



Independent Market Operator

**Final Rule Change Report:
Settlement Cycle Timeline**

Ref: RC_2010_19

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CONTENTS

1.	INTRODUCTION	3
2.	THE RULE CHANGE PROPOSAL	4
2.1	Submission Details	4
2.2	Summary Details of the Proposal	4
2.3	The Proposal and the Wholesale Market Objectives	4
2.4	The Amending Rules Proposed by the IMO	4
2.5	The IMO's Initial Assessment of the Proposal	5
3.	FIRST SUBMISSION PERIOD	5
3.1	Submissions received	5
3.2	Public Forums and Workshops	5
4.	THE IMO'S DRAFT ASSESSMENT	5
5.	THE IMO'S DRAFT DECISION	6
6.	SECOND SUBMISSION PERIOD	6
6.1	Submissions received	6
7.	THE IMO'S FINAL ASSESSMENT	6
7.1	Market Objectives	7
7.2	Practicality and cost of implementation	7
7.3	Views expressed in submissions	7
7.4	Views expressed by the Market Advisory Committee	7
8.	THE IMO'S FINAL DECISION	8
8.1	Reasons for the Decision	8
9.	AMENDING RULES	8
9.1	Commencement	8
9.2	Amending Rules	8
	APPENDIX 1: FULL DETAILS OF THE PROPOSAL	10
	APPENDIX 2: PROPOSED AMENDING RULES IN THE RULE CHANGE PROPOSAL	14

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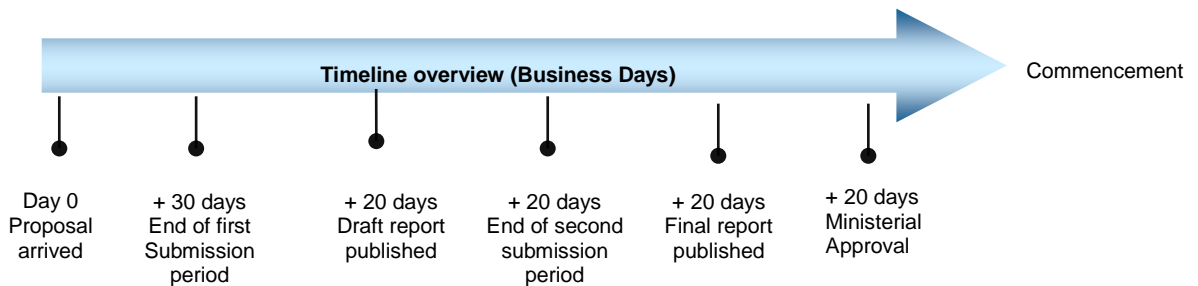
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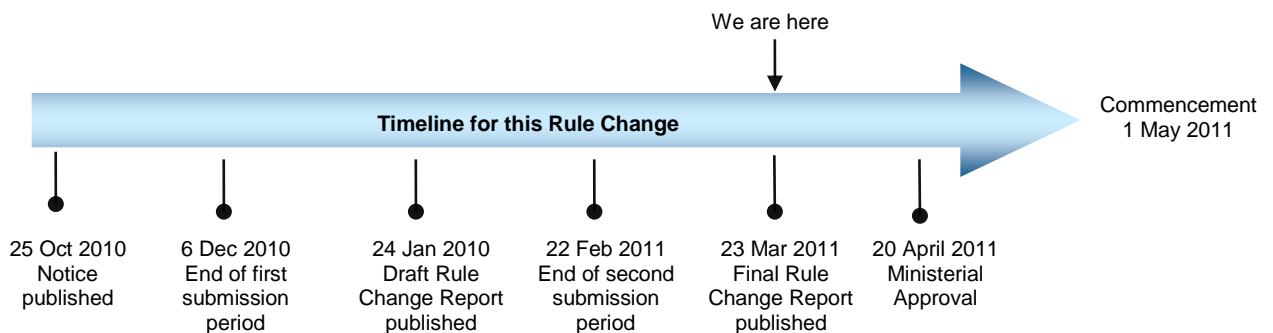
1. INTRODUCTION

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

The proposal was processed using the Standard Rule Change Process, described in section 2.7 of the Market Rules. The standard process adheres to the following timelines:



The key dates in processing this Rule Change Proposal are:



The IMO's final decision is to accept the Rule Change Proposal in its proposed form. The detailed reasons for the IMO's decision are set out in section 7 of this report.

In making its final 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_19.

2. THE RULE CHANGE PROPOSAL

2.1 Submission Details

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Date submitted:	25 October 2010
Urgency:	High
Change Proposal title:	Settlement Cycle Timeline
Market Rules affected:	9.16.3, new clause 9.16.3A and the glossary

2.2 Summary Details of the Proposal

The IMO is responsible for the settlement of all transactions for both the Short Term Energy Market (STEM) and Non-STEM activities, as well as all the dispute and adjustment processes for these settlements.

In its Rule Change Proposal, the IMO proposed to amend the Market Rules to reduce the number of Settlement Statements to be reviewed in any single Adjustment Process from twelve to nine.

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

The proposed amendments would provide for:

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

The full details of the Rule Change Proposal are available in Appendix 1 of this report.

2.3 The Proposal and the Wholesale Market Objectives

The IMO submitted that the proposed amendments were consistent with the Wholesale Market Objectives.

2.4 The Amending Rules Proposed by the IMO

The amendments to the Market Rules proposed by the IMO in its Rule Change Proposal are presented in Appendix 2 of this report.

2.5 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.

3. FIRST SUBMISSION PERIOD

The first submission period for this Rule Change Proposal was between 26 October 2010 and 6 December 2010.

3.1 Submissions received

The IMO received three submissions in the first submission period from Landfill Gas & Power (LGP), Perth Energy and Synergy. A copy of the full text of all submissions is available on the IMO website.

In summary, all the submissions received during the first submission period supported the proposed amendments with no issues raised.

LGP supported the rule change on the grounds that it harmonises the Market Rules with the current practice which produces timely and accurate financial certainty, is easy to understand and has been accepted by Market Participants since market start.

Perth Energy supported the proposal as it considers that the current practice has worked well to date and does not see any need for enforcing a fourth adjustment period as required by the Market Rules.

Synergy supported the proposal which acts to reflect the current process for adjusting settlements. Synergy is happy with the current Adjustment Process employed by the IMO and the shortened settlement cycle timeline of 11 months.

The assessment by submitting parties of whether the proposal would better facilitate the Wholesale Market Objectives is summarised below:

Submitter	Wholesale Market Objective
LGP	Betters (a)
Perth Energy	Marginally betters (d)
Synergy	Consistent

No issues were raised in the submissions.

3.2 Public Forums and Workshops

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

4. THE IMO'S DRAFT ASSESSMENT

The IMO's draft assessment, against clause 9.16.3 and new clause 9.16.3A of the Market Rules, and analysis of the Rule Change Proposal can be viewed in the Draft Rule Change Report (available on the IMO's website).

5. THE IMO'S DRAFT DECISION

The IMO's draft decision was to accept the amendment of clause 9.16.3 and new clause 9.16.3A of the Market Rules as proposed in the Rule Change Proposal.

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

- are consistent with the Wholesale Market Objectives;
- have the support of the MAC;
- have the support of submissions received during the first submission period; and
- impose no additional cost on the market.

6. SECOND SUBMISSION PERIOD

Following the publication of the Draft Rule Change Report on the IMO website, the second submission period was between 25 January 2011 and 22 February 2011.

6.1 Submissions received

The IMO received one submission from LGP in the second submission period. LGP's full submission is available on the IMO website.

In summary, LGP supports the proposed amendments as presented in the Draft Rule Change Report.

7. 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 nor has it commissioned a technical review in respect of this Rule Change Proposal.

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

7.1 Market Objectives

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

7.2 Practicality and cost of implementation

Cost:

There have been no additional costs identified with the implementation of this Rule Change Proposal.

Practicality:

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

7.3 Views expressed in submissions

The IMO received three submissions during the first submission period. In summary, all the submissions received during the first submission period supported the proposal.

During the second submission period IMO received one submission that supported the Rule Change Proposal.

7.4 Views expressed by the Market Advisory Committee

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

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

Some participants had received invoices from the IMO that had been materially incorrect and did not appear to have been logically checked by the IMO. The IMO responded that any major changes were reviewed and that it ensured that any changes were

explainable. The Chair noted that up until two months ago, the IMO's system for settlement had taken almost 50 hours to complete a run and this was now reduced to four hours and that Market Participants should notice a difference in the IMO reviewing the statements more thoroughly.

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

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

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

8. THE IMO'S FINAL DECISION

Based on the matters set out in this report, the IMO's final decision, in accordance with clause 2.7.8 (e), is to accept the Rule Change Proposal in the proposed form.

8.1 *Reasons for the Decision*

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

- are consistent with the Wholesale Market Objectives;
- improve the integrity of the Market Rules;
- have the support of the MAC and of the submissions received; and
- impose no additional cost on the market.

Additional detail outlining the analysis behind the IMO's decision is outlined in section 7 of this Final Rule Change Report.

9. AMENDING RULES

9.1 *Commencement*

The amendments to the Market Rules resulting from this Rule Change Proposal will commence at **8.00am** on **1 May 2011**.

9.2 *Amending Rules*

The following clauses are amended (~~deleted text~~, added text):

- 9.16.3. The IMO must undertake a process for adjusting settlements ("**Adjustment Process**") in accordance with clause 9.19. ~~at least once every three months~~. The purpose of the process is to review the relevant Settlement Statements which were issued in the ~~42~~ nine months prior to the commencement of the

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

9.16.3A A Relevant Settlement Statement is:

- (a) Any STEM Settlement Statement or Non-STEM Settlement Statement that requires correction as the result of the resolution of a dispute raised under clause 2.19, or where the IMO has indicated under clause 9.20.7 that it will revise information in response to a Notice of Disagreement; and
- (b) Any Non-STEM Settlement Statement for which the Invoicing Date occurred in the month that is three, six or nine months prior to the start of the Adjustment Process, and for which the IMO has received revised metering data from a Metering Data Agent.

Glossary:

Relevant Settlement Statements: Has the meaning given in clause 9.16.3A.

APPENDIX 1: FULL DETAILS OF THE PROPOSAL

Background

One of the functions of the IMO is to settle the transactions required under the Market Rules. As such, the IMO manages the settlement, adjusted Settlement Statement and related invoicing processes for the Wholesale Electricity Market (WEM). This includes invoicing all revenue and costs for each Market Participant relating to:

- Short Term Energy Market (STEM) activities, with invoices issued and settled weekly; and
- Non-STEM activities, with Non-STEM invoices and settled monthly, two months in arrears (i.e. the initial settlement run for a trade month (n) is processed in the first week of the second month after the trade month (n + 2) with invoices issued two months after the trade month).

STEM invoices comprise of Market Participant purchases from and sales to, the STEM. As the STEM is a forward market that does not require meter data for settlement purposes, it can be settled on a different timeframe from other transactions.

Non-STEM invoices include an allocation of costs for Ancillary Services, Balancing, reconciliation, Reserve Capacity and Market Fees which require the availability of Meter Data and are therefore settled by the IMO after the necessary Meter Data has been received.

Market Participants can use the processes prescribed in the Market Rules to raise a Notice of Disagreement and Notice of Dispute with the IMO about Settlement Statements so they may be revised and invoices adjusted or corrected (sections 9.20 and 9.21 of the Market Rules as appropriate). The settlement adjustment process calculates the change in the settlement position of all Rule Participants after accounting for all changes to settlement data stemming from the provision of updated information by the Metering Data Agent and resolution of Notices of Disagreement and Disputes.

While Non-STEM Settlement Statements are also subsequently adjusted where revised Metering Data is received by the IMO, the Adjustment Process and the description of Relevant Settlement Statements does not clearly distinguish between STEM and Non-STEM Settlement Statements and the circumstances in which each type of statement may be adjusted.

Issue

In May of each year the IMO publishes a Settlement Cycle timeline. As part of the preparation for the 2010 timeline the IMO considered the provisions relating to the settlement cycle timeline and to the adjustment process in particular.

The IMO's current initial and adjusted Non-STEM Settlement Statement process and timetable works well, produces timely and accurate financial certainty, is easy to understand and has been accepted by Market Participants since market start. However, in a strict sense it does not fully comply with the requirements in clause 9.16.3 relating to the Adjustment Process.

Clause 9.16.3 currently reads:

“The IMO must undertake a process for adjusting settlements (“Adjustment Process”) at least once every three months. The purpose of the process is to review the relevant Settlement Statements which were issued in the 12 months prior to the

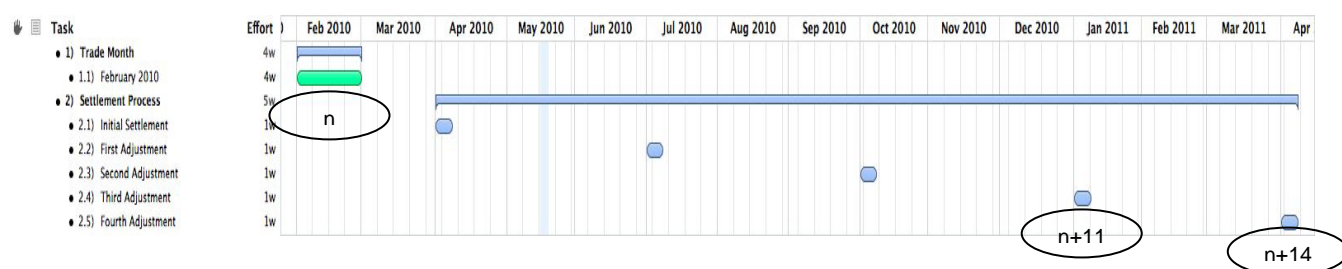
commencement of the Adjustment Process (“Relevant Settlement Statements”) to facilitate corrections resulting from Notices of Disagreement, the resolution of Disputes and revised metering data provided by Metering Data Agents. Adjustments may only be made to Relevant Settlement Statements. Adjustments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

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

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

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

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



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

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

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

Analysis undertaken by the IMO

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

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

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

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

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

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

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

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

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

¹ For further details please refer to the Wholesale Electricity Market Amending Rules (16 September 2006) available on the following webpage: <http://www.imowa.com.au/market-rules>

Proposal

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

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

The amendments will provide for:

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

APPENDIX 2: PROPOSED AMENDING RULES IN THE RULE CHANGE PROPOSAL

The IMO proposed the following amendments to the Market Rules in its Rule Change Proposal (~~deleted text~~, added text):

9.16.3. The IMO must undertake a process for adjusting settlements (“**Adjustment Process**”) in accordance with clause 9.19. ~~at least once every three months~~. The purpose of the process is to review the relevant Settlement Statements which were issued in the 42 nine months prior to the commencement of the Adjustment Process (“**Relevant Settlement Statements**”) to facilitate corrections resulting from Notices of Disagreement, the resolution of Disputes, and revised metering data provided by Metering Data Agents. Adjustments may only be made to Relevant Settlement Statements. Adjustments may not be made to Settlement Statements outside of an Adjustment Process.

9.16.3A A Relevant Settlement Statement is:

- (a) Any STEM Settlement Statement or Non-STEM Settlement Statement that requires correction as the result of the resolution of a dispute raised under clause 2.19, or where the IMO has indicated under clause 9.20.7 that it will revise information in response to a Notice of Disagreement; and
- (b) Any Non-STEM Settlement Statement for which the Invoicing Date occurred in the month that is three, six or nine months prior to the start of the Adjustment Process, and for which the IMO has received revised metering data from a Metering Data Agent.

Glossary:

Relevant Settlement Statements: Has the meaning given in clause 9.16.3A.