



Draft Rule Change Report

Title: Settlement in Default Situations

Ref: RC_2010_04
Standard Rule Change Process

Date: 26 July 2010

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Independent Market Operator

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1. INTRODUCTION

On 7 April 2010 the Independent Market Operator (IM

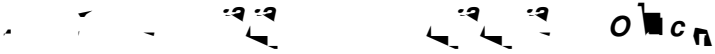
2 CALL FOR SECOND ROUND SUBMISSIONS

The IMO invites interested stakeholders to make submissions on this Draft Rule Change Report. The submission period is 20 Business Days from the publication date of this report. Submissions must be delivered to the IMO by 5.00pm, **Monday 23 August 2010**.

The IMO prefers to receive submissions by email (using the submission form available on the IMO website: <http://www.imowa.com.au/rule-changes>) to: market.development@imowa.com.au

Submissions may also be sent to the IMO by fax or post, addressed to:

Independent Market Operator



The IMO submitted that the proposed Amending Rules would better achieve Wholesale Market Objectives (a) and (b):

- a) *to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;*

The IMO considered that the proposed amendments to settlement in default situations will ensure the efficient, safe and reliable production and supply of electricity by having a correct formula when paying amounts owed to Market Participants and allowing for correct data to be used when a default levy applies.

- (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitor;*

The IMO also considered that the proposed amendments to the short pay calculation will provide greater clarity over the re-allocation of funds in the situation that the IMO is short paid, thereby increasing confidence in the market's provisions for situations in which a default levy is issued. Greater confidence that the market has the appropriate mechanisms for ensuring that Market Participants will be paid effectively and fairly in the case of a default will reduce perceived financial risks associated with operation in the Wholesale Electricity Market (WEM) and thereby encourage competition and new entrants into the market.

The IMO considered that the proposed Amending Rules were consistent with the

clause 9.24.9, to prevent the same problem occurring during the re-allocation of Default Levy payments.

Late Payment of Default Levy Amounts

Currently the Market Rules do not cover situations where a Market Participant pays a Default Levy amount late but before the IMO raises a second Default Levy under clause 9.24.5. A new clause 9.24.8A has been added to the proposed Amending Rules to cover these cases. The new clause states that any Default Levy amounts paid during this period should be applied in the same way as Default Levy amounts paid in by the deadline specified in clause 9.24.7. It should be noted that the new clause does not affect the obligations of Market Participants under clause 9.24.7.

Minor and Typographical Changes

In addition to the changes outlined above, the IMO has proposed a number of minor changes to add clarity and to use consistent terminology for cross references to other clauses of the Market Rules.

5. THE IMO'S ASSESSMENT

In preparing its Draft Rule Change Report, the IMO must assess the Rule Change Proposal in light of clauses 2.4.2 and 2.4.3 of the Market Rules.

Clause 2.4.2 outlines that the IMO “*must not make Amending Rules unless it is satisfied that the Market Rules, as proposed to be amended or replaced, are consistent with the Wholesale Market Objectives*”.

Additionally, clause 2.4.3 states, when deciding whether to make Amending Rules, the IMO must have regard to the following:

- Any applicable policy direction from the Minister regarding the development of the market;
- The practicality and cost of implementing the proposal;
- The views expressed in submissions and by the MAC; and
- Any technical studies that the IMO considers necessary to assist in assessing the Rule Change Proposal.

The IMO notes that there has not been any applicable policy direction from the Minister or any technical studies commissioned in respect of this Rule Change Proposal.

The IMO's assessment is outlined in the following sections.



The IMO considers that the proposed amendments will improve the integrity of the Market Rules by:

- correcting a number of minor, typographical and manifest errors;
- ensuring that Default Levy calculations use appropriate and available meter data; and
- ensuring that correct formulas are used when paying amounts owed to Rule Participants, raising Default Levies and re-allocating Default Levy amounts.

The IMO considers that the Market Rules as a whole, if amended, will be consistent with the Wholesale Market Objectives.

Wholesale Market Objective	Consistent with objective
(a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system	Yes
(b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors	Yes
(c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions	Yes
(d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system	Yes
(e) to encourage the taking of measures to manage the amount of electricity used and when it is used	Yes

Further, the IMO considers that the Market Rules if amended would not only be consistent with the Wholesale Market Objectives but also allow the Market Rules to better address Wholesale Market Objective (b):

(b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors

The IMO considers that the proposed amendments to the short pay calculation will provide greater clarity over the re-allocation of funds in the situation that the IMO is short paid, thereby increasing confidence in the market's provisions for situations in which a Default Levy is issued. Greater confidence that the market has the appropriate mechanisms for ensuring that Market Participants will be paid effectively and fairly in the case of a default will reduce perceived financial risks associated with operation in the WEM and thereby encourage competition and new entrants in the market.

The IMO considers that the proposed Amending Rules are consistent with the remaining Wholesale Market Objectives.

Practicality: The IMO has not identified any issues with the practicality of implementing the proposed changes.

The MAC discussed the proposal at the 10 March 2010 MAC meeting and noted the proposal at the 12 May 2010 and 16 June 2010 meetings. An overview of the MAC discussion is presented below. Further details are available in the MAC meeting minutes available on the IMO website: <http://www.imowa.com.au/market-advisory-committee>

March 2010 MAC meeting

The IMO presented the Pre Rule Change Discussion Paper to MAC members.

The IMO noted that the objective is to provide a solution to the issues it identified when it recently applied a Default Levy and used the settlement in default provisions under clause 9.24 of the Market Rules for the first time. These issues were as follows:

- Issue 1: Short payment calculation – currently results in either double payment to some parties or not all money received being paid out;
- Issue 2: Contradiction between the use of Metered Schedules and meter data in the Default Levy clause; and
- Issue 3: Use of Financial Year versus Capacity Year – timing of the end of year re-allocation of any outstanding Default Levies.

In relation to Issue 1, the MAC suggested a clarification to clause 9.24.3(a) to specify an order of payment.

In relation to Issue 2, the IMO agreed to include STEM defaults within the proposed rule change and also amend the physical definition of a Metered Schedule.

In relation to Issue 3, Alinta noted that it would prefer the re-allocation to be determined for a Financial Year from an accounting perspective. The IMO clarified that the main driver for this change was the potential impact on entities leaving the market.

The MAC endorsed the IMO formally submitting the Rule Change Proposal after updating it to:

- correct the rules reference for Metered Schedule and clarify the physical definition of Metered Schedule;
- propose a prioritisation for the pay

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1. Reserve Capacity settlement;
2. Balancing settlement;
3. Ancillary Services settlement
4. Commitment and Outage Compensation settlement
- 4A. Non-Compliance Cost settlement;
5. Reconciliation settlement;
6. Network Control Service settlement; and
7. Fee settlement; and
8. Net Monthly Non-STEM Settlement Amount;

×-(cA) details of any Capacity Credits allocated to the Market Participant in a

make under these Market Rules (for example, as a result of default by one or more Rule Participants), then the IMO's liability to make those payments is limited to the Total Amount. ~~The IMO must apply the Total Amount as follows:~~

~~(a) first, the IMO must apply the Total Amount to satisfy:~~

~~i. payment of Revenue Requirement Settlement Amounts to the IMO, System Management and the Economic Regulation Authority (including as contemplated by clause 9.22.10);~~

~~ii. payments which the IMO is required to make under Supplementary Capacity Contracts or to a provider of Ancillary Services holding an Ancillary Service Contract with System Management; and~~

~~iii. payments which the IMO is required to make under Network Control Service Contracts; red to fract wipayments which .11597136 3.992-0.115971~~

MAA is the remainder of the Total Amount available for payment by the IMO after the application of clause 9.24.3A(a).

- 9.24.4. ~~If the IMO has reduced any payment one or more Market Participants have suffered a reduction under clause 9.24.3A(b) as a result of a Payment Default and, within five Business Days of the Payment Default, the IMO it has received full or partial payment of the overdue amount, then the IMO must within one Business Day pay apply the amount received (including any interest paid under clause 9.22.7 in respect of the Payment Default) on a pro-rata basis to all payment recipients Market Participants who suffered a reduction.~~

consumption, determined in accordance with the Metered Schedules, for each Market Participant for Trading Intervals during the ~~preceding~~most recent Trading Month for which Non-STEM Settlement Statements have been issued, as a proportion of the total of those values for all Market Participants (other than Market Participants with unrecovered Payment Defaults).

9.24.8. By 2 PM on the 8th Business Day following the date of a Payment Default, the IMO is to allocate the total of the Default Levy amounts received under clause 9.24.7 ~~on a pro-rata basis to all Market Participants who suffered a reduction under clause 9.24.3(b) as a result of the Payment Default. The amount to be paid to each Market Participant is determined by applying the formula in clause 9.24.3(b), but as if AAP referred to the amount to be paid to each Market Participant, MAA referred to the total amount actually received under clause 9.24.7 and NAP and TNAP have the same value as when the reduction was calculated.~~ as follows.

(a) First, the IMO must apply the total amount received to pay parties who suffered a reduction under clause 9.24.3A(a). The amount payable by the IMO to each party is equal to the amount by which that party's payment was originally reduced under clause 9.24.3A(a), adjusted to reflect interest accrued in accordance with clause 9.1.3 and any payments already made under clause 9.24.4 or this clause 9.24.8. However, if the amount received by the IMO is less than the total amount payable to these parties then the IMO must reduce the payments proportionally. Each payment will be based on the proportion that the total amount received by the IMO bears to the total amount that would have been required to make all payments under this clause 9.24.8(a).

(b) Second, the IMO must apply the remainder on a pro-rata basis to all Market Participants who suffered a reduction under clause 9.24.3A(b). The amount to be paid to each Market Participant is determined by applying the formula in clause 9.24.3A(b), but as if:

AAP referred to the amount to be paid to each Market Participant;

MAA referred to the remainder of the total of the Default Levy amounts received under clause 9.24.7 after the application of clause 9.24.8(a); and

NAP and TNAP have the same values as when the reduction was calculated.

9.24.8A If a Market Participant pays part or all of

- 9.24.9. ~~By the end of the second month following the end of~~ Upon completion of the final Trading Month commencing during a Financial Year, the IMO must re-allocate any Default Levies raised during that Financial Year as follows:
- (a) the IMO will determine the aggregate of the shortfalls in respect of which it raised Default Levies during the Financial Year less any subsequent amounts recovered and refunded under clause 9.24.10;
 - (b) the IMO will determine the aggregate Default Levy amount which should have been paid by each Market Participant, having regard to the absolute value of the MWh of generation or consumption, as determined in accordance with the Metered Schedules for each Market Participant (excluding Market Participants with unrecovered Payment Defaults) for Trading Intervals during the Financial Year as a proportion of the total of those values for all these Market Participants;
 - (c) the IMO must compare the amount determined for the Market Participant under ~~paragraph~~ clause 9.24.9(b) with the total of the amounts which the Market Participant actually paid under clause 9.24.7;
 - (d) the IMO must determine an appropriate adjustment to put each Market Participant in the position it would have been in had it paid the amount determined under ~~paragraph~~ clause 9.24.9(b) instead of the amounts actually paid under clause 9.24.7; and
 - (e) the IMO must include that adjustment in the Non-STEM Settlement Statement for the most recently completed Trading Month.

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Metered Schedule: Has the meaning given in clause ~~6.16.1~~ 9.3.4.

APPENDIX 1: FULL DETAILS OF THE PROPOSAL

Background

One of the functions of the IMO is to settle wholesale market transactions under the Wholesale Electricity Market Rules (Market Rules). The IMO fulfils this function by collecting money from Market Participants that have incurred liabilities, and paying it on the same day to the Market Participants that are owed money. Settlement of the Short Term Energy Market (STEM) occurs on a weekly basis, while other transactions are settled monthly. Settlement adjustments can be made for up to a year, allowing for resolutions of disagreements and revisions to the meter data provided by the Metering Data Agent.

Settlement adjustments take place up to 70 days after liabilities are accrued, with the IMO standing as 'principal' between payers and those

Where there is a default in payment the IMO may draw upon any Credit Support in relation to that Market Participant to the extent required to cover the amount outstanding. If a Market Participant fails to provide adequate Credit Support by the due date the IMO must issue a Cure Notice requiring that the default be remedied within 24 hours. If the default is not fixed then the IMO issues a Suspension Notice.

If a Market Participant defaults and its Credit Support is insufficient to cover outstanding monies owing, the IMO will have inadequate revenue

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- System Management: \$15,000; and
- Market Generator B (NCS Contract): \$50,000

This would leave a total of $\$275,000 - \$15,000 - \$50,000 = \$210,000$ for payment to other parties (MMA).

In accordance with clause 9.24.3(b) then the NAP of each Rule Participant would be as follows:

- System Management: \$15,000;
- Market Generator A: \$100,000; and
- Market Generator B: \$200,000 (generation and NCS)

$TNAP = \$15,000 + \$100,000 + \$200,000 = \$315,000$

The determination of AAP for each of the entities could be potentially interpreted as follows (if the payments made in subsection (a) to

Overall, only \$231,666 would be paid out to the market compared to the Total Amount of \$275,000.

Proposal

In determining how the IMO should allocate the money

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Settlement for a trading month is carried out on the basis of meter data provided on the first business day of the second month in which trading took place. In other words, settlement occurs for trading two months in arrears for example, January trading is settled in March, and February trading is settled in April.

If a Market Participant fails to pay what it owes, and as a result the IMO has to calculate

making it circular in nature. The meaning of Metered Schedule is actually found in clause 9.3.4.

Proposal

APPENDIX 2: PROPOSED AMENDING RULES IN THE RULE CHANGE PROPOSAL

The following amendments were proposed (~~deleted text~~, added text):

- 6.16.1. The Metered Schedule for a Trading Interval for a Facility or Non-Dispatchable Load is determined by IMO in accordance with clause ~~9.3.3~~ 9.3.4.
- 9.3.3. The IMO must determine the Metered Schedule for each Facility and Non-

but for the application of this clause 9.24.3(b), in respect of the relevant Trading Week or Trading Month (as applicable);

- xii. ~~(cC)~~ details of any reductions in payments in the preceding Trading Month under clause 9.24.3A as a result of a Market Participant being in Default;
- xiii. ~~(cD)~~ details of any payments to the Market Participant as a result of the IMO recovering funds not paid to the Market Participant in previous Trading Months under clause 9.24.3A as a result of a Market Participant being in Default;
- xiv. ~~(cE)~~ in regard to Default Levy re-allocations, as defined in accordance with clause 9.24.9:
 - 1. ~~i.~~ the total amount of Default Levy paid by that Market Participant during the Financial Year, with supporting calculations;
 - 2. ~~ii.~~ the adjusted allocation of those Default Levies to be paid by that Market Participant, with supporting calculations; and
 - 3. ~~iii.~~ the net adjustment to be made;
- (d) whether the statement is an adjusted Non-STEM Settlement Statement and replaces a previously issued Non-STEM Settlement Statement;

...

- 9.24.1. ~~If in the event that~~ a Market Participant fails to make a payment under these Market Rules to the IMO before it is due, then the IMO may Draw Upon any Credit Support in relation to that Market Participant to meet the payment.
- 9.24.3. Notwithstanding anything else in these Market Rules, if at any time the total amount received by the IMO from Rule Participants in cleared funds (“**Total Amount**”) is not sufficient to make the payments which the IMO is required to make under these Market Rules (for example, as a result of default by one or more Rule Participants), then the IMO’s liability to make those payments is limited to the Total Amount. ~~The IMO must apply the Total Amount as follows:~~
 - ~~(a) firstly, the IMO must apply the Total Amount to satisfy:~~
 - ~~i. payment of Revenue Requirement Settlement Amounts to the IMO, System Management and the Economic Regulation Authority (including as contemplated by clause 9.22.10); then~~
 - ~~ii. payments which the IMO is required to make under Supplementary Capacity Contracts or to a provider of Ancillary Services holding an Ancillary Service Contract with System Management; then~~
 - ~~iii. payments which the IMO is required to make under Network Control Service Contracts; then~~
 - ~~iv. funds required to be disgorged or repaid by the IMO as contemplated by clause 9.24.2; and~~
 - ~~(b) secondly, it must apply the remainder to pay the net amounts after the application of 9.24.3(a) which, but for this clause 9.24.3(b), it would~~

these parties then the IMO must reduce the payments proportionally. Each payment will be based on the proportion that the amount received by the IMO bears to the total amount payable under this clause 9.24.4(a).

- (b) Second, the IMO must apply the remainder on a pro-rata basis to all

payments already made under clause 9.24.4 or this clause 9.24.8. However, if the amount received by the IMO is less than the total amount payable to these parties then the IMO must reduce the payments proportionally. Each payment will be based on the proportion that the total amount received by the IMO bears to the total amount that would have been required to make all payments under this clause 9.24.8(a).

- (b) Second, the IMO must apply the remainder on a pro-rata basis to all Market Participants who suffered a reduction under clause 9.24.3A(b). The amount to be paid to each Market Participant is determined by applying the formula in clause 9.24.3A(b), but as if:

AAP referred to the amount to be paid to each Market Participant;

MAA referred to the remainder of the total of the Default Levy amounts received under clause 9.24.7 after the application of clause 9.24.8(a); and

NAP and TNAP have the same values as when the reduction was calculated.

9.24.8A If a Market Participant pays part or all of a Default Levy after the date and time prescribed in clause 9.24.7 but within five Business Days of that date, then the IMO must within one Business Day apply the amount received in accordance with clause 9.24.8 as if it was an amount received under clause 9.24.7.

9.24.9. By the end of the second month following the ~~Capacity~~ end of a Financial Year, the IMO must re-allocate any Default Levies raised during that ~~Capacity~~ Financial Year as follows:

- (a) the IMO will determine the aggregate of the shortfalls in respect of which it raised Default Levies during the ~~Capacity~~ Financial Year less any subsequent amounts recovered and refunded under clause 9.24.10;
- (b) the IMO will determine the aggregate Default Levy amount which should have been paid by each Market Participant, having regard to the absolute value of the MWh of generation or consumption, as determined in accordance with the Metered Schedules for each Market Participant (excluding Market Participants with unrecovered Payment Defaults) for Trading Intervals during the ~~Capacity~~ Financial Year as a proportion of the total of those values for all these Market Participants;
- (c) the IMO must compare the amount determined for the Market Participant under ~~paragraph~~ clause 9.24.9(b) with the total of the amounts which the Market Participant actually paid under clause 9.24.7;
- (d) the IMO must determine an appropriate adjustment to put each Market Participant in the position it would have been in had it paid the amount

determined under ~~paragraph~~ clause 9.24.9(b) instead of the amounts actually paid under clause 9.24.7; and

- (e) the IMO must include that adjustment in the Non-STEM Settlement Statement for the most recently completed Trading Month.

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Metered Schedule