



NEM REALLOCATION PROCEDURES CONSULTATION

DRAFT REPORT AND DETERMINATION

Published: **October 2016**





NOTICE OF SECOND STAGE CONSULTATION – NEM REALLOCATION PROCEDURES

National Electricity Rules – Rule 8.9

Date of Notice: 18 October 2016

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 the Reallocation Procedure: Swap and Option Offset Reallocations and Reallocation Procedure: Energy and Dollar Offset Reallocations.

This consultation is being conducted under clause 3.15.11(d) 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 4 November 2016.

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 conducted by AEMO to consider proposed amendments to the Reallocation Procedure: Swap and Option Offset Reallocations and the Reallocation Procedure: Energy and Dollar Offset Reallocations (Reallocation Procedures) under the National Electricity Rules (NER).

AEMO has been granted a Clearing and Settlement (CS) Facility Exemption under the *Corporations Act 2001* (Cth). The CS Facility Exemption will allow AEMO to apply reallocations under the Reallocation Procedure: Swap and Option Offset Reallocations. As proposed in the first stage of this Rules consultation, this procedure requires amendment in order to facilitate compliance with the conditions of the CS Facility Exemption.

AEMO identified a number of drafting corrections and potential improvements which are common to both Reallocation Procedures and all of these proposed changes have been included in this consultation.

In summary, the key proposals involve:

- Amendments to the Reallocation Procedure: Swap and Option Offset Reallocations to facilitate compliance with the conditions of the CS Facility Exemption.
- For both sets of Reallocation Procedures:
 - Removal of the reallocation timetable, with the timetable to be established as a stand-alone document.
 - Reformatting, removal of unnecessary duplication of NER provisions, drafting changes to better reflect rules and procedural requirements, and updated references.

Before commencing this consultation, the proposed amendments for compliance with the CS Facility Exemption were presented to the NEM Consultative Forum and Settlement Managers Working Group and during the consultation, presented to the Australian Financial Markets Association (AFMA) Reallocations Working Group. No issues were identified at these forums.

After reviewing the amendments proposed in the first stage of this consultation, AEMO is proposing one further minor change to the Letter of Agreement appendix to the Reallocation Procedure: Swap and Option Offset Reallocations.

AEMO received no submissions in response to the first stage proposals and AEMO's draft decision is to amend the Reallocation Procedures in the form published with this Draft Report.



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1. STAKEHOLDER CONSULTATION PROCESS

As required by clause 3.15.11A of the NER, AEMO is consulting on proposed amendments to the Reallocation Procedures, comprising the Reallocation Procedure: Swap and Option Offset Reallocations (SOOR Procedure) and the Reallocation Procedure: Energy and Dollar Offset Reallocations (EDOR Procedure), 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 any issues raised in submissions.

Deliverable	Indicative date
Notice of first stage consultation [and Issues Paper] published	12 Aug 2016
First stage submissions closed	20 Sep 2016
Draft Report & Notice of second stage consultation published	18 Oct 2016
Submissions due on Draft Report	4 Nov 2016
Final Report published	16 Nov 2016

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 3.15.11A, AEMO is responsible for developing and publishing the Reallocation Procedures, which may be amended or replaced from time to time. The Reallocation Procedures may be amended in accordance with the 'Rules consultation procedures' set out in NER rule 8.9.

The timetable for reallocation requests (Reallocation Timetable) is to be published by AEMO under NER clause 3.15.11(d)(2).

2.2 Context for this consultation

On 23 February 2016, AEMO was granted the CS Facility Exemption, which came into effect on 1 March 2016. The CS Facility Exemption will allow AEMO to effect swap, cap, and floor reallocations between eligible Market Participants. It contains a number of mandatory conditions and the SOOR Procedure requires amendment to facilitate compliance with them. Non-compliance by AEMO with these conditions will nullify the exemption.

As part of its review of the Reallocation Procedures, AEMO identified a number of corrections and additional amendments that it considers necessary or desirable for clarity and efficiency.

In particular, AEMO proposes to:

- Remove the provisions comprising the Reallocation Timetable from the Reallocation Procedures (section 6) and establish it as an independent document. A separate timetable is contemplated by NER clause 3.15.11(d) and would align the Reallocation Timetable with other timetables that AEMO publishes under the NER. This also means that, should changes be required to the Reallocation Timetable in the future, these can be implemented without the administrative cost of amending the Reallocation Procedures.
- Update the Reallocation Procedures to reflect AEMO's current template and format for procedures under the NER.
- Remove unnecessary repetition of provisions of the NER within the Reallocation Procedures.
- Make the deregistration request process clearer, specifying what must be contained in a request.

If, at the close of this consultation process, AEMO makes the amendments to the SOOR Procedure necessary to comply with the conditions of the CS Facility Exemption, an AEMO Electricity Market Management System improvement will be released to effect swap, cap, and floor reallocations.

2.3 First stage consultation

AEMO issued a Notice of First Stage Consultation on **12 August 2016**. The original proposal was to amend the SOOR Procedure in order to comply with the CS Facility Exemption, amend the EDOR Procedure in order to be consistent with the SOOR Procedure and remove the reallocation timetable from both documents and establish it as a stand-alone document.

An issues paper was published containing details of the proposed amendments is available on the AEMO website <http://www.aemo.com.au/Stakeholder-Consultation/Consultations/2016-NEM-Reallocation-Procedures-Consultation>.

AEMO did not receive any written submissions as a result of the first stage of consultation. Before the consultation, the proposed changes to the Reallocation Procedures were raised at the NEM Consultative Forum and Settlement Managers Working Group and during the consultation, at the Australian Financial Markets Association (AFMA) Reallocations Working Group. No issues were identified at these forums.



3. SUMMARY OF MATERIAL ISSUES

An Issues Paper to consider proposed amendments to the Reallocation Procedures was prepared for the first stage of the Rules consultation process and published on the AEMO website <http://www.aemo.com.au/Stakeholder-Consultation/Consultations/2016-NEM-Reallocation-Procedures-Consultation>.

There were no material issues identified by AEMO in the Issues Paper. Since then, AEMO has not identified or been advised of any material issues associated with the proposed changes to the Reallocation Procedures.



4. OTHER MATTERS

Since publishing the First Stage Consultation paper, Issues Paper, and draft SOOR Procedure, AEMO has identified a potential gap between the SOOR Procedure and the CS Facility Exemption condition that requires AEMO to notify prospective users of the reallocation facility that it is exempt from the operation of Part 7.3 of the Corporations Act 2001 (Cth).

To ensure compliance with this condition, AEMO proposes to add an express statement to that effect in the first paragraph of the Letter of Agreement in the SOOR Procedure.



5. DRAFT DETERMINATION

Having considered the matters concerning proposed changes to the Reallocation Procedures, AEMO's draft determination is to amend the Reallocation Procedure: Swap and Option Offset Reallocations in the form of **Attachment 1** and the Reallocation Procedure: Energy and Dollar Offset Reallocations in the form of **Attachment 2**, in accordance with clause 3.15.11(d) of the NER.

The draft Reallocation Timetable, to be established as a result of proposed amendments to the Reallocation Procedures, has been included for information purposes and is in the form of **Attachment 3**.



APPENDIX A - GLOSSARY

Term or acronym	Meaning
CS Facility Exemption	Clearing and Settlement Facility Exemption issued to AEMO dated 23 February 2016
EDOR Procedure	Reallocation Procedure: Energy and Dollar Offset Reallocations
NER	National Electricity Rules
Reallocation Procedures	Reallocation Procedure: Energy and Dollar Offset Reallocations and Reallocation Procedure: Swap and Option Offset Reallocations
SOOR Procedure	Reallocation Procedure: Swap and Option Offset Reallocations



ATTACHMENT 1 – DRAFT REALLOCATION PROCEDURE: SWAP AND OPTION OFFSET REALLOCATIONS

Published as a separate document at <http://www.aemo.com.au/Stakeholder-Consultation/Consultations/2016-NEM-Reallocation-Procedures-Consultation>



ATTACHMENT 2 – DRAFT REALLOCATION PROCEDURE: ENERGY AND DOLLAR OFFSET REALLOCATIONS

Published as a separate document at <http://www.aemo.com.au/Stakeholder-Consultation/Consultations/2016-NEM-Reallocation-Procedures-Consultation>



ATTACHMENT 3 – DRAFT REALLOCATION TIMETABLE

Published as a separate document at <http://www.aemo.com.au/Stakeholder-Consultation/Consultations/2016-NEM-Reallocation-Procedures-Consultation>