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- (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
- (c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options



- A Credit Limit for each Market Participant (Market Generator and Market Customer) which may be revised at any time and must be reviewed at least once each year;
- Acceptable Credit Criteria which applies both to Market Participants and to any bank or other organisation that provides prudential security for a Market Participant;
- Credit Support, provided by Market Participants and Network Operators, and held by the IMO for the benefit of the market;
- A Trading Margin for each Market Participant, which limits the amount by which they can trade;
- A detailed process and strict timetable for payments to be made to and by the IMO on settlement day; and
- Processes for calling on securities in the event of a default in payment, and for sanctions, including suspension from the market, for payers who default.

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 to settle the market. In this case, the IMO pays the money it holds according to a specified list of priorities and may temporarily reduce payments to Market Participants to reflect the shortfall (i.e. the market will be short paid).

To cover any remaining shortfall to Market Participants in payments for invoiced amounts associated with either the energy or capacity markets, the IMO is required to raise a Default Levy to secure the funds required to met the shortfall and allow for settlement of the market. The Default Levy is allocated across all Market Participants, excluding the Market Participant who committed the Payment Default, based on metered generation or consumption during the month. The Default Levy must be paid in full by Market Participants by 10am on the eighth Business Day following the date of the Payment Default.

By 2pm on the eighth Business Day following the date of the Payment Default, the IMO will allocate the total Default Levy amounts received on a pro-rata basis to all Market Participants who suffered a reduction as a result of the Default Payment. At the end of the Financial Year the IMO will aggregate any shortfalls that have occurred during the Financial Year and recalculate the Default Levy based on metered consumption and generation. The end of year adjustment ensures that Market Participants do not avoid funding a default simply because they do not happen to be producing or consuming in the month that the default occurred.

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If the IMO does not have sufficient cleared funds to make all payments required under the Market Rules when due, the IMO will pay the money it currently holds according to the list of



priorities specified in clause 9.24.3(a). In particular, the IMO's allocation of the total amount of monies held in cleared funds will be made as follows:

- Payments to the IMO, System Management, and the Economic Regulation Authority (ERA);
- Payments required under a Supplementary Capacity Contract or to a provider of Ancillary Services holding a contract with System Management;
- Payments under a Network Control Services Contract; and
- Anything that the IMO is required to pay under the Corporations Act or other law relating to such things as the protection of creditors.

If there are insufficient funds to meet these obligations there is currently no guidance in the Market Rules as to how the IMO should apply the money that it holds.

Following this the IMO pays the remaining Market Participants a proportion of what is owed



- Rule Participants being potentially paid twice – once under 9.24.3(a) and again through inclusion of the required payments in the calculation of the participant's NAP and therefore the TNAP values in 9.24.3(b) (a less reasonable interpretation given the intent of the payment).

Example

To demonstrate this issue consider the following simplified example. For this simple case, assume at the time of the shortfall there are three active Rule Participants and they are owed as follows:

- System Management: \$15,000;
- Market Generator A: \$100,000; and
- Market Generator B: \$150,000 (generation) and \$50,000 (Network Control Service Contract).

This means that the market currently owes a total of \$315,000.

If there were a default of \$40,000 the Total Amount available for distribution would be:

$$\text{Total Amount} = (\$315,000 - \$40,000) = \$275,000$$

In accordance with clause 9.24.3(a) payments would be made to those priority list entities as follows:

- 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)

$$\text{TNAP} = \$15,000 + \$100,000 + \$200,000 = \$315,000$$

The determination of AAP for each of the entities could be potentially interpreted as follows (if the payments made in subsection (a) to System Management and the NCS of Market Generator B are ignored):

- System Management = $15,000/315,000 * 210,000 = \$9,999.99$



- Market Generator A = $100,000/315,000 * 210,000 = \$66,666.66$
- Market Generator B = $200,000/315,000 * 210,000 = \$133,333.33$

These payments total \$209,999.99. However given that System Management and the Market Generator B (for the NCS) have already been paid under clause 9.24.3(a) and depending on the interpretation of clause 9.24.3(b) the following scenarios may arise:

- *Scenario 1: System Management and Market Generator B (for the NCS) are paid out money under clause 9.24.3(a) and additionally under clause 9.24.3(b).*

In this scenario System Management will be paid \$15,000 under clause 9.24.3(a) and an additional \$9,999.99 under clause 9.24.3(b), a total of \$24,999.99. Similarly, Market Generator B will be paid \$50,000 under 9.24.3(a) for the NCS and another \$33,333.33 under clause 9.24.3(b).

Overall, the Total Amount of \$275,000 ($\$209,999.99 + \$15,000 + \$50,000$) would be paid out by the market however the allocation rates to Rule Participants would be skewed highly towards those who are also on the priority list (under clause 9.24.3(a)). This would result in an inequitable allocation of funds amongst Rule Participants.

- *Scenario 2: System Management and Market Generator B (for the NCS) are paid out money under clause 9.24.3(a) but not under clause 9.24.3(b).*

In this scenario the values of their NAP would have inflated the total value to be paid to the market (TNAP) and result in \$43,333.31 of available funds ($\$9,999.99 + \$33,333.33$ ($50,000/315,000 * 210,000 = \$33,333.33$)) not having been paid out.

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 that it holds under clause 9.24.3(a), the IMO proposes to clarify the priority of the payment by including “then” between each of the sub-clauses.

The IMO proposes to further clarify the calculation of the NAP and TNAP variables in clause 9.24.3(b) so that Market Participants who have previously been paid in accordance with the priority list will have this value of payment excluded from the determination of their NAP and consequently the TNAP variable. This will ensure that Market Participants would not be overpaid and that the IMO will pay out all monies paid to it in the case of a Default Levy. The IMO considers that this clarification will ensure that the Market Rules can not be interpreted in a way that results in a nonsensical outcome.

This solution can be demonstrated below (using the same simple example as presented in the issue identification). However, in accordance with the proposed clause 9.24.3(b) the NAP of each Rule Participant would be as follows:



- System Management: \$0 (already paid under clause 9.24.3(a));
- Market Generator A: \$100,000; and
- Market Generator B: \$150,000 (generation only, NCS paid under clause 9.24.3(b))

Therefore TNAP = \$0 + \$100,000 + \$150,000 = \$250,000

The determination of AAP for each of the entities could be interpreted as follows:

- System Management = $0/250,000 * 210,000 = \$0$
- Market Generator A = $100,000/250,000 * 210,000 = \$84,000$
- Market Generator B = $150,000/250,000 * 210,000 = \$126,000$

These payments total \$210,000 and take into account that System Management and the Market Generator B (for the NCS) have already been paid under clause 9.24.3(a) resulting in a total of $\$210,000 + \$15,000 + \$50,000 = \$275,000$ having been paid out to the market which is consistent with the Total Amount determined.

Contradiction between Metered Schedules and Default Levy

In the Market Rules there is a contradiction between clause 9.24.5 (which requires that Default Levy calculations are based on Metered Schedules from one month prior to the calculation of the levy) and the meter data that the Metered Schedules are based on, which is from two months prior.

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 a Default Levy, it must do so on the basis set out in clause 9.24.5. There is however a contradiction in the wording of clause 9.25.5 and the other rules it refers to. In particular:

- Clause 9.24.5 requires the IMO to determine the Default Levy amounts payable to the IMO in accordance with the Metered Schedules for the preceding month i.e. one month before.
- “Metered Schedule” has the meaning in clause 6.16.1.
- Clause 6.16.1 says the Metered Schedule is determined by the IMO under clause 9.3.3.
- Clause 9.3.3 says that the IMO determines the Metered Schedules. The basis for that determination is set out in clause 9.3.4.



- Clause 9.3.4 says that the Metered Schedule is the net quantity of energy generated or consumed and determined from meter data submissions received in accordance with clause 8.4.
- Clause 8.4.1 says the Metering Data Agent must provide the meter data to the IMO in accordance with the times specified in clause 9.16.2(a), and
- 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 proposes 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 considers 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.



As noted previously, a Default Levy can result from



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~~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; ~~and~~ then
 - iii. payments which the IMO is required to make under Network Control Service Contracts; ~~and~~ then
 - iv. funds required to be disgorged or repaid by the IMO as contemplated by clause 9.24.2; and
- (b) ~~second~~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 owe to Rule Participants in accordance with clause 9.22, where those amounts are reduced by applying the following formula:

$$AAP = (NAP / TNAP) \times MAA$$

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 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



(other than the Market Participant which committed the Payment Default) to cover

