

**PROPOSED PROCEDURE CHANGE (PPC) – SUMMARY SECTION**  
*(For Proponent or AEMO to complete. Template focuses on solution identification)*

<b>Issue Number</b>	IN003/16 (Audit items)		
<b>Impacted Jurisdiction(s)</b>	South Australia		
<b>Proponent</b>	AEMO	<b>Company</b>	AEMO
<b>Proponent e-mail</b>	GRCF@aemo.com.au	<b>Proponent contact phone</b>	02 8884 5609
<b>Affected Gas Market(s)</b> <ul style="list-style-type: none"> <li>▪ Retail</li> <li>▪ Wholesale</li> <li>▪ Bulletin Board</li> <li>▪ STTM</li> </ul>	Retail	<b>Date proposal sent to AEMO</b>	N/A
<b>Short Title</b>	Heating Degree Day (HDD) Co-efficients		
<b>Other key contact information</b>	Taryn Maroney: <ul style="list-style-type: none"> <li>• Email – <a href="mailto:taryn.maroney@aemo.com.au">taryn.maroney@aemo.com.au</a></li> <li>• Phone - (02) 8884 5609 or 0408 081 242</li> </ul>		

## PROPOSED PROCEDURE CHANGE (PPC) – DETAILED REPORT SECTION

<b>1. Description of change(s) and reasons for change(s)</b>	<p>Under Section 177(2) of the South Australian Retail Market Procedures (RMP), AEMO is to re-calculate the value for each co-efficient in the HDD at least every 12-months using linear regression of historic weather data. AEMO is also required to publish the updated co-efficients.</p> <p>The methodology used to calculate the temperature sensitivity varies between South Australia and other jurisdictions. In South Australia, the HDD calculation is used in the '<i>temperature sensitivity heating rate</i>'. In other jurisdictions, the <i>effective degree day</i> (EDD) is used to calculate the temperature sensitivity factor.<sup>1</sup> There is no requirement in the Victorian RMP, NSW/ACT RMP and Queensland RMP for AEMO to re-calculate and publish parameters to annually calculate the temperature sensitivity.</p> <p>In 2015, market auditors identified that AEMO's current operational practice is inconsistent with its requirements under section 177(2) of the South Australian RMP. AEMO acknowledges the inconsistency and notes this requirement is not required in other jurisdictions. Further, AEMO considers there to be little market benefit in annually re-calculating and publishing the amended values for each co-efficient in the HDD calculation. Instead, AEMO considers that it should have the discretion to review and re-calculate the value of these co-efficients when it deems this to be necessary.</p> <p>AEMO does not consider it necessary to annually re-calculate the value of the HDD co-efficients since the value of these vary over time based on a number of medium and long-term factors that are relatively stable within the period of 0-3 years. For example, consumer behaviour affecting appliance use, the penetration and replacement of major heating and other gas appliances, technological improvement of these appliances, and the energy efficiency of buildings. Other factors can include major business closures, climate change and changes to metering technologies. When considered across a region or network area, changes in these factors tend to occur slowly and with a predictable pattern.</p> <p>Further, AEMO intends undertaking a review of the EDD mechanisms, including those used for the RMPs as it has found that energy consumers, and the industry generally, is transforming in a way that is quite different from the past.<sup>2</sup> Stakeholders have expressed interest in AEMO undertaking this</p>
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<sup>1</sup> Victoria RMP, refer to Attachment 6 – Net System Profile Methodology section 3, NSW/ACT RMP, refer to Attachment 2 Approved Estimation Methodology A2.3, and Queensland RMP, refer to Attachment 4 – Net System Profile Methodology section 3.

<sup>2</sup> Major transformational forces include the decline of energy intensive manufacturing, improvements in energy efficiency, climate change, trends in gas-to-electric appliance switching, energy bill inflation, amongst others.

	<p>review and AEMO intends to consult with stakeholders on the process to review the formulation, coefficients and operation of EDD mechanisms that AEMO use in its operational processes. AEMO will consult with stakeholders through AEMO's Forecasting Reference Group and will collaborate with agencies such as the CSIRO and the Department of Environment. This review is proposed to commence with scope identification in July 2016 and be completed in 2017.</p> <p>Given these changes, this consultation is not seeking to change the HDD methodology included in the Section 177(2) of the South Australian RMP.</p>
<p><b>2. Reference documentation</b></p> <ul style="list-style-type: none"> <li>▪ Procedure Reference</li> <li>▪ GIP/Specification Pack Reference</li> <li>▪ Other Reference</li> </ul>	<p>South Australian RMP, Section 177(2).</p>
<p><b>3. The high level details of the change to the existing Procedures</b></p> <p>This includes:</p> <ul style="list-style-type: none"> <li>▪ A comparison of the existing operation of the Procedures to the proposed change to the operation of the Procedures.</li> <li>▪ A marked up version of the Procedure change (see Attachment A).</li> </ul>	<p>Remove the obligation in Section 177(2) of the RMP for AEMO to re-calculate the value of each co-efficient used in the HDD calculation at least every 12-months and publish these.</p> <p>A marked-up version of the proposed Section 177(2) of the South Australian RMP changes is in Attachment A.</p>
<p><b>4. Consequences for making or not making the change(s)</b></p>	<p>On the information available, AEMO considers this change will have little market impact since its operational practice would be unchanged.</p> <p>If the proposed changes are not made, AEMO has two options:</p> <ul style="list-style-type: none"> <li>• Comply with clause 177(2) and re-calculate the value for each co-efficient (in section 177 (1)) using linear regression of historic weather data and publish the re-calculated values.</li> <li>• Seek a letter of no action from the AER for non-compliance.</li> </ul>

<b>5. Explanation regarding the order of magnitude of the change(s)</b> (eg: material, non-material or non-substantial)	AEMO is proposing minor amendments to the South Australian RMP which would align with other jurisdictional RMPs.
<b>6. Likely benefits for industry as a whole</b>	The proposed amendments are non-substantial and are document changes only which would align with other jurisdictional RMPs.
<b>7. The likely implementation effect of the proposal on Industry in general and/or any identified parties</b> (e.g. end-users)	AEMO has not identified any market or stakeholder impact resulting from implementing the proposed changes. It is intended that there will be no system or business process impacts as a result of the proposed changes.
<b>8. Testing requirements</b>	None identified.
<b>9. Supporting Documentation</b>  (attach if necessary)	
<b>10. If applicable, a proposed effective date for the proposed changed Procedures to take effect and justification for that timeline.</b>	AEMO proposes that the changes take effect on 27 October 2016 with publication of version 9 of the South Australian RMP. The consultation dates are: <ul style="list-style-type: none"> <li>• PPC released 20 July 2016 with submissions closing 3 August 2016.</li> <li>• IIR released 19 August 2016 with submissions closing 16 September 2016.</li> <li>• AEMO's decision no later than 11 October 2016 with an effective date of 1 November 2016.</li> </ul>

**ATTACHMENT A – DOCUMENTATION CHANGES (SEE SECTION 3)**

Blue represents additions Red and strikeout represents deletions – Marked up changes

**Extract from Version 8 of the South Australian Retail Market Procedures (RMP)**

**Amend the definitions in clause 177(2) as follows:**

South Australian RMP (page 131)

(2) From time to time AEMO may, ~~and at least once per calendar year AEMO must,~~ as a reasonable and prudent person, recalculate the value for each coefficient listed in clause 177(1) using linear regression of historic weather data, and as soon as practicable after the recalculation, AEMO must publish to participants an update to Appendix 11 specifying the recalculated values.