
Wholesale Electricity Market Rule Change Proposal Submission Form

RC_2010_04 Settlement in Default Situations

Submitted by

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Submission

- Please provide your views on the proposal, including any objections or suggested revisions.**

Background

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 remedied then the IMO issues a Suspension Notice.

If a Market Participant defaults and its Credit Support is insufficient to cover outstanding monies owing, the IMO will have inadequate revenue to settle the market. In this case, the IMO pays the money it holds according to a specified list of priorities and may temporarily reduce payments to Market Participants to reflect the shortfall (i.e. the market will be short paid).

To cover any remaining shortfall to Market Participants in payments for invoiced amounts associated with either the energy or capacity markets, the IMO is required to raise a Default Levy to secure the funds required to met the shortfall and allow for settlement of the market.

The Default Levy is allocated across all Market Participants, excluding the Market Participant who committed the 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 Default. By 2pm on the eighth Business Day following the date of the Default, the IMO allocates the total Default Levy amounts received on a pro-rata basis to all Market Participants who were short paid as a result of the Default. 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.

The IMO has submitted a Rule Change Proposal to address some recently identified issues, arising from the first time application of the Settlement in Default Provisions within the Market Rules.

Perth Energy understands these issues to be as follows:

1. Short payment calculation. There is currently the potential for either double payment to some parties or not all money received being paid out.
2. Contradiction between the use of Metered Schedules and Meter Data in the Default Levy clause.
3. Lack of definition of Metered Schedule.
4. Preference to calculate on a Capacity Year basis as opposed to a Financial Year basis, when reallocating any outstanding Default Levies.

Change Proposal

The IMO Rule Change Proposal seeks to address the four issues identified above.

Issue 1: Short payment calculation. Compliance with the Current Market Rules may result in either double payment to some parties or not all money received being paid out. In a situation where there are not sufficient funds to make the payments due to all Rule Participants, the IMO will first apply the total amount received to the priority list established under Clause 9.24.3(a) and then apply the formula specified in Clause 9.24.3(b) to the amounts owing to the residual Rule Participants to pro-rata the amounts they will receive. The IMO has raised the concern that the current drafting of Clause 9.24.3 creates some uncertainty and may potentially result in those Rule Participants identified on the priority payment list effectively being paid twice. Further, a potential application of the Market Rules whereby not all monies collected by the IMO are paid out has also been identified.

Issue 2: Contradiction between the use of Metered Schedules and Meter Data in the Default Levy clause. The IMO has noted that there are currently no provisions incorporated in Clause 9.24 of the Market Rules to address the situation where the Default relates to the Short Term Energy Market (the STEM). Specifically, while the IMO would in practice rely on Meter Data from 2 months prior to make its calculations, the outcomes of the STEM do not have a direct connection with this data and therefore the basis for utilising this data under the Market Rules has not been established. In this regard the IMO has proposed to clarify that

the Meter Data to be used to apportion the Default Levy is to be the Meter Data for the month in which the Settlement Default took place.

Issue 3: Lack of Definition of Metered Schedule. The current referencing of the definition of Metered Schedule within Chapter 11 and Clause 6.16.1 is incorrect. The IMO proposes to correct this by reference to the definition of Metered Schedule in Clause 9.3.4.

Issue 4: Use of a Capacity Year as opposed to a Financial Year time horizon when reallocating any outstanding Default Levies. The IMO has proposed to amend the timing of the End of Year reallocation of any outstanding Default Levies to provide a closer alignment with the Capacity Year. Perth Energy understands that the rationale for such a change is that the End of Year adjustment of the Default Levy would then not span two Capacity Years. All transactions relating to the servicing of capacity would occur within the specific Capacity Year.

Perth Energy's Views

Perth Energy supports the Rule Change Proposal put forward by the IMO to address the four issues identified above. However with regard to the change proposal to address issue 4, a shift from Financial Year to Capacity Year for reallocating outstanding Default Levies, we request confirmation from the IMO that the transition will not, in the first instance, give rise to any one off cost exposures (a windfall gain or loss) for Rule Participants.

2. Please provide an assessment whether the change will better facilitate the achievement of the Market Objectives.

Perth Energy considers the change would better facilitate the achievement of Market Objectives (a) and (b).

3. Please indicate if the proposed change will have any implications for your organisation (for example changes to your IT or business systems) and any costs involved in implementing these changes.

There will be no impact for Perth Energy.

4. Please indicate the time required for your organisation to implement the change, should it be accepted as proposed.

Perth Energy does not require any lead time to implement the change.
