

# WEM AEMO Procedure Change Working Group

THURSDAY 21 FEBRUARY 2019

<b>MARKET PROCEDURES</b>	INDIVIDUAL RESERVE CAPACITY REQUIREMENTS
	CAPACITY CREDIT ALLOCATIONS
	PRUDENTIAL REQUIREMENTS

## 1. BACKGROUND

Rule Change RC\_2017\_06 identified and addressed an issue within the current prudential regime that did not fully account for the Individual Reserve Capacity Requirement (IRCR) related exposure for Market Customers.

The Final Rule Change Report makes two significant changes that require corresponding changes in Market Procedures:

- The Individual Reserve Capacity Requirement must be calculated five times under the RC\_2017\_06 rules (previously it was calculated once); and
- The Capacity Credit Allocation process has been redesigned.

The Final Rule Change Report for RC\_2017\_06 also noted that:

- AEMO intends to progress a Procedure Change Proposal to amend the Market Procedure: Prudential Requirements to improve the responsiveness of the Outstanding Amount calculation.

In addition to the RC\_2017\_06 changes listed above, AEMO has updated its templates and process relating to Security Deposit Deeds and Directions, streamlining the process by which Market Participants can provide Credit Support in the form of a cash deposit. The changes proposed in the Market Procedure: Prudential Requirements reflect this updated process.

To assist Market Participants in reviewing the proposed Market Procedures the primary objective of the changes for each Market Procedure are listed below.

### **Market Procedure: Individual Reserve Capacity Requirements**

1. Update to remove the concept of an initial IRCR (October) and an updated IRCR (all Trading Months other than October)
2. Update to reflect the calculation of IRCR on five occasions for each Trading Month:
  - a. Indicative IRCR, calculated prior to the Trading Month
  - b. IRCR, calculated prior to the initial NSTEM invoice
  - c. Adjusted IRCR (Adjustments 1, 2 and 3), calculated as part of Settlement Adjustments
3. Improve clarity on the deadlines for Market Customers to provide information to AEMO for the purposes of IRCR.

### **Market Procedure: Capacity Credit Allocations**

1. Update to reflect the new Capacity Credit Allocation process where Market Generators may make multiple Capacity Credit Allocations in a Trading Month, where each allocation is to a single Market Customer. Previously a Market Generator made a single Capacity Credit Allocation that allocates all its Capacity Credits to many Market Customers.
2. Define the process and work flow for Market Participants to follow when reversing a Capacity Credit Allocation under WEM Rule 9.4.14.
3. Define the methodology for AEMO to assess the Trading Margin of a:
  - a. Market Generator when approving/rejecting a Capacity Credit Allocation Submission or Capacity Credit Allocation Acceptance under WEM Rules 9.4.5(b) and 9.4.10(d); and
  - b. Market Customer when reversing a Capacity Credit Allocation under WEM Rule 9.4.14(b).

### **Market Procedure: Prudential Requirements**

1. Update to reflect AEMO's templates and process for Market Participants to provide Credit Support under a Security Deposit Deeds or corresponding Security Deposit Direction.
2. Change the calculation of Outstanding Amount to more accurately reflect a Market Participant's Capacity Credit Allocations, rather than projecting forward their Capacity Credit Allocations from the last issued NSTEM invoice. The example below is provided here to assist in understanding the equation detailed in step 5.1.2 of this Market Procedure. This example has previously been provided to Market Participants attending the Reduction of Prudential Exposure working group.

#### **Example**

Determine the Estimated Exposure for a Market Participant (MP) on 2 November 2019 based on the following information:

- MP does not participate in STEM.
- MP paid AEMO \$300k (inc GST) in its August 2019 NSTEM Invoice
- MP's Capacity Credit Allocations are detailed in the table below.

<b>Trading Month</b>	<b>CCA Received</b>	<b>CCA Made</b>	<b>Monthly RCP</b>
August 2019	10	0	\$10k
September 2019	10	0	\$10k
October 2019	5	0	\$12k
November 2019	1	0	\$12k

$$\begin{aligned}
EE &= \frac{Days_{STEMexp}}{Days_{STEMinv}} \times STEM_{Inv} \\
&+ \frac{Days_{NSTEMexp}}{Days_{NSTEMinv}} \times [NSTEM_{Inv} + (CCA_{rec,Inv} - CCA_{made,Inv}) \times 1.1 \times MRCP_{Inv}] \\
&- \sum_{d \in D} [(CCA_{rec,d} - CCA_{made,d}) \times 1.1 \times RCP_d]
\end{aligned}$$

$$\begin{aligned}
EE &= \$0 \\
&+ \frac{30 + 31 + 1}{31} \times [\$300k + (10 - 0) \times 1.1 \times \$10k] \\
&- 30 \times \left[ (10 - 0) \times 1.1 \times \frac{\$10k}{30} \right] \\
&- 31 \times \left[ (5 - 0) \times 1.1 \times \frac{\$12k}{31} \right] \\
&- 1 \times \left[ (1 - 0) \times 1.1 \times \frac{\$12k}{30} \right] \\
&= \$0k + \$820k - \$110k - \$66k - \$0.44k = \$643.56k
\end{aligned}$$

## ATTACHMENTS

1. WEM APC WG AGENDA FOR MEETING 9 – 21 FEBRUARY 2019.PDF
2. MKT PROCEDURE – CAPACITY CREDIT ALLOCATION (APCWG).DOCX
3. MKT PROCEDURE – INDIVIDUAL RESERVE CAPACITY REQUIREMENT (APWCG).DOCX
4. MKT PROCEDURE – PRUDENTIAL REQUIREMENTS (APCWG).DOCX