



Credit Limit Procedures - Prudential requirements for stand-alone power systems

Final Report – Expedited consultation
for the National Electricity Market

Published: 9 December 2022

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Australian Energy Market Operator Ltd ABN 94 072 010 327

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Executive summary

The publication of this final report concludes the expedited consultation procedure conducted by AEMO to consider amendments to the Credit Limit Procedures (the **proposal**) under the National Electricity Rules (**NER**), relating to implementing prudential requirements for market participants in stand-alone power systems (SAPS). The purpose of the amendments is to incorporate SAPS market liabilities in the prudential settings for relevant market participants. This is required as a result of the *National Electricity Amendment (Regulated stand-alone power systems) Rule 2022*¹ (**SAPS rule**).

AEMO thanks stakeholders for feedback on the proposal, which was undertaken as required by NER 3.3.8 and 11.142.3 following the procedure in NER 8.9.3.

Under the SAPS rule, the prudential requirements in NER 3.3 will apply to SAPS market participants from 30 May 2023, by virtue of new clause 3.21.1(b)(1). It is a NER requirement under 11.142.3 for AEMO to make any necessary amendments to the Credit Limit Procedures to account for the SAPS rule.

The proposal in the draft report was considered a logical and straightforward way of determining prudential requirements for SAPS market participants with a pre-determined settlement price (the SAPS settlement price), consistent with:

- The principles underpinning the NER prescribed 2% prudential standard.
- The principles for calculating prudential settings applicable to all other market participants, with a simplified process.

There was one submission to the draft report from EnergyAustralia, which raised no concerns about the proposal and asked a clarifying question about its implementation

As no issues were raised in relation to the proposed changes, AEMO's final determination on the proposal is consistent with the proposal in the draft report, with the following non-material variations:

- For greater convenience and transparency, the amendments will be incorporated in the Credit Limit Procedures immediately, noting that values for SAPS will not be available until after 30 May 2023.
- For completeness, a description of the estimated load and generation terms for SAPS market participants has been included in clause 9.4 (market participant specific calculations).

The **Credit Limit Procedures** are amended in the form published with this final report, with an effective date of **9 December 2022**.

¹ Made by the South Australian Minister and available on the AEMC website at: <https://www.aemc.gov.au/regulation/energy-rules/national-electricity-rules/electricity-rules-made-south-australian-minister>

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1. Stakeholder consultation process

As required by NER 3.3.8, AEMO has consulted on the proposal to amend the Credit Limit Procedures (**Procedures**) to take into account the SAPS rule, in accordance with the expedited rules consultation procedure in NER 8.9.3.

Note that this document uses terms defined in the NER, which are intended to have the same meanings. There is a glossary of additional terms and abbreviations in Appendix A.

AEMO's process and timeline for this consultation are outlined below.

Table 1 Consultation process and timeline

Consultation steps	Dates
Draft report published	3 October 2022
Submissions closed on draft report	4 November 2022
Final report published	9 December 2022

AEMO's consultation webpage for the proposal containing the consultation documents can be found at:

<https://aemo.com.au/consultations/current-and-closed-consultations/credit-limit-procedures-consultation-saps>.

Section 3 of the draft report explained the proposal in detail, including the reasons for the proposed amendment, noting that AEMO had not identified any alternative options to achieve the required outcomes.

In response to its draft report, AEMO received one written submission, from EnergyAustralia, and did not receive any requests for stakeholder meetings.

AEMO thanks stakeholders for feedback on the draft report, which has been considered in preparing this final report.

2. Background

2.1. Context for this consultation

The proposed changes to the Procedures relate to incorporating prudential requirements for SAPS market participants, to be effective from 30 May 2023. This is the final effective date of the SAPS rule, which was made by the South Australian Minister on 17 February 2022.

Under the SAPS rule, registered market participants who are financially responsible for a connection point in a regulated SAPS must sell and purchase their SAPS energy through the NEM wholesale exchange. SAPS energy transactions will be settled by AEMO through its NEM settlement systems, in accordance with NER Chapter 3. As for any other market participant, financially responsible SAPS participants will be required to comply with the prudential requirements under NER 3.3, including the provision of credit support sufficient to meet a maximum credit limit (MCL) established under the Procedures.

NER 3.3 is specifically applied to SAPS by new clause 3.21.1(b)(1), which will be inserted by the SAPS rule from 30 May 2023, and AEMO is required to make any necessary amendments to the Procedures by that date, in accordance with NER 11.142.3. As the incorporation of prudential requirements for SAPS market participants will require changes to AEMO's IT systems, however, the final form of those amendments must be settled significantly ahead of that date.

2.2. NER requirements

Under NER clause 3.3.8, AEMO is responsible for developing, publishing and maintaining the Procedures, which establish the methodology by which the AEMO determines the prudential settings for each market participant so that the 2% prudential standard is met for the NEM.

The Procedures may be amended in accordance with the Rules consultation procedures set out in NER rule 8.9.

2.3. The national electricity objective

Within the specific requirements of the NER applicable to this proposal, AEMO has sought to make a determination that is consistent with the national electricity objective (NEO).

The NEO is expressed in section 7 of the National Electricity Law as:

to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system.

3. Discussion of material issues

3.1. Calculation of SAPS market participants prudential requirements

3.1.1. Issue summary and submissions

AEMO requested feedback in the draft consultation on three particular questions relating to the calculation of prudential requirements for SAPS market participants:

- Whether additional clarifying information was required in the Procedures for the calculation of prudential requirements for SAPS market participants.
- Whether there were any alternative options for the calculations that AEMO should consider.
- Whether there were any unintended or adverse consequences of the proposed calculation of prudential requirements for SAPS market participants.

EnergyAustralia commented that they had no concerns around the calculations and did not have any alternative options for AEMO to consider. No other feedback was received on these matters.

3.1.2. AEMO's assessment

The proposed amendments to calculate prudential requirements for SAPS market participant prudential requirements are logical and straightforward and are consistent with:

- The principles underpinning the NER prescribed 2% prudential standard.
- The principles for calculating prudential settings applicable to all other market participants, with a simplified process. AEMO's conclusion.

No alternative options were identified for the calculations either by AEMO or market participants.

3.1.3. AEMO's conclusion

AEMO considers that the outlined calculation of SAPS market participant prudential requirements is fit for purpose and is consistent with both prudential and SAPS related rules requirements. As such, AEMO will be amending the Procedures in the form published with this final report, with no substantive changes from the original proposal.

On a final review, for completeness, AEMO has included a description of the SAPS estimated load and generation terms – EL_{RS} and EG_{RS} – in clause 9.4 of the Procedures, which describes of the market participant specific terms used in the MCL calculation.

3.2. Effective date and winter 2023 MCL calculations

3.2.1. Issue summary and submissions

AEMO proposed to make the amendments to the Procedures effective from 30 May 2023 (being the SAPS 'go live' date), noting the amendments needed to be finalised well ahead of that date to provide certainty for AEMO system changes.

EnergyAustralia asked whether AEMO planned to include the SAPS winter load as of April 2023 in the MCL calculation or whether there would be a new MCL calculation effective of the SAPS go live date.

Every year, AEMO undertakes three 'seasonal' reviews of market participants MCL. AEMO can also undertake an 'ad-hoc' MCL review for a market participant any time during the year for a variety of reasons, including load and reallocation changes. The SAPS 'go live' date will occur during the 'winter' MCL season, which runs from 4 April 2023 to 4 September 2023.

3.2.2. AEMO's assessment

AEMO anticipates SAPS load/generation to be small at the commencement of the SAPS rule, and is unlikely to have a noticeable effect on prudential calculations during the 2023 winter MCL season. As such, AEMO will not include any SAPS related load/generation for the 2023 winter MCL calculations, noting that . AEMO will also not review market participant MCLs after the go live date of 30 May 2023, unless a reassessment is triggered through the normal prudential processes. That is, any 'ad-hoc' MCL reviews occurring after 30 May 2023 will include SAPS load/generation as appropriate.

The first seasonal review to incorporate SAPS-related load/generation will be the 2023 'shoulder' MCL review, which is effective from 5 September 2023.

The draft report proposed an effective date for the amendments consistent with the SAPS go live date. For administrative convenience, however, AEMO considers it would be preferable to incorporate the amendments into the Procedures immediately, in preference to maintaining an additional 'future' version of the Procedures to be republished on 30 May 2023. Incorporating these changes will also allow potential SAPS market participants to more readily identify how SAPS load and generation will be accounted for in the MCL calculation after the go live date. Until then, the SAPS terms will have no values attached to them.

3.2.3. AEMO's conclusion

AEMO believes that SAPS go live will have minimal implications for the 2023 winter MCL calculations and will therefore only include SAPS load/generation in the regular seasonal MCL review calculations from the 2023 shoulder season.

AEMO has determined that the changes to the Procedures will be effective from the publication of this final report, being 9 December 2022, noting that no values will be attached to the SAPS terms until 30 May 2023. This is made clear in the Procedures by the addition of footnotes relating to each of those terms where they are defined for the outstandings limit, prudential margin and typical accrual calculations in clauses 5, 6 and 7 respectively.

4. Final determination on proposal

Having considered the matters raised in the submission to the draft report, AEMO's final determination is to amend the Credit Limit Procedures in the form published with this final report, in accordance with NER 11.142.3. The final amendments to the **Credit Limit Procedures** do not differ from the version published with the draft report, with the exception of drafting changes described in section 3 of this final report.

The final proposal represents a logical and straightforward way of determining prudential requirements for SAPS market participants with a pre-determined settlement price (the SAPS settlement price), consistent with:

- The principles underpinning the NER prescribed 2% prudential standard.
- The principles for calculating prudential settings applicable to all other market participants, with a simplified process.

As the proposal is a simplified version of the prudential requirements calculation process that is already in place for other market participants, AEMO considers that it meets the NER requirements in a way that is consistent with the NEO. In particular, the proposal:

- Represents a familiar process for existing participants who choose to participate in a SAPS.
- Ensures that the prudential requirements for SAPS market participants are equitable and contribute proportionately to achieving the prudential standard.
- Has no effect on market participants who do not participate in a SAPS.
- Requires relatively straightforward changes to AEMO systems and processes that will be cost effective to implement.

Effective date

The effective date of this determination is **9 December 2022**.

Appendix A. Glossary

Term or acronym	Meaning
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator Limited
MCL	Maximum Credit Limit
NEM	National Electricity Market
NER	National Electricity Rules
Procedures	Credit Limit Procedures
SAPS	Stand-alone power systems
SAPS rule	<i>National Electricity Amendment (Regulated stand-alone power systems) Rule 2022</i>

Appendix B. List of Submissions and AEMO Responses

No.	Stakeholder	Issue	AEMO response
1	EnergyAustralia	<p>Is there any additional clarifying information required in the Procedures for the calculation of prudential requirements for SAPS market participants?</p> <ul style="list-style-type: none"> EA had no concerns around the calculations. 	Noted.
2	EnergyAustralia	<p>Are there any additional options for the calculation of prudential requirements for SAPS market participants that AEMO should consider?</p> <ul style="list-style-type: none"> EA did not identify any optional calculations. 	Noted.
3	EnergyAustralia	<p>Are there any unintended/adverse consequences of the outlined calculation of prudential requirements for SAPS market participants as described in the Procedures.</p> <ul style="list-style-type: none"> Winter 2023 commencing on the 04-April 2023 and saps go live is the first May 2023 is there plans to include the saps winter load as of April 2023 in the MCL calculation or will there be a new MCL calculation effective of the Saps go live date. 	SAPS load is anticipated to be small at the commencement of the rule and unlikely to have a noticeable effect on the winter season prudential calculations. As such, any SAPS related load/generation will only be included in MCL calculations past the SAPS go live date of 1 May 2023.