



Wholesale Electricity Market

Procedure Change Proposal No:
AEPC_2023_02

Reserve Capacity Security

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Australian Energy Market Operator Ltd ABN 94 072 010 327

Executive Summary

Change requested by:	AEMO
Date submitted:	21 July 2023
Type of Procedure Change Proposal:	Amendment
WEM Procedures affected:	Reserve Capacity Security

The publication of this Procedure Change Proposal and the accompanying notice of call for submissions commences an additional consultation period for the Procedure Change Process conducted by AEMO under section 2.10 of the Wholesale Electricity Market Rules (**WEM Rules**). This additional consultation contains modified timeframes under clause 2.10.17 of the WEM Rules and relates to proposed amendments to the WEM Procedure: Reserve Capacity Security.

This revised Procedure Change Proposal includes further changes from AEMO relating to guarantees and bank undertakings. After further investigation, AEMO has identified that some Security Providers require original hard copies to be presented if it needs to draw upon a guarantee or bank undertaking. AEMO considers there is significant risk if it is unable to draw upon the guarantee if an original is not provided, as it may result in customers paying for capacity that is not delivered.

To address the risk, AEMO is proposing updates to require hard copies of bank guarantees to be submitted before the deadline in section 4.1.13.

At the AEMO Procedure Change Working Group on 14 June 2023, a Market Participant requested AEMO to review the arrangements for electronic signatures. AEMO has subsequently revised the WEM Procedure to allow Market Participants to submit electronically executed Security Deposit deeds.

AEMO invites stakeholders to suggest alternative options or drafting where they consider that these would improve the proposed WEM Procedure or better meet the Wholesale Market Objectives specified in section 122(2) of the *Electricity Industry Act 2004* (WA) (and clause 1.2.1 of the WEM Rules).

AEMO also requests that stakeholders identify any unintended adverse consequences of the proposed WEM Procedure.

Stakeholders are invited to submit written responses on the proposed WEM Procedure by 5.00 pm (Perth time) on 28 July 2023, in accordance with the notice of call for submissions published with this Procedure Change Proposal.

1. Procedure Change Process

Section 2.10 of the WEM Rules outlines the Procedure Change Process (Note: terms that are capitalised in this document, but not otherwise defined in this document or capitalised for any other reason, have the meaning given in the WEM Rules).

AEMO may initiate the Procedure Change Process in respect of WEM Procedures for which it is responsible by developing a Procedure Change Proposal. Rule Participants may notify AEMO where they consider an amendment or replacement of a WEM Procedure would be appropriate.

If an Amending Rule requires AEMO to develop new WEM Procedures or to amend or replace existing WEM Procedures, then AEMO is responsible for the development, amendment, or replacement of WEM Procedures so as to comply with the Amending Rule.

Clause 2.9.3 of the WEM Rules states that WEM 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 2004 (WA)* and the WEM 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 revised Procedure Change Proposal in accordance with the Procedure Change Process.

Note: AEMO has included modified timeframes under clause 2.10.17 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
Publication of Procedure Change Proposal	Complete
Closing date for submissions on Procedure Change Proposal	Complete
Publication of revised Procedure Change Proposal	21 July 2023
Closing date for submissions on revised Procedure Change Proposal	28 July 2023
Publication of Procedure Change Report	11 August 2023
Proposed commencement of amended WEM Procedure version 6.1	18 August 2023
Proposed commencement of amended WEM Procedure version 7.0	1 October 2023

Before the closing 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

Clause 4.13.8 of the WEM Rules provides:

AEMO must develop a WEM Procedure dealing with:

- (a) determining Reserve Capacity Security;
- (b) assessing persons against the Acceptable Credit Criteria;
- (c) Reserve Capacity Security arrangements, including:
 - (i) the form of acceptable guarantees and bank undertakings;
 - (ii) where and how it will hold Security Deposits and how the costs and fees of holding Security Deposits will be met;
 - (iiA) the circumstances that may require Reserve Capacity Security to be replaced for the purposes of clause 4.13.4; and
 - (iii) the application of monies drawn from Reserve Capacity Security in respect of amounts payable by the relevant Market Participant to AEMO under clause 4.13.11A; and
- (d) other matters relating to section 4.13.

Clause 4.13A.23 of the WEM Rules provides:

AEMO must document in a WEM Procedure the processes relating to:

- (a) determining DSM Reserve Capacity Security;
- (b) assessing persons against the Acceptable Credit Criteria;

- (c) DSM Reserve Capacity Security arrangements, including:
 - (i) the form of acceptable guarantees and bank undertakings;
 - (ii) where and how it will hold Security Deposits and how the costs and fees of holding Security Deposits will be met;
 - (iii) the circumstances that may require DSM Reserve Capacity to be replaced for the purposes of clause 4.13A.12; and
 - (iv) the application of monies drawn from DSM Reserve Capacity Security in respect of amounts payable by the relevant Market Participant to AEMO under clause 4.13A.16; and
- (d) requests under clause 4.13A.18, including:
 - (i) how AEMO will make a determination on whether to accept or decline a request under clause 4.13A.19;
 - (ii) the matters AEMO may take into account;
 - (iii) the evidence a Market Participant will be required to provide in support of a request; and
 - (iv) if AEMO declines a request, that AEMO will be required to provide reasons to the relevant Market Participant; and
- (e) any other matters relating to this section 4.13A.

The current version of the WEM Procedure commenced on 1 July 2020.

2.2. Context for this consultation

This revised Procedure Change Proposal addresses changes arising from further investigation of the potential impacts of the amendments to the requirements for guarantees and bank undertakings on AEMO's ability to make a demand against the guarantee, as well as from feedback provided at the AEMO Procedure Change Working Group.

These changes are discussed in further detail in Section 3.1.

3. Proposed procedure change

3.1. Detail of the proposed procedure change

3.1.1. Operational changes

This revised Procedure Change Proposal includes further changes from AEMO relating to guarantees and bank undertakings. After further investigation, AEMO has identified that some Security Providers require original hard copies to be presented if it needs to draw upon a guarantee or bank undertaking. AEMO considers there is significant risk if it is unable to draw upon the guarantee if an original is not provided, as it may result in customers paying for capacity that is not delivered. To address the risk, AEMO is proposing updates to require hard copies of bank guarantees to be submitted before the deadline in clause 4.1.13.

At the AEMO Procedure Change Working Group on 14 June 2023, a Market Participant requested AEMO to review the arrangements for electronic signatures. AEMO has subsequently revised the WEM Procedure to allow Market Participants to submit electronically executed Security Deposit deeds.

These amendments will commence immediately after publication of the Procedure Change Report and will be effective for, and apply to, the processes for submitting Reserve Capacity Security for the 2023 Reserve Capacity Cycle.

3.2. Proposed drafting

AEMO has published a draft version of the WEM Procedure: Reserve Capacity Security for consultation, incorporating the changes that AEMO proposes. Clean and change -marked versions are available at: www.aemo.com.au/consultations/current-and-closed-consultations/aepec_2023_02.

Version 6.1 includes the changes described in sections 3.1.1 of this document and will commence immediately after publication of the Procedure Change Report.

4. Summary of matters for consultation

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

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

Stakeholders are invited to submit written responses on the proposed amended WEM Procedure to wa.marketdevelopment@aemo.com.au by 5:00 pm (Australian Western Standard Time) on 28 July 2023, in accordance with the call for submissions published with this paper.

All correspondence in relation to this Procedure Change Proposal must be entitled “AEPC_2023_02: WEM Procedure: Reserve Capacity Security – [Name of the submitting company or individual]”.