RCP | Rule Change Panel

Wholesale Electricity Market Rule Change Proposal Submission

RC_2017_06 - Reduction of the prudential exposure in the Reserve Capacity Mechanism

Submitted by

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Submissions on Rule Change Proposals can be sent by:

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Post to: Rule Change Panel
Attn: Executive Officer
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1. Please provide your views on the proposal, including any objections or suggested revisions.

The Australian Energy Market Operator (AEMO) welcomes the opportunity to provide a submission to the Rule Change Panel on the Rule Change Proposal: Reduction of the prudential exposure in the Reserve Capacity Mechanism (RC_2017_06).

AEMO submitted this Rule Change Proposal to the Rule Change Panel on 17 July 2017. Since submission, it has come to AEMO's attention that there is a minor inaccuracy in the commentary section of the Rule Change Proposal in relation to the discussion on the change to target month for Meter Registry data. This has no impact on rule drafting.

This submission on the Rule Change Proposal relates to the minor inaccuracy. AEMO's views on all other aspects of the proposal are reflected in the Rule Change Proposal itself.

The minor inaccuracy relates to the following passage on page 9 of the Rule Change Proposal:

Currently, under Step 5 of Appendix 5 of the WEM Rules, the IRCR calculation for a meter that was not registered with AEMO during one or more of the 12 peak SWIS Trading Intervals in the preceding Hot Season, but which was registered by the end of Trading Month n-3, is based on the new meter's meter data during Trading Month n-3. A new meter that starts consuming in Trading Month m will not have an IRCR until m+3. Market Customers are therefore not liable to pay IRCR in respect of new meters for the first three months. However, these three 'free' months are required to be 'paid back' when the meter ceases to exist.

If the time lag for Meter Registry data in the IRCR calculation is removed, as proposed in this Rule Change Proposal, then the free three months will no longer be recovered from the responsible party. The first three months will be paid for by all Market Participants with an IRCR, as the total ratio will now be higher. Changing the meter data reference month from month 'n-3' to month 'n' would avoid sharing new meter charges among all Market Customers; however AEMO is not proposing this change as Market Customers would no longer have certainty over their IRCR before on-billing their customers.

On average, the total ratio would have increased by on average by 0.55% to cover the first three months for new meters over the period October 2016 to June 2017, inclusive.

In relation to this section of the Rule Change Proposal, AEMO would make the following clarifications:

1. Regarding the statement "*three 'free' months are required to be 'paid back' when the meter ceases to exist,"* there are a number of points to note:

    - This Rule Change Proposal does not change the current treatment of the first three months; they can be considered as 'free' in the current Market Rules.
    - If a meter never ceases to exist then the first three months will never be 'paid back'.
    - A meter may cease to exist in a different Capacity Year to the Capacity Year when it came into existence. As a result, any amount 'paid back' will have a different cost impact, to different participants as a result of the different parameters in the IRCR calculation.
    - Therefore, the characterisation that there is a 'pay back' for the first three months is not strictly correct.

2. The current Market Rules require AEMO to calculate a median value for each new meter using data from Trading Month n-3. For the first three months of a meter's existence, there is no meter data in Trading Month n-3, therefore a median value is not calculated. Consequently, an IRCR is not attributed to a meter for the first three months.

3. Under the current Market Rules, AEMO will attribute an IRCR to a meter for the three months after a meter ceases to exist. Accordingly, all other Market Customers in the three months after a meter ceases to exist pay lower charges. On average, the TDL Ratio was reduced by 0.10% and the Total Ratio was reduced by 0.001% over the period October 2016 to June 2017, inclusive.

4. Under this Rule Change Proposal, the target month for Meter Registry data in the IRCR calculation will change from Trading Month n-3 to Trading Month n. As a result of this required change, IRCR charges associated with a meter for the three months

after it ceases to exist will no longer be passed on to the responsible party in Trading Month n-3. By way of explanation, although there will be meter data in Trading Month n-3, the meter will be considered to have ceased to exist in Trading Month n (the target month for Meter Registry data) and a IRCR is not attributed to the meter. Accordingly, all other Market Customers in the three months post termination will pay higher charges than they currently would. This removes the economic inefficiency where a meter is attributed an IRCR for the three months after it ceases to exist.

In summary, AEMO would propose to replace the passage on page 9 of the Rule Change Proposal with the following:

Currently, under Step 5 of Appendix 5 of the WEM Rules, the IRCR calculation for a meter that was not registered with AEMO during one or more of the 12 peak SWIS Trading Intervals in the preceding Hot Season, but which was registered by the end of Trading Month n-3, is based on the new meter's meter data during Trading Month n-3. A new meter that starts consuming in Trading Month m will not have an IRCR until m+3. Market Customers are therefore not liable to pay IRCR in respect of new meters for the first three months. The costs of meters in their first three months is shared by all Market Customers through the total ratio. There is no change to this in this Rule Change Proposal.

As a separate mater, if the time lag for Meter Registry data in the IRCR calculation is removed, as proposed in this Rule Change Proposal, then capacity charges will no longer be calculated for meters for three months after they cease to exist. As a result all other Market Customers in the three months after a meter ceases to exist will pay higher charges. Based on analysis of AEMO's meter registry data, on average the TDL Ratio would have increased by approximately 0.10% and the Total Ratio would have increased by 0.001% over the period October 2016 to June 2017, inclusive.

This removes an inefficiency in the Market Rules whereby a meter continues to receive an IRCR for the three months post after it ceases to exist. Further, based on discussions with Market Customers during the informal consultation processes, we understand that they are unlikely to be able to pass any charges post termination onto their customers.

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2. Please provide an assessment whether the change will better facilitate the achievement of the Wholesale Market Objectives.

Refer to AEMO's comments in the Rule Change Proposal.

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3. Please indicate if the proposed change will have any implications for your organisation (for example changes to your IT or business systems) and any costs involved in implementing these changes.

Refer to AEMO's comments in the Rule Change Proposal.

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4. Please indicate the time required for your organisation to implement the change, should it be accepted as proposed.

Refer to AEMO's comments in the Rule Change Proposal.
