



Draft Rule Change Report

1 INTRODUCTION

On 25 October 2010, the IMO submitted a Rule Change Proposal regarding amendments to clause 9.16.3 and new clause 9.16.3A of the Wholesale Electricity Market Rules (Market Rules).

This proposal is being processed using the Standard Rule Change Process, described in

Monthly adjustments of Non-STEM Settlement Statements. Each Non-STEM Settlement Statement would be adjusted three times, at three-monthly intervals, over a nine-month period. The adjustments would take into account revised

4.3 Public Forums and Workshops

No public forums or workshops were held in relation to this Rule Change Proposal.

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:

Practicality:

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

5.3 Market Advisory Committee

The proposal was presented to the MAC at the 13 October 2010 meeting. During the meeting, some issues were raised regarding this Rule Change Proposal, including the following.

The Chair questioned whether it was necessary to have three adjustment runs and requested the MAC's comments on whether two adjustments would be sufficient. The MAC agreed that the fourth run was superfluous but one member expressed hesitation about reducing the number of adjustments to just two.

Some participants had received invoices from the IMO that had been materially incorrect and did not appear to have been logically checked by the IMO. The IMO responded that any major changes were reviewed and that it ensured that any changes were explainable. The Chair noted that up until two months ago, the IMO's system for settlement had taken almost 50 hours to complete a run and this was now reduced to four hours and that Market Participants should notice a difference in the IMO reviewing the statements more thoroughly.

The Chair noted that the IMO had, until six months ago, modified meter readings that were obviously incorrect which led to Market Participants raising concerns that the meter database and the IMO values were different. On review, the IMO had decided not to amend incorrect meter readings and is now working with Western Power to correct and review potential issues identified by the IMO with information contained in the meter database.

A member noted that Market Participants need to be certain that the statements are converging prior to agreeing with the reduction in the number of adjustments being undertaken by the IMO.

A member suggested considering whether an interim invoice for Market Participants to review could be issued prior to the first settlement statement. The IMO noted that it is currently considering this but noted that it was highly reliant on the provision of metering data and the timing associated with this. The Chair noted that his preference would be to see the settlement timeframes shortened.

5.4 Views Expressed in Submissions

The IMO received three submissions during the first submission period, all of which supported the proposed amendments.

6. THE IMO'S DRAFT DECISION

The IMO's draft decision is to accept the amendment of clause 9.16.3 and new clause 9.16.3A of the Market Rules as proposed in the Rule Change Proposal. The proposed amendments are outlined in section 7 of this report.

6.1 Reasons for the decision

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

are consistent with the Wholesale Market Objectives;

have the support of the MAC;

have the support of submissions received during the first submission period; and

facilitate corrections resulting from Notices of Disagreement, the resolution of Disputes and revised metering data provided by Metering Data Agents. Adjustments may only be made to Relevant Settlement Statements. Adjustments may not be made to Settlement Statements outside of an Adjustment Process.”

As the rule is written, the Adjustment Process is to be undertaken at least once every three months, and each initial Settlement Statement that was issued in the 12 months before the start of the Adjustment Process is to be reviewed (and if necessary adjusted).

To have complied with this clause in its current form would have required the IMO to complete one initial settlement run and four adjustments each calendar month, however this cycle would extend settlement finality out to 14 months after the Trading Month.

Since market start the IMO has implemented a monthly cycle where the IMO conducts one initial Non-STEM settlement run and three reviews and adjustments of prior Settlement Statements, each taking about one week to complete. In this way, assuming an Adjustment Process lasts for three months, over a three-month period the IMO completes three initial settlement runs and reviews prior Settlement Statements covering a nine month period preceding the start of the Adjustment Process. This approximates the Adjustment Process as set out in clause 9.16.3, and allows the Adjustment Process to be completed in 11 months, rather than 14, as prescribed.

The diagram below shows how the Adjustment Process would operate within the current requirements specified in the Market Rules:



In practice the IMO's Adjustment Process ends following the third adjustment at n+11 rather than following a fourth adjustment at n+14. Since market start, the IMO has carried out adjustments to invoices three months after the initial settlement run (i.e. five months after the trade month), with a further two adjustments made at the six and nine month marks after initial settlement (i.e. eight and 11 months after the trade month).

Because the Adjustment Process commences every three months and takes three months to complete, based on current practice the Adjustment Process reviews nine Settlement Statements that were issued in the 12 months prior to the commencement of the Adjustment Process, rather than all 12 of those issued in the 12 months prior to the commencement of the Adjustment Process.

This means that in any calendar month the IMO is performing an initial settlement run (for trading month n-2) and three adjustments (for trading months n-5, n-8 and n-11). In this way each Trading Month's settlement data is calculated once (initial run) and adjusted three times (each with the opportunity for disagreement and dispute). Settlement certainty for any Trading Month is achieved eleven months after the Trading Month, with settlement (payment) finality relating to any Trading Month occurring in the twelfth month after that Trading Month.

Analysis undertaken by the IMO

The IMO notes that the Market Rules were originally drafted based on the assumption that at least four rounds of settlement corrections were undertaken each year. It was however originally acknowledged that this could be expanded or reduced as required based on the experience following Market Start¹.

The Adjustment Process requirements were drafted before the initial practical limitations of the settlement system were understood. They did not factor in the IMO's obligation (elsewhere in the Market Rules) to contemporaneously complete the initial Settlement Statement process each week for STEM and each month for Non-STEM. The current Market Rules also do not appear to recognise the two-month delay from Trading Month to initial Settlement Statement.

Initial practical limitations on the IMO's capacity to process a sufficient number of initial Settlement Statements and adjustments each month have led to a practicable process becoming embedded that does not fully reflect the intention of the Market Rules.

The only means of delivering an Adjustment Process that reviews all 12 Settlement Statements that were issued prior to the commencement of the Adjustment Process would be if each Settlement Statement were open for one further adjustment cycle. However this would push finality of invoice certainty out to 14 months from the Trading Month for little or no practical gain in terms of Settlement Statement accuracy.

Advice received by the IMO from Market Participants indicates that they prefer settlement finality earlier rather than later. This is because Market Participant's systems are configured to align with the IMO's current practice and they are comfortable with the accuracy of Settlement Statements at month n+11.

It is relevant to note that clause 9.19.7 prohibits the issuance of a Notice of Disagreement with respect to an adjusted Settlement Statement more than nine months after the issuance of the original Settlement Statement (i.e. after month n+11). So as the Market Rules currently stand Market Participants are unable to seek to have further adjustments made to Settlement Statements after the third adjustment. The only way that a fourth adjustment at month n+14 could result in a change to a Settlement Statement would be by reason of revised Metering Data being provided by Metering Data Agents which is an unlikely event by that stage.

The IMO's experience over four years of settlements and adjustments is that metering data is largely accurate and complete within the first or second adjustments, with minimal further adjustment occurring in the third adjustment cycle.

Apart from a small adjustment that arises in each adjustment run due to a known faulty metering installation (equal to about 0.3% of that Market Participant's initial Settlement Statement), the quantum of adjustment amounts that have occurred in the third Settlement Statement adjustments over the previous 12 months is less than \$100 for any Market Participant. In other words, excluding revisions arising from disagreements or disputes (and one known metering fault which is intended to be replaced in due course), the dollar value of changes to Settlement Statements made at adjustment three are minimal.

Therefore a fourth adjustment cycle would deliver little practical value for participants while unnecessarily extending the ability to achieve financial certainty of settlement.

¹ For further details please refer to the Wholesale Electricity Market Amending Rules (16 September 2006) available on the following webpage:

Proposal

The IMO proposes that clause 9.16.3 be amended to reduce the number of Settlement Statements to be reviewed in any single Adjustment Process to nine.

In Non-STEM adjustments, the IMO proposes to amend the Market Rules to reflect current practices and to make explicit the definition of Relevant Settlement Statements for the purposes of the adjustment process to distinguish between STEM and Non-STEM Settlement Statements and the circumstances in which each type of statement may be adjusted.

The amendments will provide for:

Monthly adjustments of STEM Settlement Statements where a Notice of Dispute or Notice of Disagreement had been resolved, and the resolution required new Settlement Statements to be issued; and

Monthly adjustments of Non-STEM Settlement Statements. Each Non-STEM Settlement Statement would be adjusted three times, at three-monthly intervals, over a nine-month period. The adjustments would take into account revised metering data as well as any resolved Notice of Disputes or Disagreements. The period from the start of the trading month to the final adjustment would be eleven months.