



Independent Market Operator

**Final Rule Change Report:
Settlement in Default Situations**

Ref: RC_2010_04

Date: 17 September 2010

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1. INTRODUCTION

On 7 April 2010 the Independent Market Operator (IMO) submitted a Rule Change Proposal regarding amendments to clauses 6.16.1, 9.3.3, 9.24.3, 9.24.5 and 9.24.9 of the Wholesale Electricity Market Rules (Market Rules).

The proposal was processed using the Standard Rule Change Process, described in section 2.7 of the Market Rules. The standard process adheres to the following timelines:

In accordance with clause 2.5.10 of the Market Rules the IMO decided to extend the timeframe for preparing the Draft Rule Change Report. Further details of the extension are available on the IMO website. The key dates in processing this Rule Change Proposal, as amended in the extension notice, are:

The IMO's final decision is to accept the Rule Change Proposal in a modified form. The

2. THE RULE CHANGE PROPOSAL

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3.4 Additional Amendments to the Amending Rules

Following the first public submission period, the IMO made some additional changes to the proposed Amending Rules. A summary of these changes and the text of the additional amendments are contained in Appendix 3 of this report.

4. THE IMO'S DRAFT ASSESSMENT

The IMO's draft assessment, against clauses 2.4.2 and 2.4.3 of the Market Rules, and analysis of the Rule Change Proposal can be viewed in the Draft Rule Change Report (available on the IMO's website).

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

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 payments under clause 9.24.3(a); and
- amend the drafting to include STEM defaults.

8. THE IMO'S FINAL DECISION

Based on the matters set out in this report, the IMO's final decision, in accordance with clause 2.7.8 (e), is to accept the Rule Change Proposal as modified by the amendments specified in Appendix 3 of this report.

8.1 *Reasons for the Decision*

The IMO has made its decision on the basis that the Amending Rules:

- will allow the Market Rules to better address Wholesale Market Objective (b);
- are consistent with the remaining Wholesale Market Objectives;
- will improve the integrity of the Market Rules;
- have the support of the MAC; and
- are supported by all the submissions received during the first and second submission periods.

Additional detail outlining the analysis behind the IMO's decision is outlined in section 7 of this Final Rule Change Report.

9. AMENDING RULES

9.1 *Commencement*

The amendments to the Market Rules resulting from this Rule Change Proposal will commence at **8.00am** on **1 October 2010**.

9.2 *Amending Rules*

The IMO's final decision is to amend the Market Rules. The following clauses are amended (~~deleted wording~~, new wording):

6.16.1. The Metered Schedule for a Trading Interval for a Facility or Non-Dispatchable

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- (c) for each Trading Interval of each Trading Day:
- i. the Bilateral Contract quantities for each Market Participant;
 - ...
 - vii. in the case of the Electricity Retail Corporation, Notional Wholesale Meter values;
 - viii. the values of MCAP, UDAP, and DDAP;
 - viii(A). in the case of the Electricity Generation Corporation the MWh quantity of non-compliance; and
 - ix. details of amounts calculated for the Market Participant under clauses 9.7 to 9.14 with respect to:
 - 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;

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- (d) whether the statement is an adjusted Non-STEM Settlement Statement and repM

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~~respect of the relevant Trading Week or Trading Month (as applicable), calculated by summing all values of NAP; and~~

~~MAA is the remainder of the Total Amount available for payment by the IMO after the application of paragraph (a).~~

9.24.3A The IMO must apply the Total Amount as follows.

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

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

TNAP is the total net amount payable by the IMO to all Rule Participants (after the application of clause 9.24.3A(a)) but for the application of this clause 9.24.3A(b), in respect of the relevant Trading Week or Trading Month (as applicable), calculated by summing all values of NAP; and

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. 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 amount of the full or partial payment, and NAP and TNAP have the same value as when the reduction was calculated, as follows.~~

(a) First, the IMO must apply the 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

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interest calculated in accordance with clause 9.22.7). The IMO will determine

- 9.24.9. ~~By the end of the second month following the end of the final Trading Month commencing during a~~ Upon completion of the 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

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.

- Clause 9.16.2(a) requires meter data to be provided by the first business day of the second month following the month in which the trading month occurred.

In other words, Metered Schedules are created two months after a Trading Month, as that is when the IMO gets the data from the Meter Data Agents. However, the Default Levy calculation requires the IMO to use data from the preceding month, data which is not available.

Proposal

In determining the Default Levy the IMO proposed amending clause 9.24.5 to refer to the Trading Month “to which the payment default relates in non-STEM defaults or the most recent month available with metered schedules for STEM” and not the “preceding” Trading Month. This will ensure that the IMO will be able to make use of all available data for STEM and non-STEM defaults. The IMO considered that these proposed amendments will also ensure consistency with the Market Rules relating to the determination and definition of a Metered Schedule, as presented above.

Issue 3: Definition of Metered Schedule

For the IMO to raise a default levy and pay Market Participants it must be determined in

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The IMO considered that the Default Levy and annual reallocation should be determined for the Capacity Year as opposed to the Financial Year. The IMO considered that this would allow each Capacity Year's costs, income and defaults to be contained in one reallocation period. The IMO noted that there will be no significant impact on the values calculated for energy market defaults as these simply need to be calculated for each Trading Day, whether during the Financial Year or Capacity Year is irrelevant as a 365 day average is simply required.

Proposal

The IMO proposed to amend clause 9.24.9 to replace Financial Year with Capacity Year

APPENDIX 2: PROPOSED AMENDING RULES IN THE RULE CHANGE PROPOSAL

The IMO proposed the following amendments to the Market Rules in its Rule Change Proposal (~~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-Dispatchable Load for each Trading Interval in accordance with clause 9.3.4.
- 9.24.3. Notwithstanding anything else in these Market Rules, if at any time the total

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NAP is the net amount that would have been payable by the IMO to the Rule Participant, ~~after the application of 9.24.3(a)~~ but for the application of this clause 9.24.3(b), in respect of the relevant Trading Week or Trading Month (as applicable);

TNAP is the total net amount payable by the IMO to all Rule Participants, ~~after the application of 9.24.3(a)~~ but for the application of this clause 9.24.3(b), in respect of the relevant Trading Week or Trading Month (as applicable), calculated by summing all values of NAP; and

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

- 9.24.5. If, five Business Days after a Payment Default, the IMO is yet to recover in full the overdue amount, then it must raise a Default Levy from all Market Participants (other than the Market Participant which committed the Payment Default) to cover the remaining shortfall (including interest calculated in accordance with clause 9.22.7). The amount to be paid by each Market Participant is to be determined by the IMO. In determining the amount to be

APPENDIX 3: ADDITIONAL AMENDMENTS MADE BY THE IMO FOLLOWING THE FIRST SUBMISSION PERIOD

Following the first public submission period, the IMO made some additional changes to the proposed Amending Rules. A summary of these changes is provided below.

Default Levy re-allocation period

Participant or by a Rule Participant to the IMO. To prevent the overpayment of Rule Participants in these situations, the IMO proposed to limit any payments made to a Rule Participant under clause 9.24.3 (now clause 9.24.3A) to the total net amount that it

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raise a Default Levy from all Market Participants, except for the Market Participant who committed the default in question. This could result in a Market Participant potentially being asked to contribute to a Default Levy when it itself is already in default.

For example, assume that the IMO requested a Default Levy contribution from Market

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 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~~

$$\text{AAP} = (\text{NAP} / \text{TNAP}) \times \text{MAA}$$

where:

AAP is the reduced amount actually payable by the IMO to a Rule Participant in respect of the relevant Trading Week, in the case of an Invoice relating to a STEM Settlement Statement, and the relevant Trading Month, in the case of an Invoice relating to a Non-STEM Settlement Statement;

NAP is the net amount that would have been payable by the IMO to the Rule Participant (after the application of clause 9.24.3A(a)) but for the application of this clause 9.24.3A(b), in respect of the relevant Trading Week or Trading Month (as applicable);

(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 full or partial payment after the application of clause 9.24.4(a); and

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

9.24.5. If, five Business Days after a Payment Default, the IMO is yet to recover in full the overdue amount, then it must raise a Default Levy from all Market Participants (other than ~~the Market Participants with unrecovered which committed the Payment Defaults~~) to cover the remaining shortfall (including interest calculated in accordance with clause 9.22.7). ~~The IMO will determine the amount to be paid by each Market Participant, having is to be determined by the IMO. In determining the amount to be paid by a Market Participant, the IMO must have regard to the absolute value of the MWh of generation or consumption, determined in accordance with the Metered Schedules, for each Market Participant for Trading Intervals during the most recent Trading Month for which Non-STEM Settlement Statements have been issued, to which the Payment Default relates in non-STEM defaults or the most recent month available with Metered Schedules for STEM, 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

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

Chapter 11 – Glossary

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