

WHOLESALE ELECTRICITY MARKET

PROCEDURE CHANGE REPORT: AEPC_2019_11
PRUDENTIAL REQUIREMENTS – CREDIT LIMIT CALCULATION

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EXECUTIVE SUMMARY

Purpose

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

On 4 November 2019, AEMO published the Procedure Change Proposal: Prudential Requirements – Credit Limit Calculation (AEPC_2019_11) to align the Credit Limit calculation in the Market Procedure: Prudential Requirements (Procedure) with the calculation under AEMO's systems and processes.

The publication of this Procedure Change Report, and the accompanying Market Procedure, completes the Procedure Change Process conducted by AEMO under section 2.10 of the WEM Rules.

Proposed amendments

As part of regular operational reviews, AEMO identified that one of the Credit Limit calculations implemented in AEMO's systems and processes was inconsistent with the Procedure. The Procedure requires the use of a Market Participant's monthly average exposure in the Balancing Market for the calculation of its anticipated maximum 70-day exposure for a period during which at least three full months of Non-STEM settlement data is available. The system uses the actual daily amount, rather than a monthly average.

To correct the inconsistency, AEMO could have either amended the Procedure, or its systems and processes. AEMO decided 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 Market Participant's exposure.

In addition, AEMO have proposed minor administrative and formatting amendments to the Procedure.

Consultation

A draft version of the proposed amended Procedure was presented at the AEMO Procedure Change Working Group (APCWG) held on 21 October 2019. Details of this forum are available at: <http://aemo.com.au/Stakeholder-Consultation/Industry-forums-and-working-groups/WA-Forums/WEM-APCWG>. Market Participants did not raise any issues with the proposed amended Procedure.

A meeting of the Market Advisory Committee (MAC) was not requested by any members of the MAC, nor the Rule Change Panel, AEMO or the Economic Regulation Authority. Accordingly, the RCP Secretariat, at its discretion, did not convene a meeting of the MAC regarding this Procedure Change Proposal.

AEMO published the Procedure Change Proposal (AEPC_2019_11) and issued a notice calling for submissions on 4 November 2019.

The submission period closed on 2 December 2019. No submissions were received.

AEMO's decision

AEMO's decision is to accept the Procedure as amended.

AEMO considers that the revised Procedure is consistent with the Wholesale Market Objectives, the *Electricity Industry Act*, the WEM Regulations and the WEM Rules.

Next steps

The amended Procedure will commence on 9 December 2019.



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1. BACKGROUND

1.1. Regulatory requirements

1.1.1. Requirements for the Procedure Change Proposal

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, then 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 the 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.

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

The Procedure Change Proposal proposed 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 systems and processes.

In addition, AEMO have proposed minor administrative and formatting changes.

1.1.2. Requirements for proposed amended Market Procedures

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.*

The current version of the Procedure 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.



1.2. 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, then 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 system and processes was inconsistent with the requirements of the Procedure. The Procedure requires the use of a Market Participant's monthly average exposure in the Balancing Market for the calculation of its anticipated maximum 70-day exposure for a period during which at least three full months of Non-STEM settlement data is available. The system uses the actual daily amount, rather than a monthly average.

AEMO notes the calculation was inadvertently changed in an update to the Procedure made in May 2014. To correct the current inconsistency, AEMO could have amend the Procedure, or its systems and processes. AEMO decided 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 Market Participant's exposure.

1.3. Procedure Change Process and timetable

On 4 November 2019, AEMO published a Procedure Change Proposal: Prudential Requirements – Credit Limit Calculation (AEPC_2019_11) and issued a call for submissions, which are available at: https://www.aemo.com.au/Stakeholder-Consultation/Consultations/AEPC_2019_11.

The proposal was progressed using the Procedure Change Process specified in section 2.10 of the WEM Rules, with submissions required by 2 December 2019.

2. PROCEDURE CHANGE PROPOSAL

2.1. Detail of the Procedure Change Proposal

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

AEMO proposed 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 process in AEMO's associated system.

AEMO also proposed minor administrative and formatting changes.

2.2. Proposed drafting

On 4 November 2019, AEMO published a draft of the proposed amended Procedure for consultation with stakeholders. This draft incorporated the changes AEMO proposed to the Procedure.

Clean and change-marked versions are available at: https://www.aemo.com.au/Stakeholder-Consultation/Consultations/AEPC_2019_11.

3. CONSULTATION PROECESS

3.1. Market Advisory Committee or working group

The Market Advisory Committee (MAC) has delegated its advisory role with respect to AEMO Procedure Change Proposals to the AEMO Procedure Change Working Group (APCWG), in accordance with clause 2.3.17(a) of the WEM Rules.



A copy of the draft Procedure amendments was distributed to all registered APCWG members, and presented at the APCWG meeting held on 21 October 2019. Details of this forum are available at: <http://aemo.com.au/Stakeholder-Consultation/Industry-forums-and-working-groups/WA-Forums/WEM-APCWG>.

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

AEMO notified the MAC when the Procedure Change Proposal was published and noted that the Rule Change Panel must convene a meeting of the MAC, in accordance with clause 2.10.9 of the WEM Rules, should the Rule Change Panel, AEMO, or the Economic Regulation Authority consider that advice on the Procedure Change Report is required from the MAC, or two or more members of the MAC have informed the Rule Change Panel in writing that they consider advice on the Procedure Change Proposal is required from the MAC. The Rule Change Panel did not convene a meeting of the MAC in relation to this Procedure Change Proposal.

3.2. Public workshop

No public workshops were held in relation to this Procedure Change Proposal as, due to the specialised nature of the topics covered by the Procedure, it was deemed the APCWG was sufficient.

3.3. Submissions received during consultation

AEMO published the Procedure Change Proposal (AEPC_2019_11) and issued a call for submissions on 4 November 2019.

The submission period closed on 2 December 2019. No submissions were received.

4. AEMO'S ASSESSMENT

4.1. Further changes to the Market Procedures

AEMO has not made any further amendments to the proposed amended Procedure.

4.2. Consistency with *Electricity Industry Act*, WEM Regulations and WEM Rules

The revised Procedure has been reviewed by AEMO to ensure compliance with the relevant provisions in the:

- *Electricity Industry Act*;
- WEM Regulations; and
- WEM Rules.

4.3. Consistency with Wholesale Market Objectives

The steps outlined in the proposed amended Procedure describe how Rule Participants will fulfil their obligations under the WEM Rules.

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

AEMO considers the Procedure, as amended, is consistent with the Wholesale Market Objectives, because it accurately describes the calculation undertaken by AEMO.



4.4. Implementation

The processes amended as part of this Procedure Change Proposal reflect current practice and, therefore, will not require any system or process changes for Rule Participants (including AEMO).

In the Procedure Change Proposal, AEMO proposed to commence the amended Procedure on 31 December 2019 to allow it time to address any issues raised through the consultation process and complete its administrative requirements under the Procedure Change Process.

As there are no actions required by Rule Participants and no issues were raised during consultation, AEMO has been able to expedite the commencement of the amended Procedure to 9 December 2019. Given that no actions are required by Rule Participants, AEMO considers this will allow Rule Participants sufficient time from the date of publication of this Procedure Change Report to ensure compliance with the amended Procedure.

4.5. AEMO's decision and commencement

AEMO's decision is to accept the proposed amended Procedure. The amended Procedure will commence on 9 December 2019.

AEMO has made this decision on the basis that the amended Procedure:

- is consistent with the Wholesale Market Objectives;
- is consistent with the *Electricity Industry Act*, WEM Regulations and WEM Rules; and
- did not elicit any submissions during the consultation period.