

CREDIT LIMIT PROCEDURES - 5MS AND SEASON DEFINITION CHANGES

DRAFT REPORT AND DETERMINATION

Published: **20 June 2019**





NOTICE OF SECOND STAGE CONSULTATION – CREDIT LIMIT PROCEDURES - 5MS AND SEASON DEFINITION CHANGES

National Electricity Rules – Rule 8.9

Date of Notice: 20 June 2019

This notice informs all Registered Participants and interested parties (Consulted Persons) that AEMO is commencing the second stage of its consultation on the Credit Limit Procedures as a result of the Five-Minute Settlement (5MS) rule and season definition changes.

This consultation is being conducted 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 Consultation should be sent by email to 5MS@aemo.com.au, to reach AEMO by 5.00pm (Melbourne time) on 12 July 2019.

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 consultation process conducted by AEMO to consider amendments to the Credit Limit Procedures (Procedures) under the National Electricity Rules (NER) for the implementation of Five-Minute Settlement (5MS) and season definition changes.

On 12 April 2019, AEMO published the Notice of First Stage Consultation and the Issues Paper for the Procedures.

The Issues Paper detailed key proposals involving:

- Changes to the Procedures to reflect the 5MS rule.
- Changes to the season definitions in the Procedures.

AEMO received one submission from Origin Energy. From the submission and AEMO's analysis, AEMO considers that no changes are required to the amendments to the Procedures as proposed in the Issues Paper.

AEMO's draft determination is to amend the Procedures in the form published with this Draft Report, reflecting the following outcomes:

- Amendments to the Procedures with respect to the 5MS rule:
 - Updating all in text references in the Procedures to half hourly load, price and reallocations to reference load, generation, price and reallocations per trading interval (TI¹).
 - Updating all references in formulas to half hourly load, generation, price and reallocations, typically denoted by the subscript "HH", to reference TI.
 - Removing all references to 48 periods per day.
- Amendments to season definitions:
 - Removing the month of April from the shoulder season.
 - Including the month of April in the winter season.

AEMO invites stakeholders to suggest alternative options where they do not agree that AEMO's proposals would achieve the relevant objectives.

¹ As of 1 July 2021, trading interval (TI) will be defined as 5 minutes, according to the NER.



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1. STAKEHOLDER CONSULTATION PROCESS

As required by clause 3.3.8 (g) of the NER, AEMO is consulting on the Procedures in accordance with the Rules consultation process in rule 8.9.

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

Deliverable	Date
Notice of first stage consultation and Issues Paper published	12 April 2019
First stage submissions closed	23 May 2019
Draft Report & Notice of second stage consultation published	20 June 2019
Submissions due on Draft Report	12 July 2019
Final Report published	16 August 2019

The publication of this Draft Report marks the commencement of the second stage of consultation. Note that there is a glossary of terms used in this Draft Report at Appendix A.

2. BACKGROUND

2.1. NER requirements

Under NER clause 3.3.8 (c), AEMO is responsible for developing and publishing the Procedures. The Procedures may be amended in accordance with the 'rules consultation procedures' set out in NER rule 8.9.

2.2. The Credit Limit Procedures

The New Prudential Standard and Framework was implemented in 2012 and sits under clause 3.3 of the NER. Its key features are outlined in the Procedures², which has two main functions:

- To define the market's prudential risk appetite through the prudential standard.
- To determine the prudential settings for market participants with reference to the prudential standard. The prudential settings for a market participant comprise its maximum credit limit (MCL), outstandings limit (OSL) and prudential margin (PM). The MCL is the sum of the OSL and the PM. Market participants must provide AEMO with credit support for an amount greater than or equal to their MCL.

2.3. Context for this consultation

2.3.1. Five-Minute Settlement

In November 2017, the AEMC made a final rule that reduced the trading interval for financial settlement in the National Electricity Market (NEM) from 30 minutes to five minutes (5MS rule).³ The AEMC's determination considered that five-minute settlement would improve price signals for more efficient generation and use of electricity, encourage efficient investment in capacity and demand response technologies, and improve bidding incentives.

Five-minute settlement will commence in the NEM on 1 July 2021. Settlement across the NEM will then be based on five-minute trading interval prices. 5MS will change many NEM processes, including energy and

² http://aemo.com.au/-/media/Files/PDF/Credit_Limit_Procedures_v2_Final_Determination_1_August.pdf

³ Final rule available at: <https://www.aemc.gov.au/rule-changes/five-minute-settlement>



ancillary service bidding, online dispatch, intervention pricing, the calculation of trading amounts, the calculation of the cumulative price threshold, and periodic energy metering.

AEMO is required to update and publish a number of specified relevant procedures by 1 December 2019, to apply from the 5MS commencement date.⁴ The Procedures were identified as one of the publicly consulted documents that require amendment for 5MS implementation. They include references to half-hourly data as inputs to prudential calculations.

2.3.2. Season definitions

Clause 4.3.1 of the Procedures define three distinct seasons for market participant prudential requirements; summer (December to March), winter (May to August) and shoulder, split into two parts (shoulder 1 - April and shoulder 2 - October to November). This feature of the Procedures, with the shoulder 1 season covering a short time period (April only) creates administrative complexities and timing issues for market participants.

2.4. First stage consultation

On 12 April 2019, AEMO issued a Notice of First Stage Consultation, and published an Issues Paper and draft Procedures. This information is available on AEMO's website and can be accessed through:

<https://www.aemo.com.au/Stakeholder-Consultation/Consultations/Five-Minute-Settlement---Credit-Limit-Procedures?Convenor=AEMO%20NEM>

The Issues Paper included details on AEMO's stakeholder engagement in developing the initial draft Procedures and a summary of the specific amendments proposed in the initial consultation pack.

AEMO received one submission in response to the first stage consultation, which has been published on AEMO's website.

3. SUMMARY OF MATERIAL ISSUES

This section details the material issues AEMO identified during the review process. It also provides AEMO's assessment of the issues and how AEMO proposes to address them.

The key material issues arising from the proposal are summarised in the following table:

No.	Issue	Raised by
1.	Changes consequent on the 5MS rule	AEMO
2.	Changes to season definitions	AEMO

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

4. DISCUSSION OF MATERIAL ISSUES

4.1. Changes consequent on the 5MS rule

4.1.1. Issue summary and submissions

The Procedures set out the methodology which determines the prudential settings for market participants. Under the current methodology, the prudential calculations are performed at a 30-minute resolution. The

⁴ NER clause 11.103.2



5MS rule updates the definition of a trading interval to five minutes, resulting in misalignment with the current methodology.

AEMO proposes updating the prudential calculations to five-minute resolution in line with 5MS, with the underlying methodology remaining unchanged.

Origin Energy supported AEMO's proposed approach and did not propose any alternatives.

4.1.2. AEMO's assessment

The proposed amendments will ensure that the Procedures are in line with 5MS, with low implementation risks and costs.

4.1.3. AEMO's conclusion

AEMO will maintain its proposal, as set out in the Issues Paper, to update the prudential calculations to five-minute resolution while maintaining the underlying methodology. This is reflected in the draft Procedures published with this Draft Report.

4.2. Changes to season definitions

4.2.1. Issue summary and submissions

The current Procedures define three distinct seasons for market participant prudential requirements; summer (December to March), winter (May to August) and shoulder, split into two parts (shoulder 1 - April and shoulder 2 - October to November). This feature of the Procedures, with the shoulder 1 season covering a short time period (April only) creates administrative complexities and timing issues for market participants.

AEMO proposed to update the Procedures to change the season definitions, removing April from the shoulder season and moving it to the winter season.

Origin Energy supported AEMO's proposed approach and did not propose any alternatives.

4.2.2. AEMO's assessment

The proposed amendments will reduce the risk of errors and non-compliance around providing credit support and/or submitting reallocations for market participants. Additionally, the changes will significantly reduce the administrative burden of seasonal MCL reviews, both on market participants and AEMO. In terms of costs, the proposed changes will result in minimal (if any) additional costs to market participants in the form of increased MCL levels due to the way average prices and volatilities are calculated for each season.

4.2.3. AEMO's conclusion

AEMO will maintain its proposed approach to changes to season definitions set out in the Issues Paper. This is reflected in the draft Procedures published with this Draft Report.



5. DRAFT DETERMINATION

Having considered the matters raised, AEMO's draft determination is to amend the Procedures in the form of the uploaded Procedures document published with this Draft Report, reflecting the following outcomes:

- Amendments to the Procedures with respect to the 5MS rule:
 - Updating all in text references in the Procedures to half hourly load, price and reallocations to reference load, generation, price and reallocations per TI.
 - Updating all references in formulas to half hourly load, generation, price and reallocations, typically denoted by the subscript "HH", to reference TI.
 - Removing all references to 48 periods per day.
- Amendments to season definitions:
 - Removing the month of April from the shoulder season.
 - Including the month of April in the winter season.

The amendments would take effect on 1 January 2020.



APPENDIX A. GLOSSARY

Term or acronym	Meaning
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
IT	Information Technology
NEM	National Electricity Market
NER	National Electricity Rules
PCF	Program Consultative Forum
PWG	Procedures Working Group



APPENDIX B. SUMMARY OF SUBMISSIONS AND AEMO RESPONSES

Submission – Origin Energy

No.	Issue	Participant Comment	AEMO response
5MS related changes			
1	Do participants agree with the proposed change to the Procedures to reflect the 5MS Rule? If not, why?	Origin agrees with AEMO's proposed change to the CLP.	Noted.
2	Are there other relevant issues that have not been considered?	No.	Noted.
3	What is an alternative approach to implementing the 5MS Rule for the Procedures? How would it be implemented?	Origin does not have an alternative approach.	Noted.
Season definition changes			
4	Do participants agree with the proposed changes to season definitions? If not, why?	Origin agrees with AEMO's proposed changes and have no material arguments against the seasonal change.	Noted.
5	Are there other relevant issues that have not been considered?	No.	Noted.
6	What is an alternative approach to implementing the 5MS Rule for the Procedures? How would it be implemented?	Origin does not have an alternative approach.	Noted.