

WHOLESALE ELECTRICITY MARKET

PROCEDURE CHANGE PROPOSAL: AEPC_2019_11

PRUDENTIAL REQUIREMENTS – CREDIT LIMIT CALCULATION

Published: **October 2019**





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EXECUTIVE SUMMARY

Change requested by:	AEMO
Date submitted:	4 November 2019
Type of Procedure Change Proposal:	Amendment
Market Procedure affected:	Prudential Requirements

The publication of this Procedure Change Proposal and the accompanying call for submissions, commences the Procedure Change Process conducted by AEMO to consider the proposed amendments to the Market Procedure: Prudential Requirements (Procedure) under the Wholesale Electricity Market Rules (WEM Rules).

In an ad-hoc operational review, AEMO identified that one of the Credit Limit calculations implemented in AEMO's systems and processes was inconsistent with the requirements of the Procedure. The Procedure requires the use of a participant's monthly average exposure in the Balancing Market for the calculation of its anticipated maximum 70-day exposure for which at least three full months of Non-STEM settlement data is available. The system currently uses the actual daily amount, rather than a monthly average.

AEMO notes the calculation was inadvertently changed in an update to the Procedure in May 2014. To correct the current inconsistency AEMO could amend the Procedure, or the system. AEMO proposes to amend the Procedure to reflect the calculation undertaken in the system as the use of actual information results in a more accurate estimate of a participant's exposure.

AEMO also proposes minor administrative and formatting amendments to the Procedure.

AEMO considers that the Procedure, if implemented as proposed, would be consistent with the Wholesale Market Objectives, as it results in a more accurate estimate of participants' exposure and therefore Credit Limits. This results in more efficient market operations as a result of a more accurate balance between the risk of a shortfall and amount of prudential support held by AEMO.

AEMO held a meeting of the AEMO Procedure Change Working Group on 21 October 2019. Market Participants did not raise any issues with the proposed amended Procedure.

AEMO invites stakeholders to suggest alternative options for drafting, where they consider that these would improve the Procedure, or better meet the Wholesale Market Objectives stated in section 122(2) of the *Electricity Industry Act 2004* and clause 1.2.1 of the WEM Rules. AEMO also asks stakeholders to identify any unintended adverse consequences of the proposed amended Procedure.

Stakeholders are invited to submit written responses on the proposed amended Procedure by 5:00 PM (Australian Western Standard Time) on 2 December 2019, in accordance with the call for submissions published with this paper.



CONTENTS

EXECUTIVE SUMMARY	2
1. PROCEDURE CHANGE PROCESS	4
2. BACKGROUND	5
2.1. Regulatory requirements	5
2.2. Context for this consultation	5
2.3. Consultation to date	6
3. PROPOSED PROCEDURE CHANGE	6
3.1. Detail of the proposed procedure change	6
3.2. Proposed drafting	6
3.3. Wholesale Market Objective assessment	6
4. SUMMARY OF MATTERS FOR CONSULTATION	6



1. PROCEDURE CHANGE PROCESS

Section 2.10 of the Wholesale Electricity Market Rules (WEM Rules) outlines the Procedure Change Process. AEMO may initiate the Procedure Change Process in respect of Market Procedures (including Power System Operation Procedures and the Monitoring and Reporting Protocol), for which it is responsible, by developing a Procedure Change Proposal. Rule Participants may notify AEMO where they consider an amendment or replacement of an AEMO Market Procedure would be appropriate.

Under clause 2.10.3 of the WEM Rules, if an Amending Rule requires AEMO to develop new Market Procedures or to amend or replace existing Market Procedures, AEMO is responsible for the development, amendment, or replacement of Market Procedures so as to comply with the Amending Rule.

Under clause 2.9.3 of the WEM Rules, Market Procedures:

- (a) must:
 - i. be developed, amended or replaced in accordance with the process in the WEM Rules;
 - ii. be consistent with the Wholesale Market Objectives; and
 - iii. be consistent with the WEM Rules, the *Electricity Industry Act* and Regulations; and
- (b) may be amended or replaced in accordance with section 2.10 of the WEM Rules and must be amended or replaced in accordance with section 2.10 of the WEM Rules where a change is required to maintain consistency with Amending Rules.

The Wholesale Market Objectives are:

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
- (c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions;
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

AEMO has published this Procedure Change Proposal in accordance with the Procedure Change Process in section 2.10 of the WEM Rules.

AEMO’s indicative timeline for this consultation is outlined below. Dates may be adjusted depending on the number and complexity of issues raised in submissions and any meetings with stakeholders.

Process Stage	Indicative date
Procedure Change Proposal published	4 November 2019
Submissions due on Procedure Change Proposal	2 December 2019
Procedure Change Report published	30 December 2019
Proposed commencement of amended Market Procedures	31 December 2019

Prior to the due date for submissions, stakeholders may request a meeting with AEMO to discuss the issues and proposed changes raised in this Procedure Change Proposal.



2. BACKGROUND

2.1. Regulatory requirements

This Procedure Change Proposal proposes amendments to the Market Procedure: Prudential Requirements (Procedure) as a result of the identification of an inconsistency between the Credit Limit calculation in the Procedure and AEMO's associated system.

Clause 2.43.1 of the WEM Rules provides the requirement for the Procedure:

2.43.1. *AEMO must develop a Market Procedure dealing with:*

- (a) *determining Credit Limits;*
- (b) *assessing persons against the Acceptable Credit Criteria;*
- (c) *Credit Support arrangements, including:*
 - i. *the form of acceptable guarantees and bank letters of credit;*
 - ii. *where and how it will hold cash deposits and how the costs and fees of holding cash deposits will be met;*
 - iii. *the application of monies drawn from Credit Support in respect of amounts owed by the relevant Market Participant to AEMO;*
- (d) *calculation of Trading Margins;*
- (e) *the list of factors to be taken into account for assessing the expected value of transactions;*
- (f) *issuing of Margin Calls; and*
- (g) *other matters relating to clauses 2.37 to 2.42,*

and Market Participants and AEMO must comply with that Market Procedure.

The current version of the Market Procedure: Prudential Requirements commenced on 27 June 2019.

AEMO has developed and reviewed the proposed amended Procedure to ensure compliance with the relevant provisions in the *Electricity Industry Act*, Regulations and WEM Rules.

2.2. Context for this consultation

Under clause 2.10.3 of the WEM Rules, if an Amending Rule requires AEMO to develop new Market Procedures or to amend or replace existing Market Procedures, AEMO is responsible for the development, amendment, or replacement of Market Procedures so as to comply with the Amending Rule.

In an ad-hoc operational review, AEMO identified that one of the Credit Limit calculations implemented in AEMO's systems and processes was inconsistent with the requirements of the Procedure. The Procedure requires the use of a participant's monthly average exposure in the Balancing Market for the calculation of its anticipated maximum 70-day exposure for which at least three full months of Non-STEM settlement data is available. The system currently uses the actual daily amount, rather than a monthly average.

AEMO notes the calculation was inadvertently changed in an update to the Procedure in May 2014. To correct the current inconsistency AEMO could amend the Procedure, or the system. AEMO proposes to amend the Procedure to reflect the calculation undertaken in the system as the use of actual information results in a more accurate estimate of a participant's exposure.

AEMO also proposes minor administrative and formatting amendments to the Procedure.



2.3. Consultation to date

A draft version of the proposed amended Procedure was presented at the AEMO Procedure Change Working Group held on 21 October 2019.

Stakeholders from Perth Energy and Bluewaters Power attended the workshop and did not raise any issues with the proposed amended Procedure.

Details of the AEMO Procedure Change Working Group are available at: <http://aemo.com.au/Stakeholder-Consultation/Industry-forums-and-working-groups/WA-Forums>.

3. PROPOSED PROCEDURE CHANGE

3.1. Detail of the proposed procedure change

The proposed amendments to the Market Procedure: Prudential Requirements correct the formula in step 2.2.2 for calculating a Market Participant's anticipated maximum 70-day exposure for which at least three full months of Non-STEM settlement data is available.

AEMO proposes to amend the calculation to use the actual daily amount, rather than a monthly average. This is consistent with a previous version of the Procedure, and the implementation in AEMO's associated system.

AEMO also proposes minor administrative and formatting changes in section 1 of the Procedure.

AEMO proposes to commence the proposed amended Procedure on 31 December 2019.

3.2. Proposed drafting

AEMO has published a draft of the proposed amended Procedure incorporating the changes AEMO proposes, for consultation with stakeholders.

The clean and change-marked versions of the proposed amended Procedure are available at: http://www.aemo.com.au/StakeholderConsultation/Consultations/AEPC_2019_11.

3.3. Wholesale Market Objective assessment

The steps outlined in the proposed amended Procedure accurately describe the calculation of a participant's anticipated maximum 70-day exposure for which at least three full months of Non-STEM settlement data is available.

AEMO considers the Procedure, if implemented as proposed, would be consistent with the Wholesale Market Objectives, as it accurately describes the calculation undertaken by AEMO.

4. SUMMARY OF MATTERS FOR CONSULTATION

AEMO invites stakeholders to suggest alternative options for drafting, where they consider these would improve the procedure or better meet the Wholesale Market Objectives.

Stakeholders are invited to submit written responses on the proposed amended Procedure by 5:00 PM (Australian Western Standard Time) on 2 December 2019, in accordance with the call for submissions published with this paper.

Stakeholders with questions in relation to the proposed amended Procedure or this Procedure Change Proposal can contact AEMO via email at wa.marketdevelopment@aemo.com.au.

All correspondence in relation to this Procedure Change Proposal must be entitled "AEPC_2019_11: Prudential Requirements – Credit Limit Calculation – [Name of the submitting company or individual]".