

WHOLESALE ELECTRICITY MARKET

PROCEDURE CHANGE REPORT: AEPC_2021_04

WEM PROCEDURE: PRUDENTIAL REQUIREMENTS

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EXECUTIVE SUMMARY

Purpose

The publication of this Procedure Change Report and the accompanying WEM Procedure completes the Procedure Change Process conducted by AEMO to consider proposed amendments to the WEM Procedure: Prudential Requirements (Procedure) under the Wholesale Electricity Market Rules (**WEM Rules**).

Proposed amendments

On 20 August 2021, in accordance with clause 2.10.2 of the WEM Rules, Change Energy advised AEMO it considers an amendment to the Wholesale Electricity Market (WEM) Procedure: Prudential Requirements may be required. Change Energy considered that a review to the Credit Limit determination was necessary due to inefficiencies in the current methodology. Specifically, Change Energy suggested that AEMO review:

- the requirement under step 2.2.2. of the Procedure for AEMO to use up to 24 months of available data when determining a Market Participant's Anticipated Maximum Exposure (AME), a key input to the Credit Limit methodology; and
- the requirement under step 2.2.2. of the Procedure for AEMO to consider the AME as the sum of the 70-day maximum Non-STEM Settlement exposure and 15-day maximum STEM Settlement exposure, where these time periods are not necessarily aligned.

AEMO considered several options to address the issues raised by Change Energy. The details of these options, together with AEMO's assessment on each is provided in the Procedure Change Proposal.

AEMO amended existing section 2.2 (to be renumbered to 2.1) for AEMO to calculate a participant's AME:

- as the highest overall exposure in the WEM (i.e. accounting for the correlation in STEM and Non-STEM exposure) instead of the sum of the highest STEM and highest Non-STEM exposure in the credit limit window; and
- using a 12-month assessment window instead of 24 months of data.

AEMO also took the opportunity to streamline the Procedure by removing sections 2.3 to 2.6 and consolidate the steps taken by AEMO to calculate Credit Limits for Market Participants with fewer than 3 months of data available.

Consultation

On 7 October 2021, AEMO held a workshop with interested stakeholders at which it discussed each of the five key issues for consideration together with the potential options and overall market impact of each.

On 30 November 2021, AEMO held an AEMO Procedure Change Working Group (APCWG) meeting to discuss the proposed changes to the Procedure. As part of this process, AEMO provided the rationale behind each proposed amendment and provided a draft version of the Procedure.

Stakeholders did not raise any concerns or request any changes to those proposed by AEMO.

AEMO published the Procedure Change Proposal (AEPC_2021_04) and issued a call for submissions on 17 December 2021. AEMO specifically sought comments and feedback on:

- whether participants consider the proposed changes reflect an appropriate balance between the cost of maintaining Credit Support and the level of market risk;
- whether the draft proposed changes to the Procedure effectively implement AEMO's intended changes; and
- any other issues that AEMO needs to address in this Procedure, given the parameters set out in the WEM Rules.



The submission period closed on 28 January 2022, with one submission received from Collgar Wind Farm. The submission was supportive of the proposed changes, and noted a minor cross-referencing error to be corrected.

AEMO's decision

AEMO's decision is to accept the Procedure, as amended following the consultation period.

AEMO considers that the revised Procedure is consistent with the Wholesale Market Objectives and may better address objectives (b) and (d) as they lower the cost of participation which may in turn increase competition in the WEM. It is also consistent with the *Electricity Industry Act 2004*, the Electricity Industry (Wholesale Electricity Market) Regulations 2004 (WEM Regulations), and the WEM Rules.

Next steps

The revised WEM Procedure: Prudential Requirements will commence at 8:00 AM on 28 February 2022.



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1. BACKGROUND

1.1. Regulatory requirements

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

1.2. Context

On 20 August 2021, in accordance with clause 2.10.2 of the WEM Rules, Change Energy advised AEMO it considers an amendment to the WEM Procedure: Prudential Requirements is required. Specifically, Change Energy suggested AEMO review:

- the requirement under step 2.2.2. of the Procedure for AEMO to use up to 24 months of available data when determining a Market Participant's Anticipated Maximum Exposure (AME), a key input to the Credit Limit methodology; and
- the requirement under step 2.2.2. of the Procedure for AEMO to consider the AME as the sum of the 70-day maximum Non-STEM Settlement exposure and 15-day maximum STEM Settlement exposure, where these time periods are not necessarily aligned.

Change Energy considered the Procedure required amendment to ensure the amount of Credit Support held by AEMO truly represents the exposure of each participant to the market.

1.3. Procedure change process and timetable

On 17 December 2021, AEMO published Procedure Change Proposal (AEPC_2021_04) and issued a call for submissions.

The proposal was progressed using the Procedure Change Process specified in section 2.10 of the WEM Rules with submissions required by 28 January 2022.

2. PROPOSED PROCEDURE CHANGE

This section details the changes that AEMO proposed when the call for submissions was published.

2.1. Detail of the proposed procedure change

AEMO proposed changes to section 2.2 (to be renumbered to 2.1) for AEMO to calculate a participant's AME:

- as the highest overall exposure in the WEM (i.e. accounting for the correlation in STEM and Non-STEM exposure) instead of the sum of the highest STEM and highest Non-STEM exposure in the credit limit window); and
- using a 12-month assessment window instead of 24 months of data.

AEMO also proposed to:

- streamline the Procedure by removing existing sections 2.3 to 2.6 and consolidate the steps taken by AEMO to calculate Credit Limits for Market Participants with fewer than 3 months of data available;
- amend section 3.3 to clarify that the effective date of the Credit Support may be prior to a Commissioning Test where a Facility's Reserve Capacity Obligation Quantity becomes applicable prior to commissioning for any reason, in line with the participant's exposure to Capacity Credit Refunds; and



- make minor and administrative amendments throughout, to align with new terminology used in the WEM Rules, update WEM Rule references and update cross-references in the Procedure to reflect the proposed amendments.

2.2. Proposed drafting

AEMO published a draft of the proposed Procedure for consultation. Clean and change-marked versions are available at: https://aemo.com.au/en/consultations/current-and-closed-consultations/aepc_2021_04.

3. CONSULTATION PROCESS

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 APCWG, in accordance with clause 2.3.17(a) of the WEM Rules.

A draft version of the proposed amended WEM Procedure was presented at the APCWG meeting held on 30 November 2021. The minutes and papers from the meeting can be found at: <https://aemo.com.au/consultations/industry-forums-and-working-groups/list-of-industry-forums-and-working-groups/wem-aemo-procedure-change-working-group>.

AEMO published the Procedure Change Proposal (AEPC_2021_04) and issued a call for submissions on 17 December 2021.

In accordance with clause 2.10.9 of the WEM Rules, AEMO notified the MAC once the Procedure Change Proposal was published and noted that the independent Chair of the MAC would convene a meeting of the MAC if two or more members requested it. The Chair did not convene a MAC meeting for this Procedure.

3.2. Public workshop

A public workshop was held on 7 October 2021 with interested stakeholders to discuss key issues as well as potential options and overall market impact of each option. Stakeholders did not raise any concerns or suggested changes during or after the workshop.

3.3. Submissions received during consultation period

AEMO received one submission to the Procedure Change Proposal from Collgar Wind Farm. The submission was supportive of the proposed changes and noted one cross-referencing error to be corrected. AEMO has made this change to the Procedure.

The submission can be found at: https://aemo.com.au/en/consultations/current-and-closed-consultations/aepc_2021_04.

4. AEMO'S ASSESSMENT

4.1. Further changes to the Procedure

AEMO corrected the cross-referencing error and has made minor administrative, typographical, and formatting in the Procedure prior to final publication.

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 2004*;
- WEM Regulations 2004; and
- WEM Rules.

4.3. Consistency with Wholesale Market Objectives

AEMO considers that the WEM Procedure, if amended as proposed, would be consistent with the Wholesale Market Objectives, and may better address objectives (b) and (d) as they lower the cost of participation which may in turn increase competition in the WEM.

4.4. Implementation of the Procedure

Market Participants have not raised issues with implementing the Procedure.

Consequently, AEMO considers that commencement at 8:00 AM on 28 February 2022 will allow Rule Participants sufficient time to ensure compliance.

4.5. AEMO's decision and commencement

AEMO's decision is to accept the Procedure as amended following the consultation period. The new WEM Procedure: Prudential Requirements will commence at 8:00 AM on 28 February 2022.

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

- is consistent with the Wholesale Market Objectives, and may better address objectives (b) and (d);
- is consistent with the *Electricity Industry Act*, WEM Regulations, and WEM Rules; and
- has the general support of submissions received during the consultation period.

The revised WEM Procedure: Prudential Requirements is available at:
https://aemo.com.au/en/consultations/current-and-closed-consultations/aepec_2021_04.