



**Independent Market Operator**

**Rule Change Notice  
Title: Settlement Cycle Timeline**

**Ref: RC\_2010\_19**

**Standard Rule Change Process**

**Date: 25 October 2010**

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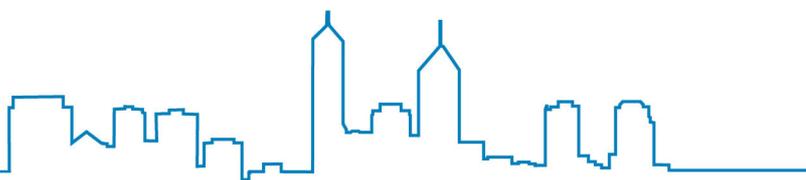
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## 1. THE RULE CHANGE PROPOSAL

### 1.1. The Submission

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

This Rule Change Notice is published in accordance with clause 2.5.7 of the Market Rules, which requires the IMO to publish a notice when it has developed a Rule Change Proposal.

#### 1.1.1 Submission details

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<b>Date submitted:</b>	25 October 2010
<b>Urgency:</b>	High
<b>Change Proposal title:</b>	Settlement Cycle Timeline
<b>Market Rules affected:</b>	9.16.3 and new clause 9.16.3A

### 1.2. 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."*

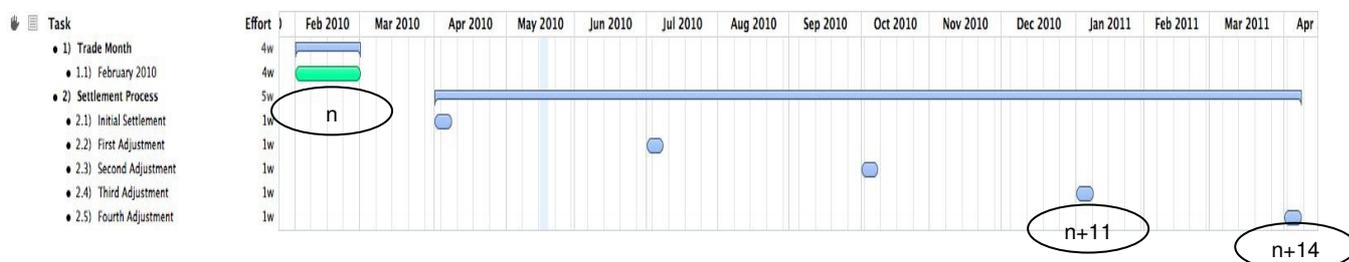
As the rule is written, the Adjustment Process is to be undertaken at least once every three months, and each initial Settlement Statement that was issued in the 12 months before the start of the Adjustment Process is to be reviewed (and if necessary adjusted).

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 Start<sup>1</sup>.

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

<sup>1</sup> 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>

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.

## **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 Notices of Disputes or Disagreements. The period from the start of the trading month to the final adjustment would be eleven months.

### 1.3. *The Proposal and the Wholesale Market Objectives*

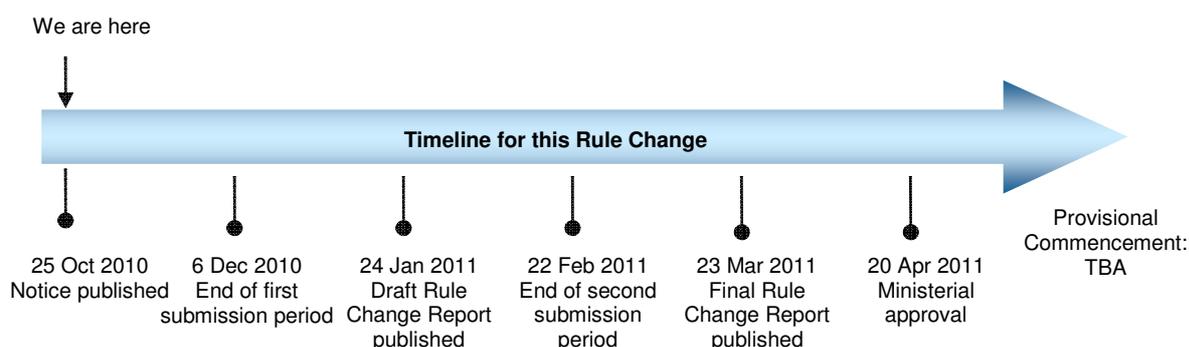
The IMO proposes to amend the Market Rules to reflect current practices and shorten the Settlement Cycle timeline. This would improve the efficiency of the adjustment process and coincide with the Market Participants' preference for receiving settlement finality earlier.

## 2. WHETHER THE PROPOSAL WILL BE PROGRESSED FURTHER

The IMO has decided to proceed with this proposal on the basis that its preliminary assessment indicated that the proposal is consistent with the Wholesale Market Objectives.

This Rule Change Proposal will be processed using the Standard Rule Change Process, described in section 2.7 of the Market Rules.

The projected timelines for processing this proposal are:



Note that the time for the publication of the Draft Rule Change Report has been extended beyond the usual 20 Business Days due to the Christmas/New Year break. All other dates have been adjusted accordingly.

### 3. CALL FOR SUBMISSIONS

The IMO is seeking submissions regarding this proposal. The submission period is 30 Business Days from the publication date of this Rule Change Notice. Submissions must be delivered to the IMO by 5pm on **Monday, 6 December 2010**.

The IMO prefers to receive submissions by email to [market.development@imowa.com.au](mailto:market.development@imowa.com.au) using the submission form available on the IMO website: <http://www.imowa.com.au/rule-changes>.

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

Fax: (08) 9254 4399

### 4. PROPOSED AMENDING RULES

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 ~~12~~ 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.

## 5. ABOUT RULE CHANGE PROPOSALS

Market Rule 2.5.1 of the Market Rules provides that any person (including the IMO) may make a Rule Change Proposal by completing a Rule Change Proposal Form and submit this to the IMO.

The IMO will assess the proposal and, within 5 Business Days of receiving the proposal form, will notify the proponent whether the proposal will be progressed further.

In order for the proposal to be progressed the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the Wholesale Market Objectives. The market objectives are:

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
- (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;
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

A Rule Change Proposal can be processed using a Standard Rule Change Process or a Fast Track Rule Change Process. The standard process involves a combined 10 weeks public submission period, while the fast track process involves the IMO consulting with Rule Participants who either advise the IMO that they wish to be consulted or the IMO considers have an interest in the change.