

# AUCTION PARTICIPATION AGREEMENT CHANGES

## ISSUES PAPER

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## EXECUTIVE SUMMARY

The publication of this Issues Paper commences the first stage of the Rules consultation process conducted by AEMO to consider proposed amendments to the Auction Participation Agreement (APA), which forms part of the auction rules for settlement residues under the National Electricity Rules (NER).

AEMO has prepared this Issues Paper to facilitate informed debate and feedback by industry on updating the APA. The only amendment proposed in this Issues Paper involves updating clause 16.5 of the APA to limit the scope for auction participants to terminate settlement residue distribution agreements (SRDAs) as a result of the introduction of changes to introduce Five-Minute Settlement in the National Electricity Market.

AEMO invites stakeholders to suggest alternative options where they do not agree that AEMO's proposals would achieve this objective or the national electricity objective. AEMO also asks stakeholders to identify any unintended adverse consequences of the proposed changes.

Stakeholders are invited to submit written responses on the issues and questions identified in this paper by 5.00 pm (AEST) on 27 May 2019, in accordance with the Notice of First Stage of Consultation published with this paper.



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## 1. STAKEHOLDER CONSULTATION PROCESS

As required by the National Electricity Rules (NER), AEMO is consulting on a proposed amendment to the Auction Participation Agreement (APA) in accordance with the Rules consultation process in rule 8.9.

Note that there is a glossary of terms used in this Issues Paper at Appendix A.

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.

Deliverable	Indicative date
Issues paper published	22 March 2019
Submissions due on Issues paper	27 May 2019
Draft Report published	25 June 2019
Submissions due on Draft Report	16 July 2019
Final Report published	5 August 2019
Notice of effective date	Indicative: September 2019
Effective date of amended auction rules	Indicative: November 2019

Prior to the submissions due date, stakeholders can request a meeting with AEMO to discuss the issues and proposed changes raised in this Issues Paper.

The Settlements Residue Committee (SRC)<sup>1</sup> is ultimately responsible for approving the amendments to the proposed version of the APA. AEMO will continue to work with the SRC during the consultation to understand issues and assess proposals raised by stakeholders.

<sup>1</sup> The SRC is an industry committee, formed under rule 3.18.5 and chaired by AEMO. The SRC is responsible for approving amendments to the Auction Rules, monitoring the auction, and approving costs and expenses incurred by AEMO for the SRA.



## 2. BACKGROUND

### 2.1 NER requirements

Under clause 3.18.3 of the NER, AEMO is responsible for developing and amending the auction rules that set out the procedures and mechanisms for operating settlements residue auctions (SRAs). Clause 3.18.3(d)(1) stipulates that AEMO may amend the auction rules with the approval of the SRC and in accordance with the Rules consultation process outlined in rule 8.9. The APA is Schedule 1 of the auction rules. It documents the agreement between AEMO and eligible market participants concerning the conditions of participation in SRAs, including the terms of settlement residue distribution agreements (SRDAs) for the issue of units subject to each quarterly auction.<sup>2</sup>

### 2.2 Context for this consultation

#### 2.2.1 Five-Minute Settlement and Global Settlement

AEMO is required to update and publish a number of specified relevant procedures by 1 December 2019 to implement Five-Minute Settlement<sup>3</sup> (5MS) and Global Settlement<sup>4</sup> (GS). While amendments to the APA are not required for 5MS or GS implementation, clause 16.5 of the APA provides that a participant may terminate an SRDA if there is a change that affects the calculation of the underlying settlements residue.

##### Five Minute Settlement

In November 2017, the Australian Energy Market Commission (AEMC) made the 5MS rule. The rule reduces the trading interval for financial settlement in the National Electricity Market (NEM) from 30 minutes to five minutes, aligning with NEM dispatch.

Five-minute settlement will commence in the NEM on 1 July 2021. Settlement across the NEM will then be based on five-minute trading interval prices. 5MS will change many NEM processes, including energy and ancillary service bidding, online dispatch, intervention pricing, the calculation of trading amounts, the calculation of the cumulative price threshold, and periodic energy metering.

##### Global Settlement

A final rule for GS was made by the AEMC on 6 December 2018 to replace 'settlement by differencing' with a 'global settlements' framework for the demand side of the NEM. This is scheduled to commence on 6 February 2022.

Under the new GS framework, every retailer is billed for their customers' loss-adjusted metered electricity in a distribution area and their share of the unaccounted-for energy (UFE) attributable to that area.

AEMO does not expect GS to have any impacts on SRAs. This is because GS will only affect the allocation of energy within the distribution network, therefore it should not have any implications for inter-regional settlement residues.

#### 2.2.2 Industry engagement on Auction Participation Agreement

The SRC is an industry committee, formed under NER clause 3.18.5 and chaired by AEMO. The SRC is responsible for approving amendments to the auction rules, monitoring the auction, and approving costs

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<sup>2</sup> If AEMO allocates settlement residue units to an auction participant in accordance with the auction rules and sends a confirmation to the auction participant, AEMO and the auction participant will have entered into an SRDA for the given quarter for which the auction participant has been allocated units.

<sup>3</sup> AEMC. 2017. National Electricity Amendment (Five Minute Settlement) Rule 2017. Available: <https://www.aemc.gov.au/rule-changes/five-minute-settlement>

<sup>4</sup> AEMC. 2018. National Electricity Amendment (Global Settlement and Market Reconciliation) Rule 2018. Available: <https://www.aemc.gov.au/rule-changes/global-settlement-and-market-reconciliation>



and expenses incurred by AEMO for the SRA. On 1 February 2019, changes to the APA as proposed in this Issues Paper were endorsed by the SRC.

The 5MS Procedures Working Group (PWG) was established to seek industry feedback on the appropriate amendments to procedures and other AEMO documents affected by 5MS. The PWG is an open forum for industry stakeholders to contribute to the procedure development process. AEMO presented the proposed changes to the APA and approach to consultation to the PWG on 14 February 2019.

### **2.2.3 SRA secondary trading**

On 10 October 2017, in response to an NER rule change proposal submitted by Westpac Banking Corporation, the AEMC made a final determination to change the NER to enable AEMO, with the approval of the SRC, to provide a platform for secondary trading of settlements residue distribution units. The AEMC's determination considered secondary trading will improve liquidity in units, which in turn is likely to increase interstate trade of electricity, improve risk management, and increase competition in retail and wholesale markets.

Consultation on SRA secondary trading amendments to the APA commenced on 21 September 2018 and concluded on 30 January 2019. The final report and amended procedures are available on AEMO's website.<sup>5</sup> AEMO intends that the amendments to clause 16.5, once confirmed following this consultation, will be incorporated into the APA version that is amended for SRA secondary trading.

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<sup>5</sup> For more information on SRA Secondary Trading see: <https://www.aemo.com.au/Stakeholder-Consultation/Consultations/SRA-Secondary-Trading-Consultation?Convenor=AEMO%20NEM>



### 3. DISCUSSION

This section discusses proposed changes to the APA resulting from the 5MS rule.

#### 3.1 Potential effect of Five-Minute Settlement on SRAs

##### Five Minute Settlement

From 1 July 2021, the duration of trading intervals will change from 30 minutes to five minutes. This will result in settlement amounts to be calculated using the spot price for each five-minute trading interval.

Clause 16.5 of the APA allows auction participants to terminate a Settlements Residue Distribution Agreement (SRDA) <sup>6</sup> if there is a change in the way in which the settlement residue is calculated during the term of the SDRA.

Under current arrangements this will give auction participants the ability to terminate the relevant SRDA because of 5MS related changes, even though they may be aware of these changes in advance when agreeing to the APA.

##### The impact of APA clause 16.5

Clause 16.5 of the APA allows auction participants to terminate an SRDA if there is a change in the way in which the settlement residue is calculated during the term of the SRDA. This would potentially allow auction participants to terminate the relevant SRDA because of 5MS related changes that were known beforehand and factored into the auction process for the relevant units.

AEMO and the SRC have recognised the possibility that an auction participant seeking to exit its SRDA could use the right under clause 16.5 as a basis for termination, and consider it is desirable to remove this option for new auction entrants in the interests of certainty for the market.

##### Proposed change

The proposed change to the APA involves introducing additional clarifications to clause 16.5 to prevent new auction participants from using this clause as an exit strategy. The additions will clarify that this new clause will not apply to:

- Changes that commence operation before the start of the term of the SRDA
- Changes that are made or published before the start of the term of the SRDA but only commence operation during the term of the SRDA.

It was agreed by the SRC that the amendment to clause 16.5 will only be made effective after SRA secondary trading is implemented. This will provide a limited window for existing participants to execute a new APA that includes the changes to allow secondary trading without these new amendments. The indicative date for the amendment to clause 16.5 to be effective in the APA is November 2019. AEMO will publish a notice to participants 3 weeks before the effective date of the APA.

##### Questions

- Do participants agree with the proposed changes to the APA and why?
- What other relevant issues that should be considered?
- What is an alternative approach to updating the APA? How would it be implemented?



#### **4. DRAFTING FOR PROPOSED CHANGES**

To help stakeholders and other interested parties respond to this Issues Paper, AEMO has published a draft of the APA incorporating the changes AEMO proposes for consultation.

Note that AEMO has adopted a new document format for procedures. A clean version of the APA, and a change-marked version are available at: <http://aemo.com.au/Stakeholder-Consultation>.



## 5. SUMMARY OF MATTERS FOR CONSULTATION

In summary, AEMO seeks comment and feedback on amendments to clause 16.5 of the APA to limit the scope for participants to use this clause as an exit strategy from the agreement.

Stakeholders are invited to submit written responses on the changes following the format of the Stakeholder Response Template. This is available at: <http://aemo.com.au/Stakeholder-Consultation>.

Submissions on these and any other matter relating to the proposal discussed in this Issues Paper must be made in accordance with the Notice of First Stage of Consultation published with this paper by 5.00 pm (AEST) on 27 May 2019.



## APPENDIX A - GLOSSARY

Term or acronym	Meaning
5MS	Five Minute Settlement
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
APA	Auction Participation Agreement
GS	Global Settlement
NEM	National Electricity Market
NER	National Electricity Rules
PWG	Procedures Working Group
SRA	Settlements Residue Auction
SRC	Settlements Residue Committee
SRDA	Settlements Residue Distribution Agreement
UFE	Unaccounted for Energy