
Wholesale Electricity Market Submission to Procedure Change Proposal

PC_2013_04: Changes to Market Procedure for Prudentials

Submitted by

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Submission

Clause 2.10.7 of the Wholesale Electricity Market Amending Rules provides that any person may make a submission for a Procedure Change Proposal by filling in this Procedure Change Submission form.

Submissions for Procedure Changes that relate to the Power System Operation Procedures and IMO Market Procedures should be submitted to:

Independent Market Operator

Attn: Group Manager, Market Development
PO Box 7096
Cloisters Square, Perth, WA 6850
Fax: (08) 9254 4399
Email: market.development@imowa.com.au

1. Please provide your views on the Procedure Change Proposal, including any objections or suggested revisions:

Proposed changes

The prudentials regime that currently applies in the WEM has not been changed since market start in 2006. Since that time the IMO has encountered a number of issues with the application of the relevant rule requirements that it considers require clarification in order to ensure that there is no ambiguity around the prudential obligations of either Market Participants or the IMO.

The IMO subsequently proposed a suite of changes to the rules around prudentials to bring the rules in line with its current practices and remove any ambiguity as part of the Rule Change Proposal: Prudential Requirements (RC_2012_23). As consequence of both the Amending Rules from RC_2012_23 and the IMO's new approach of adopting principles based drafting, changes to the Market Procedure: Prudential Requirements have been developed.

The key areas that the IMO has proposed to amend substantively in the Market Procedure are as follows:

- **Credit Limit determination:** The IMO proposes changes to:
 - Provide greater transparency of how various factors are accounted for in determining a participant's Credit Limit;
 - Provide further detail on how a participant's Credit Limit is determined depending on whether they have 3 full months of Non-STEM settlement data (section 2.2) or less than 3 months (section 2.3);
 - Improve the IMO's processes for notifying a participant of its Credit Limit.
- **Time period of historical settlement data used in Credit Limit determination:** The IMO proposes to use 24 months of historical data rather than 48 months.
- **Notification of any change in circumstances affecting a Market Participants Credit Limit:** Consistent with the IMO's proposed broader obligations for participants to inform them of a change in circumstances (as reflected in the draft report), the IMO proposes a non-exhaustive list of circumstances where a participant must notify the IMO as it may be necessary for their Credit Limit to be adjusted.
- **Accounting for voluntary prepayments in the calculation of the Outstanding Amount:** The IMO proposes changes to:
 - Require a participant making a prepayment to complete a proforma deed; and
 - Require the IMO to adjust the participant's next invoice by the prepayment amount and appropriately reduce the Outstanding Amount in the prudential risk report.
- **Credit Support arrangements and timelines:** The IMO proposes changes to provide further detail around the processes to be followed by Market Participants and the IMO, to ensure that adequate Credit Support is maintained at all times.
- **List of factors to assess the expected value of transactions:** The IMO proposes to include a list of the factors to be taken into account when determining the expected value of a transaction in the appendix of the procedure.

Alinta's views

Alinta is generally supportive of the IMO's proposed suite of changes to the Market Rules and Market Procedure: Prudentials. As outlined in its submission to the IMO on the proposed changes to the Market Rules (RC_2012_23), Alinta does not however support the amendments

to use the highest value of transactions owed to determine a Market Participant's Credit Limit (*Issue 1*).

With respect to the proposed redrafted Market Procedure, Alinta offers the following suggestions:

- Table 1: Reconciliation Settlement: "The process of calculating a Rule Participant's transactions pertaining to their reconciliation segment in accordance with clause 9.11 of the Market Rules and reflected in the Non-STEM..." Alinta notes that this amendment will ensure consistency with the other proposed definitions for Balancing Settlement and Ancillary Service Settlement.
- Table 1: Reserve Capacity Settlement: "The process of calculating a Rule Participant's transactions pertaining to their Reserve Capacity segment in accordance with clause 9.7 of the Market Rules and reflect in the Non-STEM..." As noted above Alinta considers that this amendment will ensure consistency with the other proposed definitions.
- Step 1.7.1: "The IMO may, in its absolute discretion, amend and publish on the Market Web Site any market documents and user guides listed in steps 1.4.2 and 1.4.3." Alinta considers that this amendment will enhance the integrity of the proposed redrafted procedure.
- Step 2.2.2: "... in the order ~~of steps~~ listed below:" Alinta suggests this minor amendment to improve ease of reading.
- Step 2.4.1, 2.5.1 and 2.6.1: The IMO should clarify whether each piece of information should be provided as a MW or MWh value (where applicable).
- Step 2.4.1(a): The drafting should be updated to clarify what is intended by "maximum output" of a facility i.e. nameplate capacity, sent-out capacity?
- Step 2.4.1(b): The IMO should consider whether information on Certified Reserve Capacity (CRC), which would not technically have been submitted at the time of Facility registration, could be obtained internally. It appears unnecessary for a participant to re-provide this information to the IMO as part of its Credit Limit determination given the IMO sets a Facility's CRC.
- Step 2.4.2(b): "Ancillary Services cost to be incurred by each Facility" As currently drafted its unclear what the Ancillary Service cost the IMO would be estimating relates to (i.e. could be the costs for the entire market). This should be clarified.
- Step 2.4.2(f): Alinta notes that the future potential introduction of a dynamic refund mechanism will potentially change how potential exposure to refunds is accounted for by the IMO in setting Credit Limits for a participant.
- 2.4.3(a) and 2.5.3(a): Its unclear why purchases in the STEM would not be taken into account in determining an initial amount for a Market Generator or Market Customer. Alinta requests the IMO to consider whether these sub-steps should be extended to also cover the STEM.

- Step 2.5.2(b): “Ancillary Services cost to be incurred by the Market Customer”. As currently drafted its unclear what the Ancillary Service cost the IMO would be estimating relates to. This should be clarified.
- Step 2.5.2(d): “Individual Reserve Capacity Requirement for the Market Customer”. Alinta considers this amendment will make it clear that the estimate relates to the IRCR of the relevant Market Customer.
- Step 2.5.4: The IMO should clarify whether it intends to determine a Credit Limit every time a Market Customer adds one or more end-customers or loads. This is currently unclear when reading the relevant procedure steps.
- Step 2.8.2: There should be an express requirement for the IMO to reconsider a Market Participant’s Credit Limit following a request being received in accordance with this procedure step. Please refer to Alinta’s second round submission on RC_2012_23 for further details of Alinta’s rationale for the inclusion of this requirement.
- Table 3 (ID b): “Before the new Facilities undertake a Commissioning Test”
- Table 3 (ID d): “...expected increase in consumption in step 2.8.1(a)”
- Step 3.7.4(a): “...and two individuals representing the Treasury Corporation or Bank...”
- Step 3.7.5: Alinta notes that this step is written in a different style to the remainder of the procedure and suggests it is revised to be more succinct and present the specific obligation up-front.
- Step 4.2.1 – Alinta notes its comments provided as part of RC_2012_23 relating to the list of Acceptable Credit Providers and in particular that there should not be a limitation on an entity providing evidence to the IMO that it meets the criteria itself. Please refer to Alinta’s second round submission on RC_2012_23 for further details.
- Step 5.5.1: It should be clarified that the information to be published in the WEM’s relates to the relevant Market Participant and not more broadly.
- General – Alinta requests the IMO to confirm whether the process for Security Deposits, Guarantees and Undertakings is the same as those for the provision of a Reserve Capacity Security (as reflected in the relevant Market Procedure). Likewise the processes relating to the Acceptable Credit Criteria should also be the same between Prudentials and Reserve Capacity Security.
- General – The procedure refers to “the Credit Support”, “a Credit Support arrangement” and “Credit Support” interchangeably. The IMO should review the procedure to ensure consistent language is used throughout.
- General – The procedure refers to “calling on Credit Support”, “making a call on Credit Support” and “drawing upon Credit Support” interchangeably. The IMO should review the procedure to ensure consistent language is used throughout, noting that “Draw Upon” is a defined term in the Market Rules that applies for the purposes of Prudentials and therefore would appear to be the most appropriate terminology to adopt.

Wholesale Market Objective Assessment

Alinta notes its concerns with the level of detail provided in the Market Objective assessment for the proposed changes. This is particularly the case given that the IMO is proposing to implement substantive amendments in the procedure for which a specific assessment has not been presented to date as part of the consultation processes for either the rule change (which outlines the principles for the amended prudentials regime) or the procedure change (which implements the detail to support the new principles). For example, an assessment against the market objectives of the changes to use 24 months' worth of data rather than 48 months when determining a participant's Credit Limit has not been presented in the IMO's Procedure Change Proposal nor has it yet been provided through the rule change process. Nonetheless this proposed change will have a substantive effect in reducing the Credit Limit for some participants (as demonstrated by the revised calculations previously provided by the IMO to MAC members).

It is good regulatory practice for both the IMO and System Management to present the specific market objective assessment for each proposed change to industry for its consideration as part of the relevant consultation process. Where multiple concepts are being amended/introduced a separate and discrete assessment of each change should be undertaken to demonstrate the appropriateness of the change and ensure stakeholders understand the specific implications of the new/amended concept.

Given there is only one round of consultation on changes to a procedure contemplated by the Market Rules it is most appropriate for the IMO or System Management's to present in the Procedure Change Proposal its initial assessment that the proposed amendments to the Market Procedure will be consistent with the Wholesale Market Objectives (clause 2.9.3(a)(ii.)). Alinta acknowledges that where the IMO or System Management is simply reflecting a change to the rules into subsidiary legislation it may be appropriate to simply refer to its previous assessment of the change as presented in its draft/final report for the rule change or note that the changes will be consistent with the new Amending Rules. However for substantive amendments that are not specifically contemplated by the Market Rules details of the submitting parties' assessment of the change against the objectives should be clearly outlined.