



INDEPENDENT
MARKET
OPERATOR

Draft Rule Change Report

Title: Cure Notices and Credit Support

RC_2012_24

Standard Rule Change Process

Date: 5 March 2013

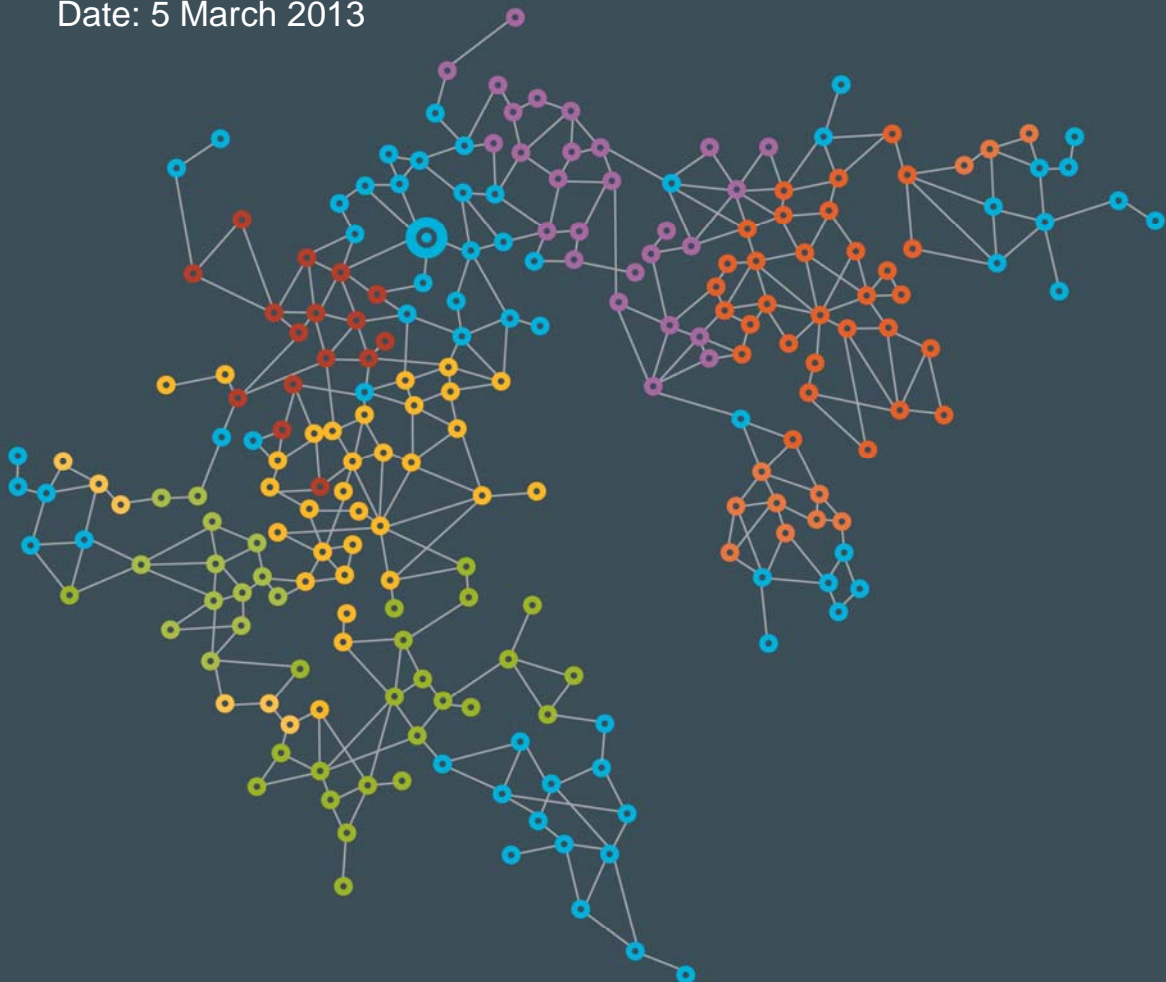


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Executive Summary

Proposed amendments

The Rule Change Proposal seeks to amend the scenario in clause 9.23.4 in the Wholesale Electricity Market (WEM) Rules (Market Rules) for avoiding the issuance of a Cure Notice and drawing upon Credit Support, when a Suspension Event has been remedied before the IMO initiates those activities. The IMO proposes to add an exception to clause 9.23.4 so that, where a Suspension Event is remedied before a Cure Notice has been issued and the Credit Support is drawn upon, the IMO is no longer required to carry out those relevant steps.

Consultation

The pre Rule Change Proposal was discussed at the Market Advisory Committee (MAC) at its 12 December 2012 meeting, where the MAC agreed to submit it into the formal Rule Change process.

The first submission was held between 19 December 2012 and 4 February 2013. Submissions were received from Alinta, Community Electricity, Synergy and Verve Energy and an out of session submission was received from Perth Energy.

All submitters supported the Rule Change Proposal. However, Alinta called for an overarching review of the settlements process as well as made some recommendations regarding the drafting of the Amending Rules. Community Electricity also questioned why prudential security in the IMO's account could not be used for settlement purposes.

Assessment against Wholesale Market Objectives

The IMO considers that the proposed amendments will better achieve Wholesale Market Objective (d) and are consistent with the remaining Wholesale Market Objectives.

Practicality and cost of implementation

The IMO has not identified any costs associated with implementing this proposal.

The IMO has identified that the Market Procedure for Settlement will need to be updated to incorporate an allowance for stopping the issuance of a Cure Notice and the process of drawing upon Credit Support in situations where the Suspension Event has been remedied before those steps are undertaken. The IMO has not identified any other issues with the practicality of implementation of the Rule Change Proposal.

The IMO proposed decision

The IMO's proposed decision is to accept the Rule Change Proposal as modified following the first submission period.

Next steps

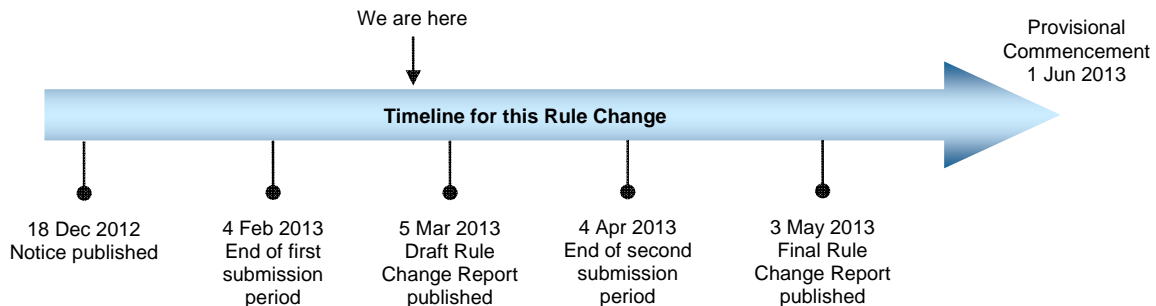
The IMO now invites interested stakeholders to make submissions on this Draft Rule Change Report by **5.00 PM on Thursday, 4 April 2013**.

1. Rule Change Process and Timetable

On 18 December 2012 the IMO submitted a Rule Change Proposal regarding amendments to clause 9.23.4 of the Wholesale Electricity Market (WEM) Rules (Market Rules).

This proposal is being processed using the Standard Rule Change Process, described in section 2.7 of the Market Rules.

The key dates in processing this Rule Change Proposal are:



Please note that the commencement date is provisional and may be subject to change in the Final Rule Change Report.

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 **5.00 PM on Thursday, 4 April 2013**.

The IMO prefers to receive submissions by email (using the submission form available on the Market Web Site: <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

Attn: Group Manager, Market Development and System Capacity
PO Box 7096
Cloisters Square, PERTH, WA 6850
Fax: (08) 9254 4399

3. Proposed Amendments

3.1. The Rule Change Proposal

The IMO manages the prudential and settlement processes for the WEM pursuant to the Market Rules. When an invoice is issued to a Rule Participant in accordance with clause 9.22.1 indicating that at least one dollar needs to be paid to the IMO, then the Rule Participant, in accordance with clause 9.22.6 must ensure that the full amount is paid to the IMO by 10:00 AM on the date specified in the invoice. Further, if the IMO owes at least one dollar to a Rule Participant, then the



IMO, in accordance with clause 9.22.8 must ensure that the full amount is paid to the Rule Participant by 2:00 PM on the date specified in the invoice.

Sometimes situations arise when payments are delayed for a short period of time after 10:00 AM; however, they are cleared soon after without affecting any out-payments by the IMO. Such situations generally occur because of administrative issues such as a Rule Participant's authorized officer not being contactable, IT or internet connectivity issues or short-term delays in the Austraclear system.

The delay in payment constitutes a Suspension Event in accordance with clause 9.23.1(a) and the IMO is required to issue a Cure Notice and Draw Upon Credit Support as soon as practicable (clause 9.23.4). However, the IMO considers that in situations where payments are affected only by short-term administrative delays and are cleared soon after, the issuance of a Cure Notice and drawing upon Credit Support becomes unnecessary and imposes an avoidable administrative cost to the market.

The IMO has proposed to add an exception to clause 9.23.4 so that, where a Suspension Event is remedied before a Cure Notice has been issued and the Credit Support is drawn upon; the IMO is no longer required to carry out those steps.

For full details of the Rule Change Proposal please refer to the Market Web Site: http://www.imowa.com.au/rc_2012_24

3.2. The IMO's Initial Assessment of the Rule Change Proposal

The IMO decided to proceed with the proposal on the basis that Rule Participants should be given an opportunity to provide submissions as part of the Standard Rule Change Process.

4. Consultation

4.1. The Market Advisory Committee

The Pre Rule Change Proposal was discussed at the Market Advisory Committee (MAC) at its 12 December 2012 meeting. The following comments and questions were raised from MAC members:

- Mr Shane Cremin questioned if there was a stipulated timeframe that the IMO followed in issuing a Cure Notice. Ms Aditi Varma responded that the IMO would normally start the process of issuing a Cure Notice and drawing upon Credit Support as soon as the payment default is identified.
- The Chair noted that as it currently stood, the Market Rules did not afford the IMO any discretion around the activities relating to Suspension Events and that this Rule Change Proposal would enable the IMO to avoid preparing Cure Notices and drawing upon Credit Support until the IMO has confirmed it is a definite default.

The MAC agreed that the proposal should be submitted into the formal process.

Further details are available in the MAC meeting minutes available on the Market Web Site: <http://www.imowa.com.au/MAC>

4.2. Submissions received during the first submission period

The first submission period for this Rule Change Proposal was held between 19 December 2012

and 4 February 2013. Submissions were received from Alinta, Community Electricity, Synergy and Verve Energy. An out of session submission was received from Perth Energy.

All submitters supported the Rule Change Proposal on the grounds that it reduced administrative costs.

Additionally, Alinta called for an overarching review of the WEM and enhanced transparency of settlement data. Alinta believed that market efficiencies could be achieved by simplifying current settlement processes. Alinta also highlighted the need to review other clauses to ensure consistent use of the defined terms “Suspension Event” and “Draw Upon”. Alinta also suggested an alternative drafting for the proposed Amending Rule.

Community Electricity raised a general issue around the requirement for a Market Participant to make payments at a specific time using the Austraclear system, when, in its opinion, maintenance of surplus funds in the Market Participant’s account with the IMO could be considered as sufficient prudential support.

Submitter	Wholesale Market Objective Assessment
Alinta	None provided.
Community Electricity	Improves the integrity of the Market Rules and is consistent with the Wholesale Market Objectives.
Perth Energy	Better achieves Wholesale Market Objective (d) and has not identified any impacts on the remaining Wholesale Market Objectives.
Synergy	None provided.
Verve Energy	Better achieves Wholesale Market Objective (d) and is consistent with the remaining Wholesale Market Objectives.

A copy of all submissions in full received during the first submission period is available on the Market Web Site: http://www.imowa.com.au/rc_2012_24

4.3. The IMO’s response to submissions received during the first submission period

The IMO’s response to each of the issues identified during the first submission period is presented in the table over the page:

	Submitter	Comment/Change Requested	IMO's Response
1.	Alinta	<p>Prior to the completion of a broad review of the WEM design, Alinta considers that there are a number of “low hanging fruit” related to the transparency of data used for settlements that can be addressed to improve market efficiencies. In particular, Alinta supports the IMO in:</p> <ul style="list-style-type: none"> • Making SCADA data available in a timely manner (potentially through the WEMs system) to enable Market Participants to validate their preliminary Theoretical Energy Schedules (TES); • Providing greater transparency to a Market Participant of the values used in their TES calculations rather than simply presenting a final number; • Providing greater transparency within non-STEM settlement statements as to what specific adjustments have been taken into account when determining reconciliation amounts; and • Publishing Forced Outage information to enable Market Customers to reconcile any Capacity Credit refund amounts. While Alinta notes that this will be addressed when any outcomes from the Rule Change Proposal: Transparency of Outage Information (RC_2012_12) commence, the proposed commencement date reflected in the Draft Rule Change Report was 1 July 2014. In the interim a cost effective option would be for the IMO to provide this information by email to interested Market Participants on a regular basis rather than requiring Market Participants to regularly provide a formal request for this information. 	<p>The IMO notes that these issues are outside the scope of this Rule Change Proposal. The IMO also acknowledges the ongoing discussions between the IMO and Alinta on improving transparency of settlements processes.</p>

	Submitter	Comment/Change Requested	IMO's Response
2.	Alinta	<p>Alinta recommends an alternative drafting option:</p> <p>9.23.4. If the IMO becomes aware that a <u>s</u>Suspension <u>e</u>Event has occurred in relation to a Rule Participant <u>and that the Suspension Event has not been remedied</u>, then the IMO must as soon as practicable:</p> <ul style="list-style-type: none"> (a) subject to clause 9.23.5, issue a notice ("Cure Notice"), requiring that the default be remedied within 24 hours from the time the Cure Notice is issued; and (b) if it has not already done so, Draw Upon Credit Support held in relation to that Market Participant for the amount which the IMO determines is actually or contingently owing by the Market Participant to the IMO under these Market Rules. 	<p>The IMO notes Alinta's suggestion and acknowledges that there are alternative drafting options available to deliver the same result. The IMO has modified the proposed Amending Rules based on Alinta's suggestion.</p>

	Submitter	Comment/Change Requested	IMO's Response
3.	Alinta	<p>Alinta also recommends:</p> <ul style="list-style-type: none"> • that the IMO review section 9.23 of the Market Rules to ensure that the defined term "Suspension Event" is used appropriately throughout this section. In particular clauses 9.23.3, 9.23.6 and 9.23.7 do not use the defined term; and • the IMO consider whether the reference in sub-clause 9.23.4(a) should be to "Suspension Event" rather than "default". Section 9.23 of the Market Rules appears to interchangeably use the two terminologies. 	<p>The IMO has noted that the use of the defined term "Suspension Event" is not consistent in clause 9.23 and has identified them as typographical errors. The IMO will submit a Rule Change Proposal to correct such minor and typographical errors.</p> <p>The IMO notes Alinta's suggestion and agrees that the term "default" should be corrected to "Suspension Event", keeping it consistent with other clauses in this section.</p>
4.	Alinta	<p>Further potential changes to section 4.13 of the Market Rules to refer to the defined term "Draw Upon" have been provided through separately to the IMO for consideration in its next minor and typographical rule change.</p>	<p>The IMO has considered legal advice on this suggestion and has concluded that the term "Draw Upon" is appropriately defined in the Glossary and cannot be capitalised when the verb changes its form.</p>
5.	Community Electricity	<p>Community Electricity questions why it is necessary to require settlement to be made at a specific time using the Austraclear system rather than merely ensuring that a Market Participant account with the IMO is maintained in surplus, in a similar manner to an ordinary bank cheque account. At an extreme, it ought to be possible for a Market Participant to deliver to the IMO cash via courier in order to avoid triggering the "suspension" process</p>	<p>The IMO considers that the Market Rules contemplate prudential security provision in the form of Credit Support to be different from daily settlement transactions resulting from participation in the market. The IMO considers that prudential obligations are required to protect the market from overall credit risk in a Suspension Event, and that prudential security provision cannot be substituted for daily monetary transactions between the IMO and Market Participants.</p>

4.4. Public Forums and Workshops

No public forums or workshops were held with regard to this Rule Change Proposal.

5. The IMO's Draft 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. A summary of the views expressed in submissions and by the MAC is available in section 4 of this report.

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

5.1. Additional Amendments to the proposed Amending Rules

Following the first public submission period the IMO has made some additional changes to the proposed Amending Rules to:

- Reflect suggestions received during the first submission period; and
- Accurately reflect the use of “Suspension Event” in the proposed Amending Rule.

The changes the IMO made to the Amending Rules presented in the Rule Change Proposal are outlined in detail in Appendix 1 of this Draft Rule Change Report.

5.2. Wholesale Market Objectives

The IMO considers that the Market Rules as a whole, if amended as presented in section 7, will not only be consistent with the Wholesale Market Objectives but also allow the Market Rules to better achieve Wholesale Market Objective (d.)

(d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system.

The IMO considers that the proposed amendments will better achieve Wholesale Market Objective (d) by:

- stopping the process of drawing upon Credit Support in time to avoid the subsequent requirement for replacement Credit Support to be provided by the relevant Participant; and
- reducing the administrative cost of issuing a Cure Notice and drawing upon Credit Support when those steps are no longer necessary.

The IMO also considers that the proposed amendments are consistent with the remaining Wholesale Market Objectives.

5.3. Practicality and cost of implementation

5.3.1. Cost:

No costs associated with implementing the proposed changes have been identified.

5.3.2. Practicality:

The Market Procedure for Settlement will need to be updated to reflect the proposed amendments to ensure that the IMO documents the process to allow for stopping the process of issuing a Cure Notice and drawing upon Credit Support in time to avoid the subsequent requirement for replacement Credit Support to be provided by the relevant Participant.

The IMO does not consider that there are any other issues with the practicality of implementation of the proposed changes. No practicality of implementation issues were identified in submissions.

6. The IMO's Proposed Decision

The IMO's proposed decision is to accept the Rule Change Proposal as modified by the amendments outlined in section 5.1.

6.1. Reasons for the decision

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

- better achieve Wholesale Market Objective (d);
- are consistent with the remaining Wholesale Market Objectives;
- have the general support of the MAC; and
- have the general support of submissions received during the first submission period.

7. Proposed Amending Rules

The IMO has made some amendments to the Amending Rules following the first submission period. These changes are as follows (~~deleted text~~, added text):

- 9.23.4. If the IMO becomes aware that a ~~s~~Suspension ~~e~~Event has occurred in relation to a Rule Participant and the Suspension Event has not been remedied, then the IMO must as soon as practicable:
- (a) subject to clause 9.23.5, issue a notice (“**Cure Notice**”), requiring that the ~~default~~ Suspension Event be remedied within 24 hours from the time the Cure Notice is issued; and
 - (b) if it has not already done so, Draw Upon Credit Support held in relation to that Market Participant for the amount which the IMO determines is actually or contingently owing by the Market Participant to the IMO under these Market Rules.

Appendix 1. Further Amendments to the Proposed Amending Rules

The IMO has made some amendments to the Amending Rules presented in the Rule Change Proposal following the first submission period. These changes are as follows (~~deleted text~~, added text):

- 9.23.4. If the IMO becomes aware that a Suspension Event has occurred in relation to a Rule Participant and the Suspension Event has not been remedied, then the IMO must as soon as practicable:
- (a) subject to clause 9.23.5, issue a notice ("**Cure Notice**"), requiring that the ~~default~~ Suspension Event be remedied within 24 hours from the time the Cure Notice is issued; and
 - (b) if it has not already done so, Draw Upon Credit Support held in relation to that Market Participant for the amount which the IMO determines is actually or contingently owing by the Market Participant to the IMO under these Market Rules.

~~except where the Suspension Event has been remedied before the IMO has issued a Cure Notice and drawn upon the Credit Support.~~