



INFORMATION

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Prudent discounts in an adoptive jurisdiction

The Australian Energy Market Commission (AEMC) has made a more preferable rule to improve the consistency, clarity, transparency and administrative efficiency of the prudent discounts framework in Victoria as an adoptive jurisdiction. The final rule addresses concerns raised by both the rule change proponent and stakeholders.

The final rule

This more preferable final rule will make changes to the adoptive jurisdictional prudent discounts provisions within the National Electricity Rules (NER) so that:

- the Australian Energy Market Operator (AEMO) would no longer need to obtain the consent of a declared transmission service operator (DTSO) to agree to provide a prudent discount as the Victorian transmission network service provider
- AEMO and the relevant DTSO would no longer be required to negotiate in good faith with each other when one asks the other to consider a particular prudent discount proposal
- the relevant DTSO would need to provide any information that AEMO reasonably requires for the purpose of considering a prudent discount request
- AEMO would need to apply to the Australian Energy Regulator (AER) for cost-recovery approval for a prudent discount that AEMO has agreed to provide, or has proposed to agree to provide, if AEMO seeks to recover more than 70 per cent of the value of that discount from other customers.

The Commission considers that the final rule will add consistency, clarity, administrative efficiency and transparency to the Victorian prudent discounts framework by simplifying the DTSO's role in the prudent discount negotiation process. DTSOs own and operate transmission network assets in Victoria.

The final rule will also reduce ambiguity and add consistency to the prudent discount framework by specifying that the AER review and approve cost recovery for any prudent discount where AEMO proposes to pass more than 70 per cent of the discount value on to other consumers.

The final rule commences on 17 December 2020. However, any pre-existing prudent discount requests made by Victorian transmission customers will be subject to the previous prudent discounts framework.

Background

On 4 September 2020, the AEMC received a rule change request from the Hon Lily D'Ambrosio MP – Minister for Energy, Environment and Climate Change, Minister for Solar Homes, which sought to make procedural changes to the operation of the prudent discounts framework in Victoria, which is an adoptive jurisdiction.

The rule change request identified three key issues related to the operation of the NER prudent discounts framework in adoptive jurisdictions:

- The NER do not provide an obligation on the relevant DTSO to negotiate in good faith directly with a transmission customer who requests a discount, reducing the procedural rights of a transmission customer to obtain relevant information compared to in other jurisdictions.
- The NER do not provide an obligation on AEMO as the TNSP to provide reasons for refusing to agree to a discount or an obligation on the DTSO to provide reasons for refusing to consent to AEMO providing a discount.

- There is a lack of clarity on whether AEMO can propose to agree to a discount on a conditional basis, pending the outcome of an application to the AER for approval of recovery of the entire discount amount from other transmission customers.

The Minister requested that the rule change request be treated as non-controversial and therefore proceed on an expedited basis.

The Commission considered that the proposed rule met the definition of a non-controversial rule, as it was unlikely to have a significant effect on the national electricity market. In addition, the rule change request was narrow in scope, and the proposed changes were largely of an administrative nature. The Commission therefore decided to use an expedited process to consider this rule change request. It did not receive any objections towards using an expedited process.

The Commission therefore initiated the rule change request under an expedited rule change process with the publication of a consultation paper on 8 October 2020. Two submissions were received in response.

On 26 November 2020, the Commission extended the time for making a final rule determination by two weeks until 17 December 2020 to allow it to consider the options of making a more preferable rule and ensure that any complexities associated with this approach were appropriately addressed.

While the Minister's proposed changes were largely administrative in nature, concerns were raised by stakeholders regarding the outcomes of some of these proposed changes. As a result, the Commission determined that a more preferable rule would address the issues raised by both the Minister and stakeholders.

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