



INDEPENDENT  
MARKET  
OPERATOR

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## Final Rule Change Report

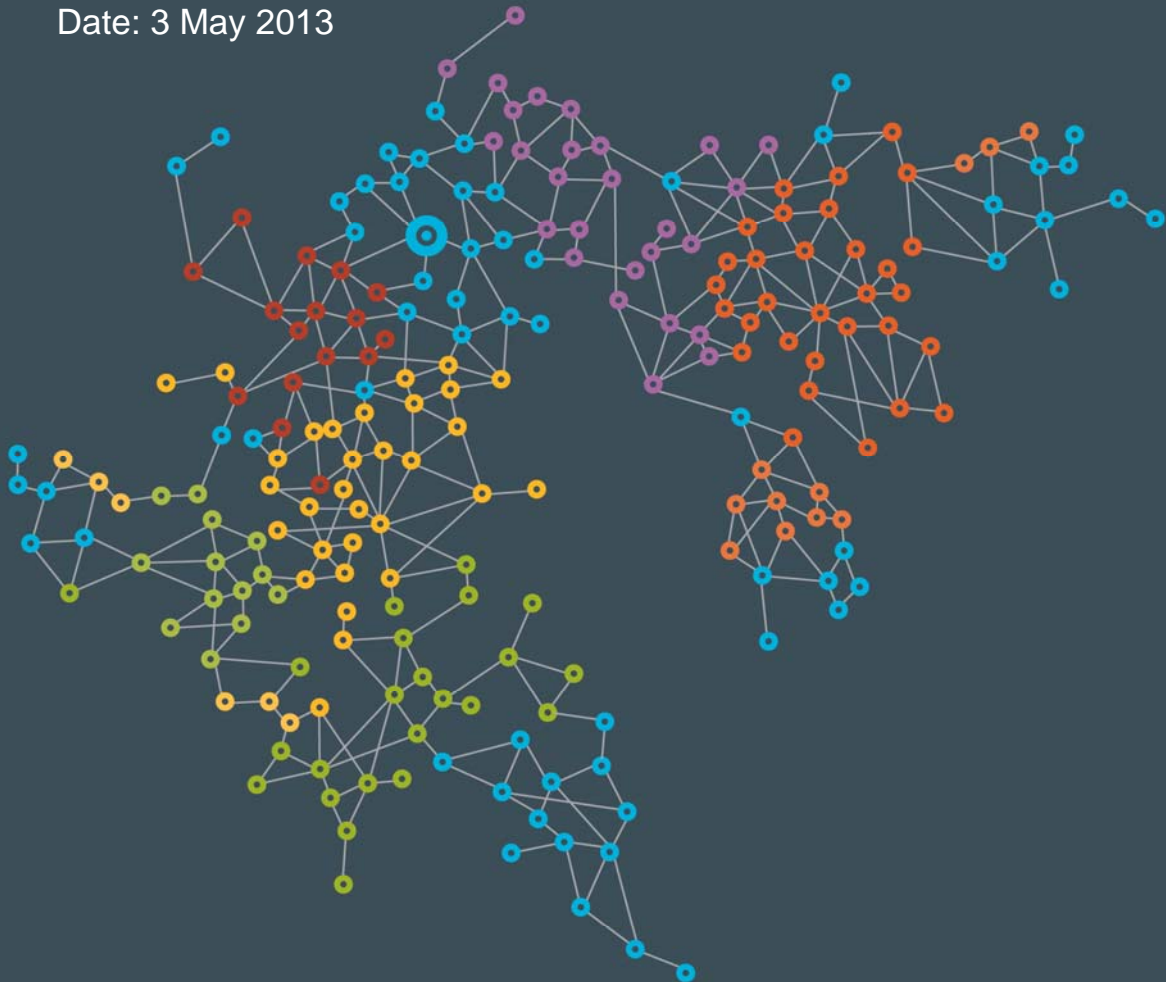
### Title: Cure Notices and Credit Support

RC\_2012\_24

Standard Rule Change Process

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Date: 3 May 2013



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## Executive Summary

### ***Proposed amendments***

The Rule Change Proposal seeks to amend clause 9.23.4 in the Wholesale Electricity Market (WEM) Rules (Market Rules) to avoid the scenario where the IMO is required to issue a Cure Notice and draw 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 that the IMO should submit the proposal into the formal Rule Change Process.

The first submission period 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. Alinta called for an overarching review of the settlements process, and also made some recommendations regarding the drafting of the Amending Rules. Community Electricity questioned why prudential security in the IMO's account could not be used for settlement purposes.

The second submission period was held between 6 March 2013 and 4 April 2013. One submission, from Community Electricity, was received. Community Electricity stated that while it agreed with the IMO's responses on the interplay between prudential security and settlement transactions, Community Electricity would continue to advocate that the administration of prudential security and settlement transactions could be simplified and made more liquid without compromising financial integrity.

### ***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 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's Decision***

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

### ***Next Steps***

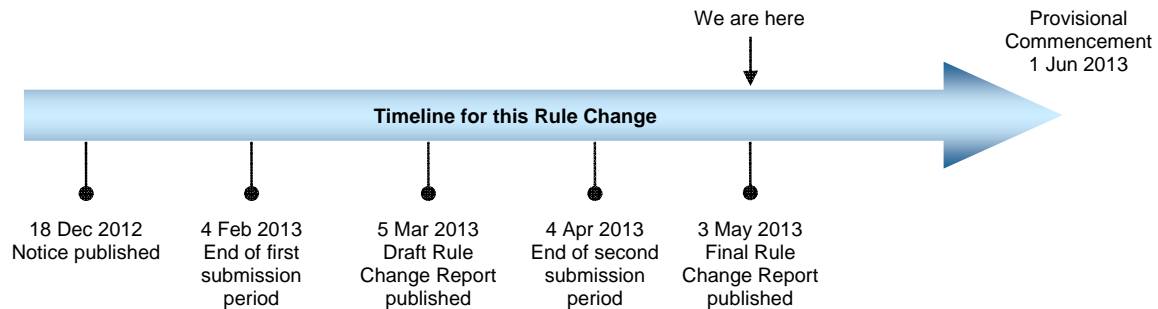
The Amending Rules will provisionally commence at **8.00 AM** on **Saturday, 1 June 2013**.

## 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:



## 2. Proposed Amendments

### 2.1. 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 authorised 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](http://www.imowa.com.au/RC_2012_24)

## **2.2. The IMO's Initial Assessment of the 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.

## **3. Consultation**

### **3.1. The Market Advisory Committee**

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

- 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>

### **3.2. 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.

Alinta highlighted the need to review other clauses to ensure consistent use of the defined terms "Suspension Event" and "Draw Upon" and suggested an alternative drafting for the proposed Amending Rule.

Alinta also called for an overarching review of the WEM and enhanced transparency of settlement data. Alinta submitted that market efficiencies could be achieved by simplifying current settlement processes and made several suggestions to this end.

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.

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](http://www.imowa.com.au/RC_2012_24)

### **3.3. The IMO's response to submissions received during the first submission period**

The IMO's response to submissions received during the first submission period is detailed in Section 4.3 of the Draft Rule Change Report available on the Market Web Site: [http://www.imowa.com.au/RC\\_2012\\_24](http://www.imowa.com.au/RC_2012_24)

### **3.4. Submissions received during the second submission period**

Following publication of the Draft Rule Change Report on the Market Web Site, the second submission period was held between 6 March 2013 and 4 April 2013.

The IMO received a submission from Community Electricity. Community Electricity agreed with the IMO's responses on the interplay between prudential security and settlement transactions but added that it would continue to advocate for the administration of prudential security to be fit-for-purpose. Further, Community Electricity stated that it continued to perceive that the administration could be simplified and made more liquid without compromising financial integrity.

A copy of the submission in full received during the second submission period is available on the Market Web Site: [http://www.imowa.com.au/RC\\_2012\\_24](http://www.imowa.com.au/RC_2012_24)

### **3.5. Public Forums and Workshops**

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

## **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 Market Web Site: [http://www.imowa.com.au/RC\\_2012\\_24](http://www.imowa.com.au/RC_2012_24)

## **5. The IMO's Proposed Decision**

The IMO's proposed decision was to accept the Rule Change Proposal as modified by the amendments made after the first submission period.

The wording of the relevant Amending Rules was presented in section 7 of the Draft Rule Change Report.

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.

## 6. The IMO's Final Assessment

In preparing its Final 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 in respect of this Rule Change Proposal nor has it commissioned a technical review in respect of this Rule Change Proposal. A summary of the views expressed in submissions and by the MAC is available in section 3 of this Final Rule Change Report.

The IMO's assessment of the Rule Change Proposal is outlined in the following sub-sections.

### 6.1. Additional Amendments to the Amending Rules

The IMO has made no additional amendments to the Amending Rules.

### 6.2. 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).

Wholesale Market Objective (d) is 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 this objective by:

- stopping the process of drawing upon Credit Support where appropriate, and thereby avoiding 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 not required because the circumstances that gave rise to them have been remedied.

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



### 6.3. Practicality and Cost of Implementation

#### 6.3.1. Cost:

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

#### 6.3.2. 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.

## 7. The IMO's Decision

Based on the matters set out in this report, the IMO's decision is to accept the Rule Change Proposal.

### 7.1. Reasons for the decision

The IMO has made its 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.

Additional detail outlining the analysis behind the IMO decision is outlined in section 5 of this Final Rule Change Report.

## 8. Amending Rules

### 8.1. Commencement

The amendments to the Market Rules resulting from this Rule Change Proposal will provisionally commence at **8.00 am on Saturday, 1 June 2013**.

### 8.2. Amending Rules

The IMO has decided to implement the following Amending Rules (~~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.