

# NATIONAL ELECTRICITY MARKET

## CREDIT LIMIT PROCEDURES – WHOLESALE DEMAND RESPONSE AMENDMENTS

DRAFT REPORT AND DETERMINATION

Published: 13 November 2020





## **NOTICE OF SECOND STAGE CONSULTATION – CREDIT LIMIT PROCEDURES CONSULTATION**

### **Date of Notice: 13 November 2020**

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.

This consultation is being conducted under clause 3.3.8 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 should be sent by email to [prudentials@aemo.com.au](mailto:prudentials@aemo.com.au), to reach AEMO by 5.00pm (Melbourne time) on 4 December 2020.

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 on proposed amendments to the Credit Limit Procedures in respect of the Wholesale Demand Response Mechanism under the National Electricity Rules (NER).

The Draft Report addresses the need to determine prudential requirements for the new category of Market Participant, the Demand Response Service Provider (DRSP), to maintain the NEM prudential standard.

AEMO has proposed a bespoke prudential requirement for DRSPs for determining the Maximum Credit Limit (MCL). Under the proposed methodology, MCL is determined as the sum of the outstanding limit and prudential margin. These are set at \$8,000 and \$2,000 respectively and will be adjusted to account for any reallocation transactions to which a DRSP is a party.

The Draft Report also proposes a non-standard approach to calculate the typical accrual amount, which is used to determine the call amount, for the purposes of issuing a call notice. Consistent with the methodology used for Market Network Service Providers (MNSPs), AEMO proposes that the call amount will be determined as Outstandings minus the Trading Limit.

No submissions were received in response to AEMO's Issues Paper.

AEMO considers that the proposed bespoke prudential requirements will operate to effectively manage potential exposure to DRSPs and maintain the NEM prudential standard, with minimal administrative costs.

AEMO's draft determination is to amend the Credit Limit Procedures in the form published with the Draft Report.



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## 1. STAKEHOLDER CONSULTATION PROCESS

As required by clause 3.3.8 of the NER, AEMO is consulting on the Credit Limit Procedures (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	Indicative date
Notice of first stage consultation and Issues Paper published	4 September 2020
First stage submissions closed	16 October 2020
Draft Report & Notice of second stage consultation published	13 November 2020
Submissions due on Draft Report	4 December 2020
Final Report published	15 January 2021

The publication of the Draft Report marks the commencement of the second stage of consultation.

Note that there is a glossary of terms used in the Draft Report at Appendix A.

## 2. BACKGROUND

### 2.1. NER requirements

Under NER clause 3.3.8, AEMO is responsible for developing, publishing and maintaining the Procedures. The Procedures may be made or amended in accordance with the Rules consultation procedures set out in NER rule 8.9.

### 2.2. Context for this consultation

In June 2020, the Australian Energy Market Commission (AEMC) released its final determination on NER changes to facilitate wholesale demand response in the NEM, through the wholesale demand response mechanism (WDRM Rule). Under the WDRM Rule, from October 2021, consumers will be able to sell demand response in the wholesale market. The WDRM Rule introduces a new category of Market Participant, the Demand Response Service Provider (DRSP).

The Procedures establish the methodology by which the AEMO determines the prudential settings for each market participant, so that the prudential standard is met for the NEM. 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.

The prudential standard represents the value of the probability of a Market Participant’s MCL being exceeded by its outstandings at the end of the reaction period following the market participant exceeding its OSL on any day and failing to rectify this breach. Clause 3.3.4A of the NER defines the prudential standard as 2%.

Under NER clause 3.3.8, AEMO must determine the prudential settings, that is the MCL, for the new category of DRSPs.

### 2.3. First stage consultation

AEMO issued a Notice of First Stage Consultation on 4 September 2020. AEMO’s Issues Paper<sup>1</sup> sets out the need for prudential requirements for DRSPs, given DRSPs may be liable for negative settlement

<sup>1</sup> [https://aemo.com.au/-/media/files/stakeholder\\_consultation/consultations/nem-consultations/2020/clp/clp-wdrm-changes-issues-paper.pdf?la=en](https://aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2020/clp/clp-wdrm-changes-issues-paper.pdf?la=en)



amounts, where consumption of a wholesale demand response unit exceeds its baseline, in an interval when it is dispatched to provide wholesale demand response.

AEMO proposes a bespoke prudential requirement for DRSPs, similar to that used for a new market customer, noting that the unpredictability of wholesale demand response does not allow the use of the standard MCL methodology. Under this methodology, DRSP prudential requirements would be assessed as:

- $MCL = OSL + PM$
- OSL is set at the value of \$8,000
- PM is a set at the value of \$2,000
- OSL and PM values will be adjusted to account for any reallocation transactions to which the DRSP is a party.

In practical terms, the methodology will result in a requirement for each DRSP to provide AEMO with a guarantee of \$10,000 upon registration, to meet its prudential obligations.

AEMO’s Issues Paper also outlines a proposed approach to calculate the typical accrual amount to determine the call amount (for the purposes of issuing a call notice, where the Outstandings of a Market Participant exceed its trading limit) under NER clause 3.3.11(a)(2). As it is not feasible to use the standard methodology, AEMO proposes that the call amount will be determined as Outstandings minus the Trading Limit, mirroring the methodology used for MNSPs.

AEMO did not receive any written submissions in the first stage of consultation and has not held any meetings and/or forums on the proposed amendments to the Procedures.

### 3. SUMMARY OF MATERIAL ISSUES

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

No.	Issue	Raised by
1.	Bespoke prudential requirement for DRSPs	AEMO
2.	Calculation of typical accrual for DRSPs	AEMO

## 4. DISCUSSION OF MATERIAL ISSUES

### 4.1. Bespoke Prudential Requirement for DRSPs

#### 4.1.1. Issue summary and submissions

Prudential requirements for DRSPs can not be determined through the application of the standard MCL methodology, due to a lack of data and the unpredictable nature of wholesale demand response. As discussed in section 2.3, AEMO has proposed bespoke prudential requirements for DRSPs.

AEMO has not received any submissions on this issue.

#### 4.1.2. AEMO’s assessment

AEMO considered other simplified prudential methodologies, that can be applied to participants who do not have the required data for the standard MCL calculation. The proposed methodology allows AEMO effectively mitigate the market’s potential exposure to DRSPs and is administratively simple.



#### **4.1.3. AEMO's conclusion**

AEMO considers that the proposed bespoke prudential requirements operate to effectively manage potential exposure to DRSPs and maintain the NEM prudential standard, with minimal administrative costs.

### **4.2. Calculation of typical accrual for DRSPs**

#### **4.2.1. Issue summary and submissions**

The standard methodology for determining the typical accrual amount can not be used for DRSPs. AEMO has proposed a methodology used for MNSPs, where the call amount is determined as Outstandings minus the Trading Limit.

AEMO has not received any submissions on this issue.

#### **4.2.2. AEMO's assessment**

AEMO has assessed the typical accrual methodology for MNSPs as being appropriate in respect of DRSPs. Using this proposed approach for determine the call amount will allow the potential exposure to DRSPs to be effectively managed.

#### **4.2.3. AEMO's conclusion**

AEMO considers that the proposed bespoke prudential requirements operate to effectively manage potential exposure to DRSPs and maintain the NEM prudential standard, with minimal administrative costs.

## **5. DRAFT DETERMINATION**

As there were no submissions or meetings, AEMO's draft determination is to amend the Procedure in the form of Attachment 1, in accordance with clause 3.3.8 of the NER.



## APPENDIX A. GLOSSARY

Term or acronym	Meaning
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator Limited
CLP	Credit Limit Procedures
DRSP	Demand Response Service Provider
MCL	Maximum Credit Limit
MNSP	Market Network Service Provider
NEM	National Electricity Market
NER	National Electricity Rules
OSL	Outstandings Limit
PM	Prudential Margin
Procedures	These Credit Limit Procedures
WDRM	Wholesale Demand Response Mechanism
WDRU	Wholesale Demand Response Unit





## **APPENDIX B. DRAFT CREDIT LIMIT PROCEDURES**

The draft Procedures have been published to accompany the Draft Report. The draft Procedures are available at:

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