



Payment to AEMO of negative intra-regional settlements residue

Rule change request from AEMO – initiation 2 February 2012

Under certain market conditions, the market operator, AEMO, receives payments from Transmission Network Service Providers as part of the spot market settlements process. AEMO proposes to alter the timing of one of these payment types in consultation with Transmission Network Service Providers.

About the requested rule change

AEMO facilitates the settlement of payments for the national electricity market (NEM), acting as an intermediary between electricity buyers and sellers. If the total amount of money to be received by AEMO for a billing period is different to the total amount that is due to be paid by AEMO to market participants, a 'settlements residue' occurs.

A settlements residue occurs due to the method used in the NEM to account for the energy losses when electricity is transferred from generators to customers. AEMO's rule change request specifically concerns one type of settlements residue – negative intra-regional settlements residue. This residue results from the method used to calculate transmission losses within a region in the NEM, as opposed to losses between regions.

When this type of residue occurs, TNSPs are required to pay AEMO in order for AEMO to pay the market the full amount owing for a billing period. If TNSPs do not pay the correct amount on time, AEMO must make short payments to the market for that period.

This rule change relates to the timing of these payments by TNSPs, but not to the amount.

Consultation paper

A paper has been prepared by AEMC staff to help facilitate the consultation process. It outlines key issues for the proposed rule change. The paper also presents the framework that the AEMC will use to assess the rule change request and includes details on the how to provide a submission to the AEMC.

We are seeking written submissions on the rule change request by 1 March 2012.

What AEMO is asking

AEMO has identified a risk associated with the payment timing of negative intra-regional settlements residue. It believes that alternative payment arrangements are required to reduce the risk of AEMO not receiving the right payment amount on time and, hence, reducing the risk of short payments to the market. It is also seeking to align these payments with other similar payment procedures.

The requested rule change asks the following:

- Move the details on the timing of payments for negative intra-regional settlements residue from the National Electricity Rules (NER) to AEMO's procedure documents, enabling AEMO to determine all payment procedures for these residues.
- Make a minor change to the definition of 'settlements residue' in the NER to make explicit that it includes both types of settlements residue – that is, inter-regional and intra-regional settlements residue.
- Delete NER clause 11.1 due to its redundancy. This clause relates to historic payments of inter-regional settlements residue, which are no longer owed.
- Have the rule change request treated on an expedited basis by the AEMC.

The AEMC is seeking written submissions on the rule change request by 1 March 2012.

Any objections to the expedited process should be submitted to the AEMC by 16 February 2012.

The expedited rule change process

The AEMC is proposing to assess the rule change request under its expedited process, which is permitted under section 16 of the National Energy Law (NEL) for rule changes that are considered 'non-controversial'. The NEL definition of non-controversial is: 'a Rule that is unlikely to have a significant effect on the national electricity market'.

The expedited process results in a shorter timeframe between today's initiation of the rule change process and its finalisation. If no objections to the expedited process are received by the AEMC, the AEMC will provide a final rule determination six weeks from today and no draft determination will be provided. Objections to the expedited process should be submitted to the AEMC in writing by 16 February 2012.

Further detail on how to provide objections and submission to the AEMC is contained in the consultation paper.

Background on settlements residues

There are two types of settlements residues that occur in the NEM – intra-regional and inter-regional. These can be either positive or negative. When the residue is positive, AEMO must pay TNSPs the full amount. When it is negative, TNSPs must pay AEMO the full amount.

This rule change request deals solely with the payment of residues that are negative and intra-regional. Currently, the payment timing for negative intra-regional settlements residue is set out in the NER as 20 business days after the billing period or 18 business days after the Final Statement has been issued by AEMO (whichever is the latest). This differs to the payment timing for negative inter-regional settlements residue, where a prior rule change has enabled AEMO to determine the payment procedures and AEMO has adopted an earlier payment time.

Inter-regional settlements residues are similar to intra-regional settlements residues but there are some key differences. AEMO is looking to align the payment procedures for both types of residues if the rule change proceeds. The consultation paper expands on this issue and seeks feedback from stakeholders as to whether this approach would promote the more efficient operation of the settlements process and the NEM more broadly.

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