



Draft Rule Change Report

Title: Settlement in Default Situations

Ref: RC_2010_04
Standard Rule Change Process

Date: 26 July 2010

CONTENTS

1.	INTRODUCTION	3
2	CALL FOR SECOND ROUND SUBMISSIONS.....	4
3.	THE RULE CHANGE PROPOSAL.....	4
3.1	Submission Details.....	4
3.2	Summary details of the Proposal	4
3.3	The Proposal and the Wholesale Market Objectives	5
3.4	Amending Rules proposed by the IMO	5
3.5	The IMO's Initial Assessment of the Proposal	5
4.	FIRST SUBMISSION PERIOD	5
4.1	Submissions received	5
4.2	The IMO's response to submissions received during the first submission period	6
4.3	Public Forums and Workshops	6
4.4	Additional Amendments to the Amending Rules.....	6
5.	THE IMO'S ASSESSMENT	9
5.1	Wholesale Market Objectives.....	9
5.2	Practicality and Cost of Implementation.....	10
5.3	Market Advisory Committee	11
5.4	Views Expressed in Submissions	11
6.	THE IMO'S DRAFT DECISION	12
7.	PROPOSED AMENDING RULES	12
	APPENDIX 1: FULL DETAILS OF THE PROPOSAL	19
	APPENDIX 2: PROPOSED AMENDING RULES IN THE RULE CHANGE PROPOSAL	26
	APPENDIX 3: ADDITIONAL AMENDMENTS MADE BY THE IMO FOLLOWING THE FIRST SUBMISSION PERIOD	28

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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).

This proposal is being 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 notices, are:



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

The draft decision of the IMO Board is to accept the Rule Change Proposal as modified following the first submission period. The detailed reasons for the decision are set out in section 5 of this report.

In making its draft decision on the Rule Change Proposal, the IMO has taken into account:

- the Wholesale Market Objectives;
- the practicality and cost of implementing the proposal;
- the views of the Market Advisory Committee (MAC); and
- the submissions received.

All documents related to this Rule Change Proposal can be found on the IMO website: http://www.imowa.com.au/RC_2010_04.

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 5.00pm, **Monday 23 August 2010**.

The IMO prefers to receive submissions by email (using the submission form available on the IMO website: <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: General Manager Development
 PO Box 7096
 Cloisters Square, PERTH, WA 6850
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3. THE RULE CHANGE PROPOSAL

3.1 Submission Details

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Date submitted:	7 April 2010
Urgency:	Standard Rule Change Process
Change Proposal title:	Settlement in Default Situations
Market Rules affected:	6.16.1, 9.3.3, 9.24.3, 9.24.5 and 9.24.9

3.2 Summary details of the Proposal

The IMO's Rule Change Proposal sought to address several issues relating to settlement in the event of a default by one or more Rule Participants. These issues were:

- Issue 1: Short payment calculation (clause 9.24.3) – currently resulting in either double payment to some parties or not all money received being paid out;
- Issue 2: Contradiction between use of Metered Schedules and meter data in the Default Levy clause (clause 9.24.5);
- Issue 3: Definition of Metered Schedule; and
- Issue 4: Use of Financial Year versus Capacity Year.

The full details of the Rule Change Proposal (including the issues and the proposed solutions) are available in Appendix 1 of this report.

3.3 The Proposal and the Wholesale Market Objectives

The IMO submitted that the proposed Amending Rules would better achieve Wholesale Market Objectives (a) and (b):

- a) *to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;*

The IMO considered that the proposed amendments to settlement in default situations will ensure the efficient, safe and reliable production and supply of electricity by having a correct formula when paying amounts owed to Market Participants and allowing for correct data to be used when a default levy applies.

- (b) *to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitor;*

The IMO also considered that the proposed amendments to the short pay calculation will provide greater clarity over the re-allocation of funds in the situation that the IMO is short paid, thereby increasing confidence in the market's provisions for situations in which a default levy is issued. Greater confidence that the market has the appropriate mechanisms for ensuring that Market Participants will be paid effectively and fairly in the case of a default will reduce perceived financial risks associated with operation in the Wholesale Electricity Market (WEM) and thereby encourage competition and new entrants into the market.

The IMO considered that the proposed Amending Rules were consistent with the remaining Wholesale Market Objectives.

3.4 Amending Rules proposed by the IMO

The amendments to the Market Rules originally proposed by the IMO are available in the Rule Change Notice and presented in Appendix 2 of this report.

3.5 The IMO's Initial Assessment of the Proposal

The IMO decided to proceed with the proposal on the basis of its preliminary assessment, which indicated that the proposal was consistent with the Wholesale Market Objectives.

4. FIRST SUBMISSION PERIOD

The first submission period for this Rule Change Proposal was between 8 April 2010 and 20 May 2010.

4.1 Submissions received

The IMO received submissions from Landfill Gas & Power (LGP), Perth Energy and Synergy. The full text of the submissions received is available on the IMO website.

In summary, LGP and Synergy support the Rule Change Proposal. Perth Energy supports the Rule Change Proposal, while raising a question about transitional impacts. The IMO's response to this question is set out in section 4.2.

Perth Energy considers that the change would better facilitate the achievement of Market Objectives (a) and (b). Synergy agrees with the IMO that the proposed changes will be consistent with Market Objectives (a) and (b).

4.2 The IMO's response to submissions received during the first submission period

During the first submission period, Perth Energy raised a concern regarding the proposed replacement of Financial Year with Capacity Year as the base period for re-allocation of outstanding Default Levies. Perth Energy requested confirmation from the IMO that the proposed transition will not, in the first instance, give rise to any one off cost exposures (a windfall gain or loss) for Rule Participants.

Following an internal review the IMO has decided not to proceed with the replacement of Financial Year with Capacity Year (refer to section 4.4 for details). Therefore no transition is required and so there is no risk of any transition impacts on Rule Participants.

4.3 Public Forums and Workshops

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

4.4 Additional Amendments to the Amending Rules

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

Default Levy re-allocation period

In its Rule Change Proposal, the IMO proposed a change to the annual period for Default Levy re-allocation in clause 9.24.9, from Financial Year to Capacity Year. The proposal was based on an assumption that the timing change would in some cases remove the need to re-allocate capacity related Default Levies, by allowing time for their repayment through the redirection of payments due for Capacity Credits. However, further analysis has indicated that this assumption is not correct, and as such the IMO no longer considers the change to be warranted. Accordingly, the IMO has removed this change from the proposed Amending Rules.

Glossary definition of Metered Schedule

In its Rule Change Proposal, the IMO proposed a change to definition of Metered Schedule to help address Issue 3: Definition of Metered Schedule. However, this change was omitted from the proposed Amending Rules.

Corrections to clause 9.18.3

Clause 9.18.3 provides a list of information items that must be included on a Non-STEM Settlement Statement. The following amendments to clause 9.18.3 have been proposed:

- amendment of sub-clause 9.18.3(c)(vii) to indicate that Notional Wholesale Meter values are only provided to the Electricity Retail Corporation; and
- re-numbering and formatting of sub-clauses 9.18.3(c)(x) - (xiv) to clauses 9.18.3(cA) – (cE), to reflect that these information items are not included on a

Non-STEM Settlement Statement “for each Trading Interval of each Trading Day”.

Restructure of clause 9.24.3

Currently clause 9.24.3 deals with two distinct concepts: the liability of the IMO when there are insufficient cleared funds, and how the IMO must apply the Total Amount in these situations. To provide greater clarity clause 9.24.3 has been split, with the instructions for the application of the Total Amount moved to a new clause 9.24.3A. Cross-references to clause 9.24.3 have been updated as appropriate.

Potential overpayment of priority list Rule Participants

Further analysis has identified an issue relating to Rule Participants eligible for payments that satisfy one of the criteria in sub-clauses 9.24.3(a)(ii) and (iii). It is possible that a payment of this type may be greater than the net amount owed by the IMO to the Rule Participant for that period. For example, a Rule Participant might be owed \$50,000 for Ancillary Services but owe \$30,000 for generation. In this case the net amount owed to the Rule Participant is only \$20,000.

Under the current drafting of clause 9.24.3 the IMO is required to pay out the amounts listed in clause 9.24.3(a) regardless of the net amount owed by the IMO to a Rule Participant or by a Rule Participant to the IMO. To prevent the overpayment of Rule Participants in these situations, the IMO proposes 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 would have received had no default occurred.

Prioritisation of payments under clause 9.24.3(a)

Currently, clause 9.24.3(a) does not explain how the IMO should apply the Total Amount where it is insufficient to cover all of the payments in the priority list. In its Rule Change Proposal, the IMO proposed to clarify the relative priorities of payments in this list by including “then” between each of the sub-clauses. However, after further consideration the IMO considers that this prioritisation of payments may not be justified, as it potentially favours one group over another without good reason. The IMO considers that a simple pro-rata division of the available funds is a more equitable approach. The proposed Amending Rules have been modified to reflect this change.

Correction to sub-clause 9.24.3(a)(i)

Sub-clause 9.24.3(a)(i) refers to the payment of “Revenue Requirement Settlement Amounts to the IMO, System Management and the Economic Regulation Authority (including as contemplated by clause 9.22.10)”. The correct name for these amounts is “Service Fee Settlement Amounts”. The proposed Amending Rules have been corrected to reflect this.

Payment of clause 9.24.3(a) shortfalls

Clauses 9.24.4 and 9.24.8 specify how the IMO must distribute any late payments or Default Levy amounts it receives amongst the parties who have been short-paid. However, the current proposed drafting only covers reductions made under clause 9.24.3(b), not taking into account any reductions made under clause 9.24.3(a). The IMO proposes to amend clauses 9.24.4 and 9.24.8 so that they cover shortfalls created under clause 9.24.3(a) (now 9.24.3A(a)) as well as shortfalls created under clause 9.24.3(b) (now 9.24.3A(b)).

Selection of Trading Month for Default Levies

Currently clause 9.24.5 states that the calculation of Default Levy amounts should use Metered Schedules from the “preceding Trading Month”. In its Rule Change Proposal the IMO noted that Metered Schedules for the preceding Trading Month are unavailable when a Default Levy is raised, and proposed that Metered Schedules should instead be taken from the “Trading Month to which the Payment Default relates in non-STEM defaults or the most recent month available with Metered Schedules for STEM”.

After further consideration the IMO has concluded that this definition is ambiguous for some Default Levies, for example those relating to adjustment Settlement Statements or defaults on Default Levy contributions. The proposed drafting of clause 9.24.5 has been modified to define the Trading Month as “the most recent Trading Month for which Non-STEM Settlement Statements have been issued”. The IMO considers that this definition is simpler and avoids any ambiguity. It should be noted that for defaults on normal STEM or non-STEM Settlement Statements the two definitions are equivalent.

Selection of Market Participants for Default Levies

Clause 9.24.5 specifies how the IMO, when raising a Default Levy, must determine the amount to be paid by each Market Participant. Under the current drafting, the IMO must 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 Participant B in response to a default by Market Participant A. If Market Participant B failed to pay the requested amount in accordance with clause 9.24.7, then it would also have committed a Payment Default, and after five business days the IMO would raise a second Default Levy to cover the shortfall. Under the current drafting, Market Participant A would be asked to contribute to the second Default Levy if it had any consumption or generation for the relevant Trading Month. It is almost certain that Market Participant A would fail to pay the IMO the requested amount, potentially initiating a series of unsuccessful Default Levies.

To avoid this problem, the IMO proposes to amend clause 9.24.5 to prevent any Market Participant with an unrecovered Payment Default from being asked to contribute to any further Default Levy amounts. Similar changes are proposed to clause 9.24.9, which relates to the annual re-allocation of Default Levy payments.

Determination of Default Levy payment amounts

Clause 9.24.5 states that each Market Participant must contribute to a Default Levy in proportion to the ratio of its generation/consumption to the total generation/consumption of all Market Participants in the relevant Trading Month. However, the latter amount may include generation/consumption for Market Participants excluded from the Default Levy, including the Market Participant who committed the default. If this occurs then the contribution ratios for the Market Participants contributing to the Default Levy will not sum to one, meaning that the full Default Levy amount will not be recovered.

To prevent such an occurrence the IMO proposes a further amendment to clause 9.24.5, to only include the generation/consumption of Market Participants that are contributing to a Default Levy in the calculation of contribution ratios. Similar changes are proposed to

clause 9.24.9, to prevent the same problem occurring during the re-allocation of Default Levy payments.

Late Payment of Default Levy Amounts

Currently the Market Rules do not cover situations where a Market Participant pays a Default Levy amount late but before the IMO raises a second Default Levy under clause 9.24.5. A new clause 9.24.8A has been added to the proposed Amending Rules to cover these cases. The new clause states that any Default Levy amounts paid during this period should be applied in the same way as Default Levy amounts paid in by the deadline specified in clause 9.24.7. It should be noted that the new clause does not affect the obligations of Market Participants under clause 9.24.7.

Minor and Typographical Changes

In addition to the changes outlined above, the IMO has proposed a number of minor changes to add clarity and to use consistent terminology for cross references to other clauses of the Market Rules.

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:

- 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.

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

5.1 Wholesale Market Objectives

The IMO considers that the proposed amendments will improve the integrity of the Market Rules by:

- correcting a number of minor, typographical and manifest errors;
- ensuring that Default Levy calculations use appropriate and available meter data; and
- ensuring that correct formulas are used when paying amounts owed to Rule Participants, raising Default Levies and re-allocating Default Levy amounts.

The IMO considers that the Market Rules as a whole, if amended, will be consistent with the Wholesale Market Objectives.

Wholesale Market Objective	Consistent with objective
(a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system	Yes
(b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors	Yes
(c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions	Yes
(d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system	Yes
(e) to encourage the taking of measures to manage the amount of electricity used and when it is used	Yes

Further, the IMO considers that the Market Rules if amended would not only be consistent with the Wholesale Market Objectives but also allow the Market Rules to better address Wholesale Market Objective (b):

Impact	Wholesale Market Objectives
Allow the Market Rules to better address objective	b
Consistent with objective	a, c, d, e
Inconsistent with objective	-

(b) *to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors*

The IMO considers that the proposed amendments to the short pay calculation will provide greater clarity over the re-allocation of funds in the situation that the IMO is short paid, thereby increasing confidence in the market's provisions for situations in which a Default Levy is issued. Greater confidence that the market has the appropriate mechanisms for ensuring that Market Participants will be paid effectively and fairly in the case of a default will reduce perceived financial risks associated with operation in the WEM and thereby encourage competition and new entrants in the market.

The IMO considers that the proposed Amending Rules are consistent with the remaining Wholesale Market Objectives.

5.2 Practicality and Cost of Implementation

Cost: The proposed amendments will require minor changes to the Market Procedure for Settlement. The update costs fall within the IMO's normal operating budget.

The proposed amendments do not require any change to the Wholesale Electricity Market Systems operated by the IMO or any of the systems operated by System Management. In addition there have been no identified changes to other Rule Participant's costs.

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

5.3 Market Advisory Committee

The MAC discussed the proposal at the 10 March 2010 MAC meeting and noted the proposal at the 12 May 2010 and 16 June 2010 meetings. An overview of the MAC discussion is presented below. Further details are available in the MAC meeting minutes available on the IMO website: <http://www.imowa.com.au/market-advisory-committee>

March 2010 MAC meeting

The IMO presented the Pre Rule Change Discussion Paper to MAC members.

The IMO noted that the objective is to provide a solution to the issues it identified when it recently applied a Default Levy and used the settlement in default provisions under clause 9.24 of the Market Rules for the first time. These issues were as follows:

- Issue 1: Short payment calculation – currently results in either double payment to some parties or not all money received being paid out;
- Issue 2: Contradiction between the use of Metered Schedules and meter data in the Default Levy clause; and
- Issue 3: Use of Financial Year versus Capacity Year – timing of the end of year re-allocation of any outstanding Default Levies.

In relation to Issue 1, the MAC suggested a clarification to clause 9.24.3(a) to specify an order of payment.

In relation to Issue 2, the IMO agreed to include STEM defaults within the proposed rule change and also amend the physical definition of a Metered Schedule.

In relation to Issue 3, Alinta noted that it would prefer the re-allocation to be determined for a Financial Year from an accounting perspective. The IMO clarified that the main driver for this change was the potential impact on entities leaving the market.

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.

5.4 Views Expressed in Submissions

The IMO received three submissions during the first submission period, all supporting the Rule Change Proposal.

Perth Energy questioned the IMO about the transition impact of changing the base period for Default Levy re-allocation from Financial Year to Capacity Year. The IMO's response to this question is available in section 4.2 of this report.

6. THE IMO'S DRAFT DECISION

The IMO's draft decision is to accept the Rule Change Proposal as modified by the amendments outlined in section 4.4 and specified in Appendix 2 of this report.

6.1 *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 submission period.

Additional detail outlining the analysis behind the IMO's reasons is outlined in section 5 of this Draft Rule Change Report.

7. PROPOSED AMENDING RULES

The IMO proposes to implement the following amendments to the Market Rules (~~deleted words~~, added words):

- 6.16.1. The Metered Schedule for a Trading Interval for a Facility or Non-Dispatchable Load is determined by the 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.
- 9.18.3. A Non-STEM Settlement Statement must contain the following information:
- (a) details of the Trading Days covered by the Non-STEM Settlement Statement;
 - (b) details of the Market Participant to which the Non-STEM Settlement Statement relates;
 - (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;
6. Network Control Service settlement; and
7. Fee settlement; and
8. Net Monthly Non-STEM Settlement Amount;

~~x-(cA)~~ details of any Capacity Credits allocated to the Market Participant in a Capacity Credit Allocation Statement made by another Market Participant in accordance with clauses 9.4 and 9.5;

~~xi-(cB)~~ details of any Capacity Credits allocated to another Market Participant in a Capacity Credit Allocation Submission made by the Market Participant in accordance with clauses 9.4 and 9.5;

~~xii-(cC)~~ details of any reductions in payments in the preceding Trading Month under clause 9.24.3A as a result of a Market Participant being in Default;

~~xiii-(cD)~~ details of any payments to the Market Participant as a result of the IMO recovering funds not paid to the Market Participant in previous 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~~ a Market Participant fails to make a payment under these Market Rules to the IMO before it is due, then the IMO may Draw Upon any Credit Support in relation to that Market Participant to meet the payment.

9.24.3. Notwithstanding anything else in these Market Rules, if at any time the total amount received by the IMO from Rule Participants in cleared funds ("**Total Amount**") is not sufficient to make the payments which the IMO is required to

make under these Market Rules (for example, as a result of default by one or more 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, 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);
 - 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
 - iii. payments which the IMO is required to make under Network Control Service Contracts; and
 - iv. funds required to be disgorged or repaid by the IMO as contemplated by clause 9.24.2; and
- (b) second, it must apply the remainder to pay amounts 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, 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, 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).

9.24.3A 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);
- 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, up to a maximum for any party of the net amount which, if sufficient funds were available, would be payable to that party;
- iii. payments which the IMO is required to make under Network Control Service Contracts, up to a maximum for any party of the net amount which, if sufficient funds were available, would be payable to that party; and
- iv. funds required to be disgorged or repaid by the IMO as contemplated by clause 9.24.2;

but if the Total Amount is not sufficient to satisfy all of these payments then the IMO must reduce the payments proportionally. Each payment will be based on the proportion that the Total Amount bears to the amount that would have been required to make all payments.

- (b) Second, the IMO must apply the remainder to pay the net amounts (after the application of clause 9.24.3A(a)) which, if sufficient funds were available, it would owe to Rule Participants in accordance with clause 9.22, where those amounts are reduced by applying the following formula:

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

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);

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 reflect interest accrued in accordance with clause 9.1.3 and any payments already made under this clause 9.24.4. 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 that the amount received by the IMO bears to the total amount payable under this clause 9.24.4(a).

(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 ~~preceding~~most recent Trading Month for which Non-STEM Settlement Statements have been issued, 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 that the total amount received by the IMO bears to the total amount that would have been required to make all payments under this clause 9.24.8(a).

(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 total of the Default Levy amounts received under clause 9.24.7 after the application of clause 9.24.8(a); and

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

9.24.8A If a Market Participant pays part or all of a Default Levy after the date and time prescribed in clause 9.24.7 but within five Business Days of that date, then the IMO must within one Business Day apply the amount received in accordance with clause 9.24.8 as if it was an amount received under clause 9.24.7.

- 9.24.9. ~~By the end of the second month following the end of~~ Upon completion of the final Trading Month commencing during a 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 for each Market Participant (excluding Market Participants with unrecovered Payment Defaults) for Trading Intervals during the Financial Year as a proportion of the total of those values for all these Market Participants;
 - (c) the IMO must compare the amount determined for the Market Participant under ~~paragraph~~ clause 9.24.9(b) with the total of the amounts which the Market Participant actually paid under clause 9.24.7;
 - (d) the IMO must determine an appropriate adjustment to put each Market Participant in the position it would have been in had it paid the amount determined under ~~paragraph~~ clause 9.24.9(b) instead of the amounts actually paid under clause 9.24.7; and
 - (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.

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.

Settlement adjustments take place up to 70 days after liabilities are accrued, with the IMO standing as 'principal' between payers and those who are entitled to be paid. The IMO is exposed to risk if those who owe money do not pay, but has the benefit of protection afforded by the default provisions in the Market Rules. The ultimate risk under this arrangement is therefore borne by the Market Participants.

The amount of money transacted through the Wholesale Electricity Market is approximately \$250 million per annum. With such a large amount of money being transacted, it is essential that those who are exposed to the financial risk associated with trading are protected from the consequences of settlement default. To this regard, the Market Rules contain a prudential security regime designed to protect the IMO's creditors against any potential risks of underpayment, and to ensure the financial integrity the market.

The prudential security regime provides a means for the market (through the IMO) to ensure that it has sufficient funds to meet its obligations to suppliers of energy and services. The regime is an important protection both for traders in the market and for potential investors, though it is noted that the provision of credit support also represents a financial liability to those who are required to provide it.

The features of the regime include:

- 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 meet 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.

Issue 1: Short Payment Calculation

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 to them by using the formula in clause 9.24.3 (b):

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

Where:

AAP is the reduced amount *actually* payable by the IMO to a Rule Participant (in respect of a trading week for STEM settlements and a trading Month for Non STEM settlements);

NAP is the net amount that *would have been* payable by the IMO to the Rule Participant (but for the application of Market Rule 9.24.3 (b));

TNAP is the total net amount payable by the IMO to all Rule Participants, calculated by summing all the values of NAP; and

MAA is the remainder of the money available for payment after the application of Market Rule 9.24.3 (a).

As currently drafted in the Market Rules it is unclear whether the net amount payable (NAP) (and therefore the total net amount payable) by the IMO to the Rule Participant includes or excludes monies already paid under clause 9.24.3(a). This ambiguity could potentially result in either:

- All available money not being paid out. This is as Rule Participants paid under clause 9.24.3(a) would be included in determining the total values used in the calculation under 9.24.3(b). However, if it was interpreted that participants should not be paid twice (a reasonable interpretation particularly given the limit imposed by the reference to the monies owed in accordance with clause 9.22) they would have simply inflated the TNAP value; or
- 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)

$TNAP = \$15,000 + \$100,000 + \$200,000 = \$315,000$

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 proposed to clarify the priority of the payment by including “then” between each of the sub-clauses.

The IMO proposed 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 considered 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.

Issue 2: Contradiction between use of Metered Schedules and meter data in the Default Levy clause

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 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 accordance with the Metered Schedules for each Market Participant.

In Chapter 11 of the Market Rules, the definition for Metered Schedule refers readers to the meaning in clause 6.16. Under clause 6.16.1 there is no definition of Metered Schedule but a reference to how the IMO determines the value in clause 9.3.3. However, clause 9.3.3 doesn't explain how the IMO determines Metered Schedule,

making it circular in nature. The meaning of Metered Schedule is actually found in clause 9.3.4.

Proposal

The IMO proposed to change the rule reference in Chapter 11 under Metered Schedule and clause 6.16.1 to refer to clause 9.3.4. Also clause 9.3.3 shall be amended to include at the end of the clause, "in accordance with clause 9.3.4".

Issue 4: Use of Financial Year versus Capacity Year

In accordance with clause 9.24.9, the IMO is required to aggregate any shortfalls that have occurred during the Financial Year and re-allocate any outstanding Default Levies at the end of the Financial Year. The end of year adjustment ensures that Market Participants do not avoid funding their share of a payment default simply because they do not happen to be producing or consuming in the month that the default occurred. This ensures that the distribution of costs associated with a Market Participants failure to meet its financial obligations is undertaken in a less volatile manner.

As noted previously, a Default Levy can result from a failure by a Rule Participant to pay an invoice amount associated with either the energy or capacity markets. As energy market transactions are conducted over a Trading Day, the IMO has 365 trading days during the Financial Year (starting 1 July of each year) to calculate the average market share for each affected Market Participant associated with any defaults arising. The Reserve Capacity Mechanism is however conducted over the entire Capacity Year - not 365 days (starting 1 October of each year), which does not align directly with a Financial Year and can result in difficulties in undertaking the annual adjustment as there will be two periods (i.e two half Capacity Years within a Financial Year) to assess.

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 and to amend the timing to be two months after the Capacity Year to ensure that Metered Schedules are available for the IMO to calculate the re-allocation of any default levies raised.

APPENDIX 2: PROPOSED AMENDING RULES IN THE RULE CHANGE PROPOSAL

The following amendments were proposed (~~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 amount received by the IMO from Rule Participants in cleared funds (“**Total Amount**”) is not sufficient to make the payments which the IMO is required to make under these Market Rules (for example, as a result of default by one or more 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 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 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 ~~preceding~~ Trading Month 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.
- 9.24.9. ~~By the end of the second month following the~~ Upon completion of the final Trading Month commencing during a Financial Capacity Year, the IMO must re-allocate any Default Levies raised during that ~~Financial Capacity Year~~ as follows:
- (a) the IMO will determine the aggregate of the shortfalls in respect of which it raised Default Levies during the ~~Financial Capacity 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 for each Market Participant for Trading Intervals during the ~~Financial Capacity Year~~ as a proportion of the total of those values for all Market Participants;
 - (c) the IMO must compare the amount determined for the Market Participant under paragraph (b) with the total of the amounts which the Market Participant actually paid under clause 9.24.7;
 - (d) the IMO must determine an appropriate adjustment to put each Market Participant in the position it would have been in had it paid the amount determined under paragraph (b) instead of the amounts actually paid under clause 9.24.7; and
 - (e) include that adjustment in the Non-STEM Settlement Statement for the most recently completed Trading Month.

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

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

- 6.16.1. The Metered Schedule for a Trading Interval for a Facility or Non-Dispatchable Load is determined by the IMO in accordance with clause 9.3.4.
- 9.18.3. A Non-STEM Settlement Statement must contain the following information:
- (a) details of the Trading Days covered by the Non-STEM Settlement Statement;
 - (b) details of the Market Participant to which the Non-STEM Settlement Statement relates;
 - (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;
 - 6. Network Control Service settlement; and
 - 7. Fee settlement; and
 - 8. Net Monthly Non-STEM Settlement Amount;
- ~~x.(CA)~~ details of any Capacity Credits allocated to the Market Participant in a Capacity Credit Allocation Statement made by another Market Participant in accordance with clauses 9.4 and 9.5;
- ~~xi.(CB)~~ details of any Capacity Credits allocated to another Market Participant in a Capacity Credit Allocation Submission made by the Market Participant in accordance with clauses 9.4 and 9.5;

- xii. ~~(cC)~~ details of any reductions in payments in the preceding Trading Month under clause 9.24.3A as a result of a Market Participant being in Default;
- xiii. ~~(cD)~~ details of any payments to the Market Participant as a result of the IMO recovering funds not paid to the Market Participant in previous 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 to 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~~ a Market Participant fails to make a payment under these Market Rules to the IMO before it is due, then the IMO may Draw Upon any Credit Support in relation to that Market Participant to meet the payment.
- 9.24.3. Notwithstanding anything else in these Market Rules, if at any time the total amount received by the IMO from Rule Participants in cleared funds (“**Total Amount**”) is not sufficient to make the payments which the IMO is required to make under these Market Rules (for example, as a result of default by one or more 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) 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; then~~
 - ~~iii. payments which the IMO is required to make under Network Control Service Contracts; then~~
 - ~~iv. funds required to be disgorged or repaid by the IMO as contemplated by clause 9.24.2; and~~
 - ~~(b) 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).

9.24.3A 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);
 - 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, up to a maximum for any party of the net amount which, if sufficient funds were available, would be payable to that party;
 - iii. payments which the IMO is required to make under Network Control Service Contracts, up to a maximum for any party of the net amount which, if sufficient funds were available, would be payable to that party; and
 - iv. funds required to be disgorged or repaid by the IMO as contemplated by clause 9.24.2;

but if the Total Amount is not sufficient to satisfy all of these payments then the IMO must reduce the payments proportionally. Each payment will be based on the proportion that the Total Amount bears to the amount that would have been required to make all payments.

(b) Second, the IMO must apply the remainder to pay the net amounts (after the application of clause 9.24.3A(a)) which, if sufficient funds were available, it would owe to Rule Participants in accordance with clause 9.22, where those amounts are reduced by applying the following formula:

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

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);

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 reflect interest accrued in accordance with clause 9.1.3 and any payments already made under this clause 9.24.4. 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 that the amount received by the IMO bears to the total amount payable under this clause 9.24.4(a).

- (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 that the total amount received by the IMO bears to the total amount that would have been required to make all payments under this clause 9.24.8(a).

- (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 total of the Default Levy amounts received under clause 9.24.7 after the application of clause 9.24.8(a); and

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

9.24.8A If a Market Participant pays part or all of a Default Levy after the date and time prescribed in clause 9.24.7 but within five Business Days of that date, then the IMO must within one Business Day apply the amount received in accordance with clause 9.24.8 as if it was an amount received under clause 9.24.7.

9.24.9. By the end of the second month following the ~~Capacity~~ end of a Financial Year, the IMO must re-allocate any Default Levies raised during that ~~Capacity~~ Financial Year as follows:

- (a) the IMO will determine the aggregate of the shortfalls in respect of which it raised Default Levies during the ~~Capacity~~ 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 for each Market Participant (excluding Market Participants with unrecovered Payment Defaults) for Trading Intervals during the ~~Capacity~~ Financial Year as a proportion of the total of those values for all these Market Participants;
- (c) the IMO must compare the amount determined for the Market Participant under ~~paragraph~~ clause 9.24.9(b) with the total of the amounts which the Market Participant actually paid under clause 9.24.7;
- (d) the IMO must determine an appropriate adjustment to put each Market Participant in the position it would have been in had it paid the amount

determined under ~~paragraph~~ clause 9.24.9(b) instead of the amounts actually paid under clause 9.24.7; and

- (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.