL calculator has been amended to include the PM full offset calculation. This calculator should assist participants to estimate the PM with the new full offset calculation.

It is intended that the proposed changes for PM offsets be implemented in AEMO's systems and be effective for the 2018 summer season (effective from 30 November 2017). Other changes resulting from this consultation are expected to be applicable from the date of the publication of the new version of the CLP.



3. SUMMARY OF MATERIAL ISSUES

The key material issues arising from the proposal and raised by Consulted Persons are summarised in Table 2.

Table 2 – Summary of material issues

No.	Issue	Raised by
1.	Opting in or out of PM Full Offsets	ERM Power
2.	The process for estimated generation	AEC and ERM Power
3.	Security deposits not taken into account in OSL calculation	Basslink
4.	Negative Settlement Residues management	Basslink

A detailed summary of issues raised by Consulted Persons in submissions, together with AEMO's responses, is contained in **Appendix A**.



4. DISCUSSION OF MATERIAL ISSUES

AEMO received three written submissions as a result of the first stage of consultation. Submissions were received from the AEC, ERM and Basslink. Basslink has asked that its submission be treated as confidential; as such AEMO is not publishing the submission on its website. AEMO is including the material issues raised by Basslink it considers relevant to the matters under consultation.

4.1 Opting in or out of PM Full Offset

4.1.1 Issue summary and submissions

AEMO posed a question about the concept of optionality in the Issues Paper published with the first stage of consultation.

Question 1: AEMO seeks feedback on whether this optionality is beneficial. The proposal is that participants who can maintain reallocations 14 business days in advance can opt-in and get additional benefit in the PM. Participants who can't maintain reallocations 14 business days in advance should not opt-in, or must opt-out again, to maintain the status quo (seven business day reallocations are offset in the OSL).

In its submission, ERM:

- Noted that, while they support the concept of full offset and opt in flexibility, the earlier reallocation lodgement requirement inhibits the choice of reallocation products available for participants and flexibility to use reallocations as a risk management tool.
- Sought clarification on whether the draft CLP allows a reallocation to exist as both an ex-ante and an ex-post reallocation, depending on whether the participant has opted in or not.

4.1.2 AEMO's assessment

AEMO's reasoning for the 14 business day requirement is that this period is considered operationally appropriate for AEMO to analyse ex ante reallocations and, if necessary, conduct an MCL review for Market Participant(s) opting in for PM Full Offsets, and for Market Participants to arrange additional credit support as required. This is not dissimilar to the current operational process, where MCL reviews are conducted when a Market Participant changes their reallocations. In AEMO's operational experience, most Market Participants do not change their reallocations at short notice to necessitate an MCL review, and as such the 14 business day requirement is not expected to have a material impact. Further, AEMO has to ensure sufficient time is available to organise the default-suspension process in the unlikely event of participant default, during this time reallocations must be available at MCL levels to minimise the market prudential risk.

AEMO notes that regardless of the opt in process, all reallocations are included to determine daily ex post liabilities. If a participant opts out of PM Full Offsets, then the seven-day prospective provisions apply and an immediate MCL review will be conducted on this basis.

4.1.3 AEMO's conclusion

Based on the assessment above, AEMO considers that no further change is required to the CLP.



4.2 The process for estimated generation

4.2.1 Issue summary and submissions

AEMO had posed a question regarding estimation of daily generation amounts in the Issues Paper published with the first stage of consultation.

Question 2: For the calculation of Estimated Generation (EG_R), AEMO seeks feedback on its proposal to use the lowest average generation in an outstandings period over the past 12 months (where no outage has occurred). Are there seasonal dependencies that make an alternative, such as the lowest average generation in the most recent corresponding MCL season, more suitable?

In their submissions, the AEC and ERM have noted that the draft changes proposed may not take into account the seasonal generation patterns of some generators.

4.2.2 AEMO's assessment

AEMO agrees with these comments and has made the necessary amendments to the CLP to clarify that seasonal variation is taken into account in calculating estimated generation levels, i.e. if during the MCL review process it is found that a plant is used mostly in summer, the summer generation profile is used for that plant's summer MCL review.

AEMO notes that it assesses all inputs and Market Participant business profiles equitably. AEMO strictly monitors prospective reallocations and conducts MCL reviews when they are not being maintained at the levels assumed in a Market Participant's MCL review. At the same time, AEMO should not allow Market Participants with generation to generate consistently below the level assumed in the MCL as this clearly represents a greater prudential risk. This can be particularly important if a Market Participant fails, and the prudential margin is required to cover accruing liabilities. In such a case, the Market Participant's MCL inputs for generation, load and reallocations are relied on to mitigate the risk of a shortfall.

As well, it is worth noting that participant risk adjustment factors (PRAF) are intended to reflect the value of generation. A generator whose generation aligns with high pricing in the NEM will have PRAFs significantly above the average, reducing its prudential requirements.

If a Market Participant does not agree with an estimated generation level used in their MCL calculation, they can discuss this with AEMO. AEMO is open to changing Market Participant estimated generation levels if provided with sufficient evidence for the change.

4.2.3 AEMO's conclusion

Based on the assessment above, CLP clause 9.4.3 was amended, to include a new subclause (c) clarifying that seasonal patterns are taken into consideration for estimating generation:

(c) In selecting the T_{OSL} period for estimation purposes under paragraph (b), AEMO must take into account any clear seasonal patterns in the levels of *generation* from the relevant *generating units*.

4.3 Security deposits not taken into account in OSL calculation

4.3.1 Issue summary and submissions

In its submission, Basslink suggested that AEMO is not authorised by the NER to disregard security deposits when determining a Market Participants prudential settings.



4.3.2 AEMO's assessment

AEMO is required to perform MCL reviews for all Market Participants, including MNSPs, in accordance with clause 3.3.8 of the Rules and the CLP. Clause 3.3.8 does not require, but does permit, AEMO to take into account security deposits in calculating the prudential settings for a Market Participant. AEMO chooses not to do so based on the following:

- The clear policy in the Rules that MCL collateral should be in the form of Bank Guarantees [clause 3.3.2] which would be undermined by the offsetting of the outstandings limit with security deposits.
- The transient nature of security deposits [clause 3.3.8A] which are provided at the discretion of the Market Participant.
- The requirement under clause 3.3.13A(f) to return security deposits on Market Participant request which could leave the NEM financially exposed.

As per the Rules, Outstandings Limit (OSL) is a component of the MCL and is AEMO's estimate of the maximum value that a participant's outstandings can reach over the payment period if the participant has lodged credit support equal to the MCL. While clause 3.3.9 requires consideration of security deposits in determining the daily Outstandings, the security deposits are not considered in the OSL as AEMO cannot estimate, or rely upon, future provision of security deposits by participants.

As a result the CLP has been developed and consulted based on trading and reallocation activity only. AEMO considers that its decision not to account for security deposits in calculating prudential settings is not only consistent with the Rules but is necessary to adequately manage prudential risk.

4.3.3 AEMO's conclusion

AEMO considers that its policy not to account for security deposits in calculating a Market Participant's prudential settings is permissible under the NER and appropriate to safeguard the market from prudential risk.

4.4 Negative Settlements Residues management

4.4.1 Issue summary and submissions

In its submission, Basslink noted that AEMO can effect a trading halt where accumulated net negative settlement amounts exceed \$100,000 over a period of counter-price flows, and as such AEMO's proposed changes to the MCL calculation for MNSPs are not warranted.

4.4.2 AEMO's assessment

AEMO notes that the Negative Residue Management process is applicable for regulated interconnectors only, as defined in AEMO Dispatch System Operating Procedure, document reference SO_OP_3705, dated 14 November 2016.

4.4.3 AEMO's conclusion

AEMO needs to consider the prudential risks posed by all Market Participants equitably against the prudential standard and in accordance with the NER. Where a Market Participant, including an MNSP, has a history of net liability in the NEM it is the appropriate for AEMO to establish an MCL to manage the prudential risk that this represents.



5. OTHER MATTERS

5.1 Updated Procedures format

Since the CLP was last revised, AEMO has updated its procedures template. AEMO has made minor documentation changes to include formatting and numbering, and changes to the way in which introductory provisions are presented.



6. DRAFT DETERMINATION

Having considered the matters raised in submissions, AEMO's draft determination is to amend the **CLP** in the form of **Attachment 1**, in accordance with clause **3.3.8** of the NER.



APPENDIX A - SUMMARY OF SUBMISSIONS AND AEMO RESPONSES

No.	Consulted person	Issue	AEMO response
1.	Australian Energy Council	<p><u>Optionality for PM Offsets</u></p> <p>The Energy Council considers that AEMO is taking a sensible approach to enacting the rule change in the Credit Limit Procedures in that it is allowing participants to choose either:</p> <ul style="list-style-type: none"> the status quo approach to the prudential margin calculation (renamed the “PM limited offset” option); or the full offset option, in which the prudential margin calculation would include offsets between positive trading and positive reallocation amounts. If a participant opts in to this new option, that participant must be able to meet an extended reallocation timetable requirement (14 days ahead). 	AEMO thanks the AEC for their supportive comments.
2.	Australian Energy Council	<p><u>Optionality for PM Offsets</u></p> <p>The Energy Council supports retaining this optionality provided there are not significant and ongoing implementation costs associated with doing so. This approach ensures that participants are no worse off, while providing the ability to opt in to receive the additional benefits from the rule change, provided that participants can meet the 14 day reallocation requirement.</p>	AEMO thanks the AEC for their supportive comments and notes that the changes do not have any ongoing AEMO costs and are less than \$150K in total for the one-off changes associated with this consultation.
3.	Australian Energy Council	<p><u>Estimation of generation levels</u></p> <p>The Energy Council is concerned that AEMO’s proposal for estimating generation amounts seems overly conservative, too simplistic, and will ignore the commercial realities of how generators operate in the market. The Energy Council notes that the NEM is designed to incentivise commercial behaviour, and on face value this proposal does not seem to be cognisant of this. A generator, behaving rationally, would be expected to dispatch generation in the summer if prices were high. During the winter it is possible there will be periods when a generating unit will not be dispatched at all. This is the economic behaviour for this time when prices will generally be low. As such, under the proposal, there is the possibility that a 0MW winter generation level could be ascribed to summer.</p> <p>While there is benefit in providing specific detail in the Credit Limit Procedures around how estimated generation levels are to be calculated, the Energy Council believes that these seasonal dependencies mean that the proposal does not represent a balanced solution. Our members suggest that AEMO should consider whether there is an alternative solution that better addresses how daily generation amounts should be estimated. The Energy Council would be happy to engage further with AEMO on this.</p>	<p>AEMO agrees with these comments and has made the necessary amendments to the CLP to clarify that seasonal variation is taken into account in the calculation of estimated generation levels, i.e. if during the MCL review process it is found that a plant is used mostly in summer, the summer generation profile is used for that plant’s summer MCL review.</p> <p>Please refer to AEMO’s response to item 4.2 for further details.</p>



No.	Consulted person	Issue	AEMO response
4.	ERM Power	<p><u>Support for AEMO's proposal</u> The facility intends to provide participants the opportunity to utilise collateral more efficiently and lower their Maximum Credit Limit (MCL). It is therefore critical that the procedures developed by AEMO are practicable, reasonable and appropriately balanced to the likelihood of risk, not to impede the usability of the facility to achieve its desired aim. We are generally comfortable with AEMO's procedure change proposal, and commend AEMO on providing tools such as the MCL calculator to assist participants in forecasting the impact of using reallocations.</p>	AEMO thanks ERM for their supportive comments.
	ERM Power	<p><u>Treatment of reallocations as ex post and ex ante</u> Whilst we support the concept of full offset and opt in flexibility, we believe the earlier reallocation lodgement requirement inhibits the choice of reallocation products available for participants and flexibility to use reallocations as a risk management tool. This outlook improves somewhat if participants are provided with the opportunity to use reallocations as ex-post if opting out (or the counterparty opting out) of applying the reallocation to be used ex-ante during the 14 business day period. Conceptually, if the reallocation is maintained during the 14 business days, it is treated as ex-ante and applies to the MCL calculation, or, if during that 14-business day period a participant opts out, the reallocation is treated as ex-post. It is unclear if the draft procedures allow a reallocation to exist as both an ex-ante and an ex-post depending on whether the participants have opted in or not, and we seek clarification from AEMO for this scenario.</p>	Please refer to AEMO's response to item. 4.1 for details.
5.	ERM Power	<p><u>Estimation of generation levels</u> AEMO has proposed that, where a generator exhibits significant differences in generation levels between 35-day outstanding periods within the past 12 months, an assessment of daily generation for inclusion in the MCL calculation considers the lowest average generation over an appropriate period (excluding outages). ERM Power considers this approach may be limited in providing a realistic estimation of generation from peaking generators, such as scheduled gas fired generators that are more likely to dispatch at high pool price periods. There may be prolonged periods when such generators are not dispatched and therefore would be provided with a zero offset. It may be more reasonable to account for the average generation over a period rather than the lowest average, or the average generation correlated to high pool prices, to ensure scheduled generators' ability to dispatch are considered. We urge AEMO to apply a more pragmatic approach to estimating this type of generation, and that any methodology proposed be made transparent to participants with opportunity for input and consultation.</p>	Please refer to AEMO's response to item 4.2 for details.
6.	Basslink	<p><u>Treatment of security deposits in OSL calculation</u> In its submission, Basslink noted that AEMO is not authorised by the NER to determine prudential settings by disregarding security deposits.</p>	Please refer to AEMO's response to item 4.3 for details.
7.	Basslink	<p><u>Negative settlement residue management</u> In its submission, Basslink noted that AEMO has the ability to effect a trading halt where accumulated net negative settlement amounts exceed \$100,000 over a period of counter-price flows, and as such AEMO's proposed changes to the MCL calculation for MNSP are not warranted.</p>	Please refer to AEMO's response to item 4.4 for details.



ATTACHMENT 1 – DRAFT CREDIT LIMIT PROCEDURES

Published as a separate document at <http://aemo.com.au/Stakeholder-Consultation/Consultations/Credit-Limit-Procedures--Application-of-offsets-in-the-Prudential-Margin-calculation>



ATTACHMENT 2 – DRAFT REALLOCATION TIMETABLE

Published as a separate document at <http://aemo.com.au/Stakeholder-Consultation/Consultations/Credit-Limit-Procedures--Application-of-offsets-in-the-Prudential-Margin-calculation>



ATTACHMENT 3 – DRAFT MCL CALCULATOR

Published as a separate document at <http://aemo.com.au/Stakeholder-Consultation/Consultations/Credit-Limit-Procedures--Application-of-offsets-in-the-Prudential-Margin-calculation>