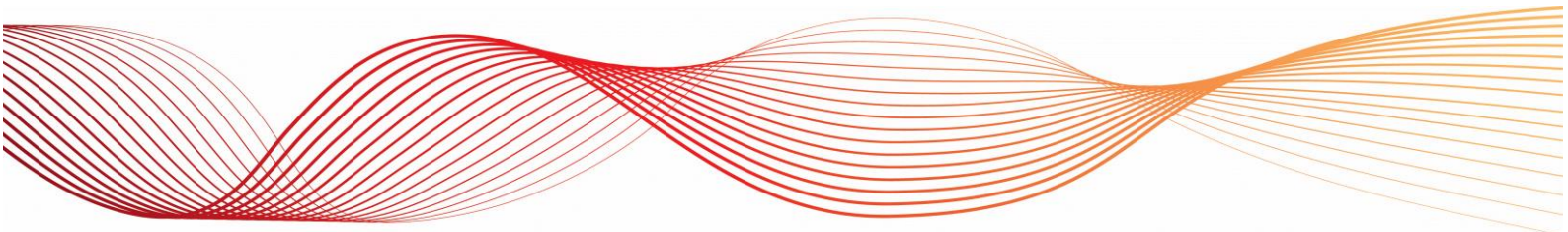


CREDIT LIMIT PROCEDURE V2

DRAFT REPORT AND DETERMINATION

Published: **June 2014**



NOTICE OF SECOND STAGE CONSULTATION – CREDIT LIMIT PROCEDURES V2

NATIONAL ELECTRICITY RULES – RULE 8.9

Date of Notice: 24 June 2014

This notice informs all Registered Participants and interested parties (**Consulted Persons**) that AEMO is commencing the second stage of its consultation on *credit limit procedures V2*.

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 of Second Stage of Rules Consultation should be sent by email to Cheryl.huang@aemo.com.au, to reach AEMO by 5.00pm (Melbourne time) on 11 July 2014.

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 propose amendments to Credit Limit Procedures under the National Electricity Rules (NER).

The proposed repeal of the Clean Energy Act (CEA) after 1 July 2014 by the Australian government will require AEMO to remove from the Maximum Credit Limit (MCL) calculation an adjustment for carbon pricing.

To achieve this, AEMO has proposed amendments to the Credit Limit Procedures (CLP) used to calculate the MCL. These proposed amendments have been outlined in Credit Limit Procedures version 1.1.

This document is a report of the draft determination for review and input by participants. It incorporates participant feedback from stage 1 and precedes stage 2 of the consultation that will lead to a final determination. AEMO welcomes participant submissions on the CLP draft determination.

AEMO has also taken into account in this Draft Report a revision to the MCL calculation for new and inactive Market Participants.

Carbon price repeal

The current calculation of price (P_R) in the CLP includes an adjustment for carbon price. This adjustment increases the historical regional reference prices (RRP) by \$20/MWh for each trading interval prior to 1 July 2012.

After the CEA is repealed, to avoid a material distortion of the regional volatility factor (VF) percentile, prices (P_R), and VFs used in the CLP calculation, it is necessary to remove the direct impact of the carbon price in the historical RRP.

In particular, the amendments to the CLP that AEMO proposes allow for:

- Removal of the current carbon price adjustment (\$20/MWh) from the RRP in all trading intervals prior to 1 July 2012.
- A reduction in the RRP for each trading interval from 1 July 2012 until 30 June 2014 (or a later date from which AEMO determines the direct carbon price impact is effectively removed from the RRP) by:
 - \$21/MWh in the mainland regions of the NEM.
 - \$12/MWh in Tasmania.

AEMO's draft determination is to amend the CLP in the form published with this 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 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	2 May 2014
First stage submissions closed	10 June 2014
Draft Report & Notice of second stage consultation published	24 June 2014
Submissions due on Draft Report	11 July 2014
Final Report published	25 July 2014

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

AEMO must develop, and, at all times, publish and maintain the CLP that details the methodology to be used by it to determine the prudential settings to apply to Market Participants.

2.2 Context for this consultation

The proposed repeal of the Clean Energy Act (CEA) after 1 July 2014 by the Australian government will require AEMO to remove from the Maximum Credit Limit (MCL) calculation an adjustment for carbon pricing.

2.3 First stage consultation

AEMO issued a Notice of First Stage Consultation on 2 May 2014. The consultation proposed amendments in the CLP to address the repeal of the CEA and clarify the MCL determination for new and inactive Market Participants. The draft CLP and a supporting document were published.

AEMO received 1 written submission.

A copy of the written submission (excluding any confidential information) has been published on AEMO's website at: <http://www.aemo.com.au/Consultations/National-Electricity-Market/Credit-Limit-Procedures-Consultation-V2>.

3 Summary of Material Issues

There are no material issues arising from the first stage consultation.

4 Discussion of Material Issues

N/A.

5 Other Matters

AEMO has identified two issues and made corresponding changes in the proposed amended CLP:

- **Issue 1:** Rules version is not current.

Outcome: Update the references to the Rules version to the current version.

- **Issue 2:** Inactive Market Participants are restricted to exiting Market Participants.

Outcome: Clarify that inactive Market Participant is not restricted to one who is planning to deregister.

AGL lodged a submission concerning the proposed three weeks for conducting a MCL review following royal assent of the CEA.

- **Issue 3:** *AGL is concerned with the time proposed from the date of royal assent to the date that credit support is actually adjusted. We consider that the three weeks allowed for AEMO to calculate the revised MCL seems unreasonably long. Especially considering that AEMO are able to revise the MCL at short notice for example, when there are late changes in weather forecasts or demand. Hence, AGL requests that AEMO reassess the time frame in order to determine whether it can make the relevant calculations in a shorter timeframe.*

AEMO Response: In this instance, AEMO must review the MCL for all Market Participants. The number of Market Participants included in the most recent scheduled review was 116. A scheduled review typically commences four weeks prior to the effective date. This allows AEMO one and a half weeks to conduct the review and provides two and a half weeks for Market Participants to organise the necessary credit support.

The following tasks will be performed in the three weeks indicated by AEMO:

- Re-calculate the regional volatility factor (VF) percentiles, VFs and average prices (P_R).
- Re-create the MCL calculator with the new VFs and P_R .
- Change data in IT systems to align with new pricing assumptions.
- Conduct MCL review for all Market Participants.
- Review, approve and issue MCL letters.
- Allow Market Participants to organise necessary credit support prior to the effective date.

These activities all require robust quality assurance processes by AEMO.

AEMO agrees that credit support changes should be implemented in the shortest timeframe practicable. AEMO believes that for risk and quality assurance purposes the three weeks indicated is a reasonable estimate.

Outcome: No changes to the draft Procedures.

6 Draft Determination

Having considered the matters raised in submissions and issues identified in first stage consultation, AEMO's draft determination is to amend the CLP in the form of **Attachment 1**, in accordance with clause 3.3.8 of the NER.

Appendix A - Glossary

TERM OR ACRONYM	MEANING
NER	National Electricity Rules
MCL	Maximum Credit Limit
CLP	Credit Limit Procedures
CEA	Clean Energy Act
VF	Volatility Factor
RRP	Regional Reference Price

Attachment 1 – Draft Credit Limit Procedures

<http://www.aemo.com.au/Consultations/National-Electricity-Market/~media/Files/Other/settlements/Credit%20Limit%20Procedures%20v2%20%20Draft%20change%20marked.ashx>