



Draft National Electricity Amendment (New Prudential Standard and Framework in the NEM) Rule 2012

under the National Electricity Law as applied by:

- (a) the National Electricity (South Australia) Act 1996;
- (b) the Electricity (National Scheme) Act 1997 of the Australian Capital Territory;
- (c) the Electricity - National Scheme (Queensland) Act 1997 of Queensland;
- (d) the Electricity - National Scheme (Tasmania) Act 1999 of Tasmania;
- (e) the National Electricity (New South Wales) Act 1997 of New South Wales;
- (f) the National Electricity (Victoria) Act 2005 of Victoria; and
- (g) the Australian Energy Market Act 2004 of the Commonwealth.

The Australian Energy Market Commission makes the following Rule under the National Electricity Law.

John Pierce
Chairman
Australian Energy Market Commission

Draft National Electricity Amendment (New Prudential Standard and Framework in the NEM) Rule 2012

1 Title of Rule

This Rule is the *Draft National Electricity Amendment (New Prudential Standard and Framework in the NEM) Rule 2012*.

2 Commencement

Schedules 1 and 2 of this Rule commence operation on [COMMENCEMENT_DATE 2].

Schedule 3 of this Rule commences operation on [COMMENCEMENT_DATE 1].

3 Amendment of the National Electricity Rules

The National Electricity Rules are amended as set out in Schedule 1.

4 Amendment of the National Electricity Rules

The National Electricity Rules are amended as set out in Schedule 2.

5 Savings and Transitional Amendments to the National Electricity Rules

The National Electricity Rules are amended as set out in Schedule 3.

Schedule 1 Amendment to the National Electricity Rules

(Clause 3)

[1] New clause 3.1.1A Definitions

After clause 3.1.1, insert:

3.1.1A Definitions

In this Chapter:

credit limit procedures means the procedures developed, *published* and maintained by *AEMO* under clause 3.3.8.

credit period means the sum of the payment period and the reaction period as determined by *AEMO*.

maximum credit limit means the minimum amount of *credit support* a *Market Participant* must provide to *AEMO* for the relevant credit period, as determined by *AEMO* in accordance with clause 3.3.8.

outstandings limit means *AEMO's* estimate of the maximum value that a *Market Participant's outstandings* can reach over the payment period if the *Market Participant* has lodged *credit support* equal to the maximum credit limit.

payment period means the number of days in a *billing period* plus the number of days until payment is due with respect to transactions for that *billing period*.

prudential margin means the allowance made by *AEMO* in determining a *Market Participant's* maximum credit limit for the accrual of the *Market Participant's outstandings* during the reaction period.

prudential probability of exceedance means the probability of the *Market Participant's* maximum credit limit being exceeded by its *outstandings* at the end of the reaction period following the *Market Participant* exceeding its outstandings limit on any day, and failing to rectify this breach.

prudential settings means the maximum credit limit, outstandings limit and prudential margin as determined by *AEMO* in accordance with clause 3.3.8.

prudential standard means the value of the prudential probability of exceedance, expressed as a percentage, and as specified under clause 3.3.4A, to be used by *AEMO* to determine the prudential settings to apply to *Market Participants*.

reaction period means a period of 7 days. It represents, for the purpose of calculating the prudential settings, the time from the day that a *Market Participant's* *outstandings* exceeds its *trading limit* to when the *Market Participant* is suspended from trading under clause 3.15.21(c) if the exceedance is not rectified.

[2] New clause 3.3.4A Prudential standard

After clause 3.3.4, insert:

3.3.4A Prudential standard

The prudential standard is 2%.

[3] References to "maximum credit limit" in various clauses

In clauses 3.3.5, 3.3.6(a)(2), 3.3.6(b), 3.3.7(b), 3.3.11(a)(2), 3.3.12(a), 3.3.13(a)(1) and 3.15.11(n), omit "*maximum credit limit*" wherever occurring and substitute "*maximum credit limit*".

[4] Clause 3.3.8 Maximum credit limit and prudential margin

Omit clause 3.3.8, including the heading, and substitute:

3.3.8 Credit limit procedures and prudential settings

Credit limit procedures

- (a) This clause sets out the framework for the establishment and determination of the prudential settings for *Market Participants* in the *NEM*.
- (b) The objective of the credit limit procedures is to establish the process by which *AEMO* will determine the prudential settings for each *Market Participant* so that the prudential standard is met for the *NEM*.
- (c) *AEMO* must develop, and, at all times, *publish* and maintain the credit limit procedures that details the methodology to be used by it to determine the prudential settings to apply to *Market Participants*.
- (d) Subject to paragraph (e), in developing the methodology to be used by *AEMO* to determine the prudential settings to apply to *Market Participants*, *AEMO* must take into consideration the following factors:
 - (1) the *regional reference price* for the *region* for which the prudential settings are being calculated;

- (2) the time of year;
 - (3) the volatility of *load* and *regional reference price* for the *regions*;
 - (4) *AEMO's* estimate of the *generation* and *load* for each *Market Participant*;
 - (5) the relationship between average *load* and *peak load* for each *Market Participant*;
 - (6) any *prospective reallocations* for the period being assessed;
 - (7) the correlation between *energy*, *reallocations* and the *regional reference price*;
 - (8) the statistical distribution of any accrued amounts that may be owed to *AEMO*;
 - (9) the relevant time period for which the prudential settings are being calculated; and
 - (10) any other factors *AEMO* considers relevant having regard to the objective of the credit limit procedures under paragraph (b).
- (e) In determining the prudential margin, *AEMO* must not take into account estimates of a *Market Participant's*:
- (1) quantity and pattern of *trading amounts* where the estimate of the aggregate of all *trading amounts* for the period being assessed is a positive amount; and
 - (2) quantity and pattern of *reallocation amounts* where the estimate of the aggregate of all *reallocation amounts* for the period being assessed is a positive amount.
- (f) At least once a year, *AEMO* must review, prepare and *publish* a report on the effectiveness of the methodology developed under this clause in achieving the objective of the credit limit procedures under paragraph (b), with any recommendations for the enhancement of the methodology.
- (g) Subject to paragraph (h), *AEMO* must comply with the *Rules consultation procedures* when making or amending the credit limit procedures.
- (h) *AEMO* may make minor or administrative amendments to the credit limit procedures without complying with the *Rules consultation procedures*.

Prudential settings

- (i) *AEMO* must determine the prudential settings to apply to *Market Participants* in accordance with:
 - (1) the objective of the credit limit procedures under paragraph (b); and
 - (2) the credit limit procedures.
- (j) The outstandings limit and prudential margin are interdependent, and *AEMO* must determine these simultaneously to meet the prudential standard for the *NEM*.
- (k) The maximum credit limit for a *Market Participant* is the dollar amount determined by *AEMO* using the following formula:

$$\text{MCL} = \text{OSL} + \text{PM}$$

where:

MCL is the maximum credit limit;

OSL is the outstandings limit; and

PM is the prudential margin.

- (l) *AEMO* must review the prudential settings that apply to each *Market Participant* no later than a year after the last determination or review of the *Market Participant's* prudential settings.
- (m) At any time, and for any reason that is consistent with objective of the credit limit procedures under paragraph (b), *AEMO* may change the prudential settings that apply to a *Market Participant*, provided that any change to the *Market Participant's* prudential settings applies no earlier than one *business day* after the date *AEMO* notifies the *Market Participant* of changes to its prudential settings.
- (n) *AEMO* must notify, in writing, the *Market Participant* of any determination or change of a *Market Participant's* prudential settings, and provide reasons for that determination or change.

[5] Clause 3.3.10 Trading limit

Omit clause 3.3.10, including the note, and substitute:

3.3.10 Trading limit

The *trading limit* for a *Market Participant* is the dollar amount determined by *AEMO* using the following formula:

$$TL = CS - PM$$

where:

TL is the *trading limit*;

CS is the *credit support* provided by the *Market Participant*; and

PM is the prudential margin determined by *AEMO* in accordance with clause 3.3.8.

Note:

If the prudential margin exceeds the *credit support*, the *trading limit* will have a negative value.

[6] Clause S3.3 Principles for Determination of Maximum Credit Limits & Prudential Margins

Delete rule S3.3, including the heading and notes, and substitute "[Deleted]".

[7] Clause 8.2.1 Application and guiding principles

In clause 8.2.1(h)(6), omit "*maximum credit limit* for a *Market Participant*", and substitute "minimum amount of *credit support* a *Market Participant* must provide to *AEMO* for the relevant time period, as determined by *AEMO* in accordance with clause 3.3.8".

Schedule 2 Amendment to the National Electricity Rules

(Clause 4)

[1] Chapter 10 Deleted definitions

In Chapter 10, delete the following definitions:

credit period

The typical period of days over which *maximum credit limit* is calculated in accordance with schedule 3.3.

maximum credit limit

In relation to a *Market Participant* a credit limit determined by *AEMO* for that *Market Participant* in accordance with clause 3.3.8.

payment period

The typical period between trading and payment defined in schedule 3.3.

prudential margin

A dollar amount to be determined by *AEMO* in accordance with clause 3.3.8.

reaction period

The estimated period of time taken to remove defaulting *Market Participants* from the market as defined in schedule 3.3.

reasonable worst case

A position that, while not being impossible, is to a probability level that the estimate would not be exceeded more than once in 48 months.

reduced payment period request

A written request to *AEMO* for the purpose of schedule 3.3, paragraph VI(C).

Schedule 3 Savings and Transitional Amendments to the National Electricity Rules

(Clause 5)

[1] Chapter 11 Savings and Transitional Rules

After rule 11.[xx], insert:

Part [XX] New Prudential Standard and Framework in the NEM

11.[xx] Rules consequential on the making of the National Electricity Amendment (New Prudential Standard and Framework in the NEM) Rule 2012

11.[xx].1 Definitions

For the purposes of this rule 11.[xx]:

Amending Rule means the National Electricity Amendment (New Prudential Standard and Framework in the NEM) Rule 2012.

commencement date means the date of commencement of schedules 1 and 2 of the Amending Rule.

credit limit procedures has the meaning given to it in clause 3.1.1A of the *Rules* after the commencement date.

new clause 3.3.8 means clause 3.3.8 of the *Rules* after the commencement date.

old clause 3.3.8 means clause 3.3.8 of the *Rules* (and all definitions in, and relevant provisions of, the *Rules* amended by the Amending Rule) as in force immediately before the commencement date.

prudential settings has the meaning given to it in clause 3.1.1A of the *Rules* after the commencement date.

11.[xx].2 Purpose

The purpose of this rule 11.[xx] is to provide transitional arrangements to facilitate AEMO's transition from determining *maximum credit limits* and *prudential margins* under old clause 3.3.8 to determining prudential settings under new clause 3.3.8.

11.[xx].3 AEMO's responsibility to develop and publish the credit limit procedures

As soon as it is practicable after [COMMENCEMENT_DATE 1] and in accordance with the *Rules consultation procedures*, AEMO must develop and *publish* the credit limit procedures in accordance with the Amending Rule.

11.[xx].4 Transition to the framework for determining prudential settings

- (a) AEMO must continue to calculate the *maximum credit limit* and the *prudential margin* to apply to *Market Participants* under old clause 3.3.8 until it determines the prudential settings to apply to *Market Participants* under new clause 3.3.8.
- (b) Within one month of the commencement date:
 - (1) AEMO must determine the prudential settings to apply to *Market Participants* under new clause 3.3.8; and
 - (2) AEMO must notify, in writing, the prudential settings that applies to each *Market Participant* under new clause 3.3.8.

11.[xx].5 Prior consultation, step, decision or action taken by AEMO

- (a) If, prior to [COMMENCEMENT_DATE 1] and for the purposes of developing the credit limit procedures in anticipation of the Amending Rule, AEMO undertook a consultation or step equivalent to that as required in the *Rules consultation procedures*, then that consultation or step is taken to satisfy the equivalent consultation or step under the *Rules consultation procedures*.
 - (b) If, prior to [COMMENCEMENT_DATE 1] and in anticipation of the Amending Rule, AEMO made a decision or took an action, that decision or action is taken to satisfy the equivalent decision or action under the *Rules*.
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