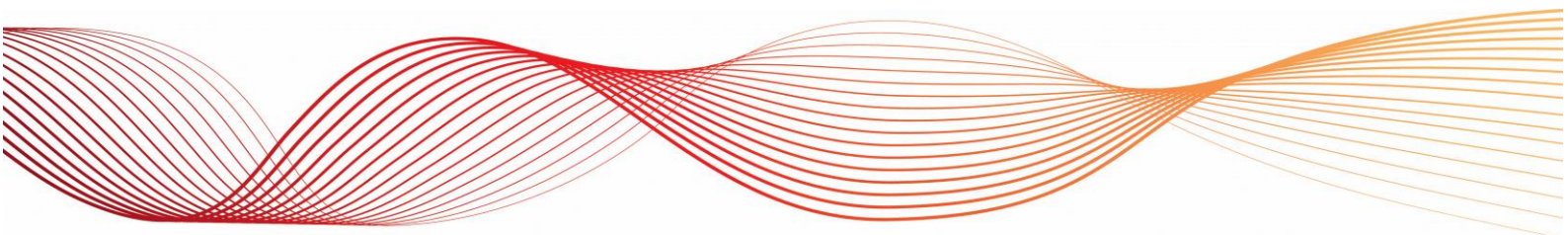


CREDIT LIMIT PROCEDURE V2

FINAL REPORT AND DETERMINATION

Published: **August 2014** 



NOTICE OF FINAL DETERMINATION – CREDIT LIMIT PROCEDURES V2

NATIONAL ELECTRICITY RULES – RULE 8.9

Date of Notice: 1 August 2014

This notice informs all Registered Participants and interested parties (**Consulted Persons**) that AEMO has issued final determination of *credit limit procedures V2* on 1 August 2014.

This publication 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.

Publication

All submissions will be published on AEMO's website, other than confidential content.

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EXECUTIVE SUMMARY

This Final Report and Determination (Final Report) publishes the Credit Limit Procedures version 2 under the National Electricity Rules (NER) following the conclusion of the consideration of all valid submissions.

The repeal of the Clean Energy Act (CEA) effective from 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 started a consultation on the 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 and Credit Limit Procedures version 1.2.

This document is a report of the final determination for review by participants. It incorporates participant feedback from stage 1 and identified issues from stage 2 of the consultation.

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After the CEA is repealed, to avoid a material distortion of the regional volatility factor (VF) percentile, prices (P_R), and VFs used in the CLP calculation, it is necessary to remove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 final determination is published with this Final Report.

Contents

Executive Summary	3
1 Stakeholder Consultation Process	5
2 Background	5
2.1 <i>NER requirements</i>	5
2.2 <i>Context for this consultation</i>	5
2.3 <i>First stage consultation</i>	5
2.4 <i>Second stage consultation</i>	5
3 Summary of Material Issues	6
4 Discussion of Material Issues	6
5 Other Matters	6
6 Draft Determination	6
Appendix A - Glossary	7
Attachment 1 – Draft Credit Limit Procedures	8

1 Stakeholder Consultation Process

As required by clause 3.3.8 of the NER, AEMO has consulted on the Credit Limit Procedures in accordance with the Rules consultation procedures in rule 8.9.

AEMO's timeline for this consultation is outlined below.

DELIVERABLE	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 Determination and Report	11 July 2014
Final Determination and Report published	1 August 2014

The publication of this Final Determination and Report concludes the consultation.

Note that there is a glossary of terms used in this Final Determination and Report at **Appendix A**.

2 Background

2.1 NER requirements

AEMO must develop, and, at all times, publish and maintain the *Credit Limit Procedures* (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 repeal of the Clean Energy Act (CEA), which took effect from 1 July 2014, 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 a written submission from AGL Energy Limited.

A copy of the 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>.

2.4 Second stage consultation

AEMO issued a Notice of Second Stage Consultation on 24 June 2014. The draft CLP was amended to update the reference to the Rules to the current version and clarify that an inactive Market Participant is not restricted to one who is planning to deregister.

AEMO received no submissions in response to the second stage of the consultation.

3 Summary of Material Issues

There are no material issues.

4 Discussion of Material Issues

N/A.

5 Other Matters

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

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

- **Issue 2:** Confirmation of the MCL review with carbon price removed.

Outcome: AEMO will conduct an MCL review with the carbon price removed when the implementation triggers specified in the Summary of Changes are met.

Following the repeal of the carbon price, AEMO is analysing the carbon price impact on post-repeal dispatch prices. When the dispatch price across each region evidences a change consistent with the removal of the carbon price, AEMO will implement the proposed carbon price-related changes and conduct an MCL review with the carbon price removed.

This review includes adjustment of the historical RRs and re-calculation of the VF percentiles for each region. The P_R and VFs for each region will be calculated using the new VF percentiles and historical prices. The effective date of the carbon price removal will be the same for all regions.

Based on the current timeline, AEMO will conduct this MCL review by the 2014 Shoulder 2 scheduled review (effective on 2 September 2014). This aligns with the timeline illustrated in the supporting document (Summary of Changes) published during stage 1 of this consultation.

6 Final Determination

AEMO determines the *Credit Limit Procedures* in the form published with this Final Determination and Report, 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

First Stage Consultation:

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

Second Stage Consultation:

http://www.aemo.com.au/Consultations/National-Electricity-Market/~media/Files/Other/settlements/Credit%20Limit%20for%202nd%20stage%20consultation/Credit_Limit_Procedures_v2_Draft_Determination_change_marked.ashx