

WHOLESALE DEMAND RESPONSE MECHANISM - CONSULTATION ON THE CREDIT LIMIT PROCEDURES

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 the Australian Energy Market Operator (AEMO) on proposed amendments to the Credit Limit Procedures in respect of the Wholesale Demand Response Mechanism under the National Electricity Rules.

The draft Credit Limit Procedures set out the calculations to be used to determine the Maximum Credit Limit for a Demand Response Service Provider under the Wholesale Demand Response Mechanism.

This Issues Paper aims to facilitate informed feedback from National Electricity Market Registered Participants and other interested parties regarding the treatment of Demand Response Service Providers under the Credit Limit Procedures. AEMO invites stakeholders to suggest alternative options where they do not agree that AEMO's proposals would achieve the relevant objectives. 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 Issues Paper by 5.00 pm (Melbourne time) on 16 October 2020, in accordance with the Notice of First Stage of Consultation published with this Issues Paper.



CONTENTS

EXECUTIVE SUMMARY	2
1. STAKEHOLDER CONSULTATION PROCESS	4
2. BACKGROUND	5
2.1 NER requirements	5
2.2 Context for this consultation	5
3. DISCUSSION	6
3.1 Why do we have to consider prudential requirements for DRSPs?	6
3.2 Bespoke prudential requirements for DRSPs	6
3.3 Other options for DRSP prudentials	7
3.4 Typical Accrual for DRSPs	7
3.5 DRSP prudential obligations	7
4. DRAFTING OF PROCEDURES	8
5. SUMMARY OF MATTERS FOR CONSULTATION	9
APPENDIX A - GLOSSARY	10



1. STAKEHOLDER CONSULTATION PROCESS

As required by the National Electricity Rules (NER), AEMO is consulting on the Credit Limit Procedures (Procedures) in accordance with the Rules consultation procedures set out in NER rule 8.9.

A glossary of terms used in this Issues Paper is 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	4 September 2020
Submissions due on Issues Paper	16 October 2020
Draft Report published	13 November 2020
Submissions due on Draft Report	4 December 2020
Final Report published	15 January 2021

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

NEM registered Participants and other interested parties are invited to submit written responses on the questions identified in this Issues Paper and any other aspect of the draft Procedures. Stakeholders are requested to include reasons for their responses and (if applicable) details of any alternative options they consider may better achieve the relevant objectives. Submissions must be made in accordance with the Notice of First Stage of Consultation published with this paper.



2. BACKGROUND

2.1 NER requirements

Under NER clause 3.3.8, AEMO is responsible for developing, publishing and maintaining the Procedures. The Procedures may be made or amended in accordance with the Rules consultation procedures set out in NER rule 8.9.

2.2 Context for this consultation

In June 2020, the Australian Energy Market Commission (AEMC) released its final determination that sets out a series of changes to the NER to facilitate wholesale demand response in the NEM, through a wholesale demand response mechanism (WDRM Rule). Under the WDRM Rule, from October 2021, consumers will be able to sell demand response in the wholesale market. The WDRM Rule introduces a new market participant category, the Demand Response Service Provider (DRSP).

The Procedures establish the methodology by which the AEMO determines the prudential settings for each market participant so that the prudential standard is met for the NEM. The prudential settings for a market participant comprise its maximum credit limit (MCL), outstandings limit (OSL) and prudential margin (PM). The MCL is the sum of the OSL and the PM.

The prudential standard represents the value of the probability of a market participant's MCL being exceeded by its outstandings at the end of the reaction period following the market participant exceeding its OSL on any day and failing to rectify this breach. Clause 3.3.4A of the NER defines the prudential standard as 2%.

Under NER clause 3.3.8, AEMO must determine the prudential settings, that is the MCL, for the new market participant category of DRSPs.



3. DISCUSSION

AEMO proposes to amend the Procedures, as follows:

- Clause 4.1 – addition of clause 4.1(g) to provide general description of the approach to calculating MCL for DRSPs.
- Clause 10 – addition of clause 10.4 to describe the calculation of MCL for DRSPs.
- Clause 7 – update to clause 7 to reflect the calculation of Typical Accrual for DRSPs, mirroring the methodology used for Market Network Service Providers (MNSPs).

3.1 Why do we have to consider prudential requirements for DRSPs?

The WDRM Rule allows for “negative settlement” to occur, in which a wholesale demand response unit (WDRU) consumes above its baseline in an interval when it is dispatched to provide wholesale demand response. While a DRSP (and its customer) would not intentionally be bidding in wholesale demand response in these circumstances, unexpected outcomes can occur.

In these circumstances, DRSPs would be exposed to the overs and unders of baseline inaccuracy. Further, DRSPs would be exposed to pool prices, meaning they would be pool price payers rather than pool price recipients (i.e. have a negative settlement amount).

In its final determination, the AEMC stated that it considered it appropriate for DRSPs to be exposed to both the positive, as well as negative, monetary flows. This will provide DRSPs with a stronger incentive to ensure that they deliver wholesale demand response in accordance with their dispatch instructions.

Due to this potential for exposure, under NER clause 3.3.8, AEMO must determine the prudential requirements for DRSPs, so that the prudential standard is met for the NEM.

3.2 Bespoke prudential requirements for DRSPs

Under the standard MCL methodology, market participant load, generation and reallocation data are used to determine market participant prudential requirements. As wholesale demand response by nature is unpredictable, it is not possible to use the standard MCL methodology to assess prudential requirements for DRSPs.

In such circumstances, AEMO has several other simplified prudential methodologies within the Procedures that can apply. Generally, these other methodologies apply to participants who do not have the required data for the standard MCL calculation, such as new generators and new market customers, as well MNSPs.

In AEMO’s view, the best option for the treatment of DRSP prudential requirements is a bespoke methodology, which is similar to that used for a new market customer. Under this methodology, DRSP prudential requirements would be assessed as:

- $MCL = OSL + PM$
- OSL is set at the value of \$8,000
- PM is a set at the value of \$2,000
- OSL and PM values will be adjusted to account for any reallocation transactions to which the DRSP is a party.

In practical terms, the methodology will result in a requirement for all DRSPs to provide AEMO with a guarantee of \$10,000 upon registration, to meet their prudential obligations.



3.3 Other options for DRSP prudentials

AEMO has considered the option of allowing for no prudential requirements for DRSP (i.e. an MCL of 0). However, due to the potential for negative settlement amounts for DRSPs, this approach would leave the market exposed in the case of a DRSP default. Accordingly, AEMO does not support this option.

3.4 Typical Accrual for DRSPs

The typical accrual amount is calculated for the purposes of determining the call amount (for the purposes of issuing a call notice where the outstandings of a market participant exceed its trading limit) under NER clause 3.3.11(a)(2).

The determination of a typical accrual for a DRSP is not feasible using the standard methodology. Accordingly, the call amount will always be determined as Outstandings minus the Trading Limit, mirroring the methodology used for MNSPs.

3.5 DRSP prudential obligations

Otherwise, the Procedures apply to DRSPs in all respects. As with other participants, if a DRSP exceeds its trading limit, the DRSP will need to rectify the trading limit breach by providing AEMO with a security deposit.

Questions

- Is there any additional clarifying information required in the Procedures for the treatment of DRSP prudential requirements?
- Are there any additional options for the treatment of DRSP prudential requirements that AEMO should consider?
- Are there any unintended/adverse consequences of the treatment of DRSPs with respect to prudential requirements as described in the Procedures?



4. DRAFTING OF PROCEDURES

To help stakeholders and other interested parties to respond to this Issues Paper, AEMO has published the draft amended Procedures.

The draft Procedures are available at:

<https://aemo.com.au/consultations/current-and-closed-consultations/credit-limit-procedures-consultation>



5. SUMMARY OF MATTERS FOR CONSULTATION

In summary, AEMO seeks comment and feedback on the prudential requirements for DRSPs.

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 Issues Paper, by 5.00 pm (Melbourne time) on 16 October 2020.



APPENDIX A - GLOSSARY

Term or acronym	Meaning
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator Limited
CLP	Credit Limit Procedures
DRSP	Demand Response Service Provider
MCL	Maximum Credit Limit
MNSP	Market Network Service Provider
NEM	National Electricity Market
NER	National Electricity Rules
OSL	Outstandings Limit
PM	Prudential Margin
Procedures	These Credit Limit Procedures
WDRM	Wholesale Demand Response Mechanism
WDRU	Wholesale Demand Response Unit