

## Rule Change Notice

### Cure Notices and Credit Support (RC\_2012\_24)

This notice is given under clause 2.5.7 of the Market Rules.

Date Submitted: 18 December 2012

Submitter: Bruce Cossill, IMO

#### The Proposal

The IMO has submitted the Rule Change Proposal: Cure Notices and Credit Support (RC\_2012\_24) to create an exception in clause 9.23.4 in the Market Rules for avoiding the issuance of a Cure Notice and drawing upon Credit Support, when a Suspension Event has been rectified before the IMO initiates those activities.

In accordance with the Market Rules relating to Settlement, Rule Participants are required to pay their invoices by 10:00 AM on the due date followed by the IMO making any out-payments by 2:00 PM on the due date. Sometimes, situations arise when payments are delayed for a short period of time after 10:00 AM; however, they are cleared soon after without affecting out-payments by the IMO. Such situations generally occur because of administrative issues such as a Rule Participant's authorised officer not being contactable, short-term delays in Austraclear etc.

The delay in payment constitutes a Suspension Event in accordance with clause 9.23.1(a) and the IMO is required to issue a Cure Notice and Draw Upon Credit Support as soon as practicable (clause 9.23.4). However, the IMO considers that in situations where payments are affected only by short-term administrative delays and are cleared soon after, the issuance of a Cure Notice and drawing upon Credit Support becomes unnecessary and imposes an avoidable administrative cost to the market.

The IMO proposes to add an exception to clause 9.23.4 so that, where a Suspension Event is remedied before a Cure Notice has been issued and the Credit Support is drawn upon; the IMO is no longer required to carry out those steps.

Appendix 1 contains the Rule Change Proposal and gives complete information about:

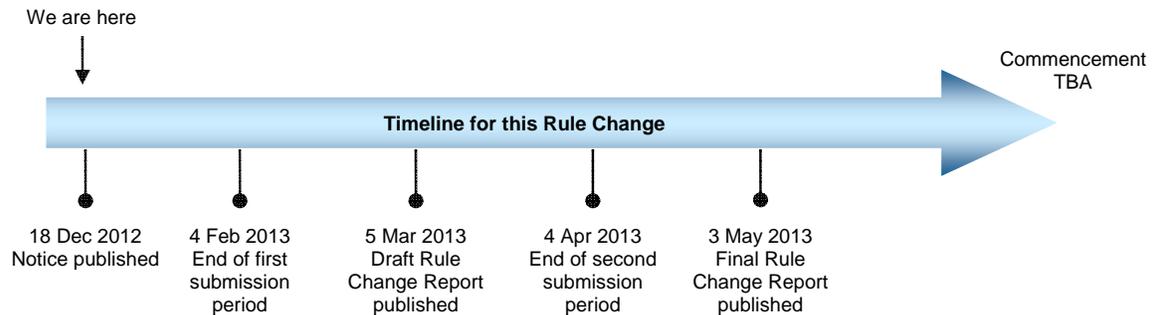
- the proposed amendments to the Market Rules;
- relevant references to clauses of the Market Rules and any proposed specific amendments to those clauses; and
- the submitter's description of how the proposed amendments would allow the Market Rules to better address the Wholesale Market Objectives.

#### Decision to Progress the Rule Change

The IMO has decided to progress the Rule Change Proposal on the basis that Rule Participants should be given an opportunity to provide submissions as part of the standard rule change process.

## Timeline

The projected timelines for processing this proposal are:



## Call for Submissions

The IMO invites interested stakeholders to make submissions on this Rule Change Proposal. The submission period is 30 Business Days. Submissions must be delivered to the IMO by **5.00pm, Monday 4 February 2013**.

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

Submissions may also be sent to the IMO by fax or post, addressed to:

**Independent Market Operator**  
Attn: Group Manager, Market Development  
PO Box 7096  
Cloisters Square, PERTH, WA 6850  
Fax: (08) 9254 4399

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## Wholesale Electricity Market Rule Change Proposal

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**Change Proposal No:** RC\_2012\_24  
**Received date:** 18 December 2012

### Change requested by

<b>Name:</b>	Bruce Cossill
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<b>Address:</b>	Level 17 Governor Stirling Tower, 197 St Georges Tce, Perth 6000
<b>Date submitted:</b>	18 December 2012
<b>Urgency:</b>	Medium
<b>Change Proposal title:</b>	Cure Notices and Credit Support
<b>Market Rule affected:</b>	9.23.4

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### Introduction

Clause 2.5.1 of the Wholesale Electricity Market Rules (Market Rules) provides that any person (including the Independent Market Operator (IMO)) may make a Rule Change Proposal by submitting a completed Rule Change Proposal form to the IMO.

This Rule Change Proposal can be posted, faxed or emailed to:

**Independent Market Operator**  
Attn: Group Manager Market Development  
PO Box 7096  
Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4339  
Email: [market.development@imowa.com.au](mailto:market.development@imowa.com.au)

The IMO will assess the proposal and, within five Business Days of receiving this Rule Change Proposal form, will notify you whether the Rule Change Proposal will be further progressed.

In order for the proposal to be progressed, all fields below must be completed and the proposal must explain how it will enable the Market Rules to better contribute to the achievement of the wholesale electricity market objectives. The objectives of the market 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.

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## **Details of the proposed Market Rule Change**

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### **1. Describe the concern with the existing Market Rules that is to be addressed by the proposed Market Rule change:**

#### **Issue**

The IMO manages the prudential and settlement processes for the Wholesale Electricity Market (WEM) pursuant to the Wholesale Electricity Market Rules (Market Rules). When an invoice is issued to a Rule Participant in accordance with clause 9.22.1 indicating that at least one dollar needs to be paid to the IMO, then the Rule Participant, in accordance with clause 9.22.6 must ensure that the full amount is paid to the IMO by 10:00 AM on the date specified in the invoice. Further, if the IMO owes at least one dollar to a Rule Participant, then the IMO, in accordance with clause 9.22.8 must ensure that the full amount is paid to the Rule Participant by 2:00 PM on the date specified in the invoice.

Situations can arise when a Rule Participant has not made the full payment by the time it is due. In accordance with clause 9.23.1(a), this would be considered a Suspension Event in relation to that Participant. Generally, late payments may be the result of an administrative or bank issue, and are remedied within a short time after the 10:00 AM deadline, meaning the subsequent payments to be paid out by the IMO at 2:00 PM remain unaffected. For example, situations such as:

- a Rule Participant's authorised officer is temporarily unable to be contacted,
- IT or internet connectivity issues have been experienced, or
- transactional errors in Austraclear

have caused short-term delays in receiving payments from Participants, even though the payments have been subsequently received in time without affecting out-payments from the IMO.

When the IMO becomes aware that a Suspension Event has occurred, the IMO must, as soon as practicable issue a Cure Notice requiring the default to be remedied and Draw Upon the Credit Support that the IMO holds in relation to that Market Participant. (Clause 9.23.4)

Even if a late payment is paid without affecting out-payments by 2:00 PM, a Suspension Event still occurs. A strict interpretation of clause 9.23.4 would require the IMO to issue a Cure Notice and Draw Upon Credit Support, even if the payment has been received and no further action is required of the Participant.

The IMO considers that in such instances, the issuance of a Cure Notice and drawing upon Credit Support becomes unnecessary and imposes an avoidable administrative cost to the market.

### **Proposed Solution**

To rectify the issue, the IMO proposes to add an exception to clause 9.23.4 so that, where a Suspension Event is remedied before a Cure Notice has been issued and the Credit Support drawn upon, the IMO is no longer required to carry out those steps.

The IMO notes that in the event a Suspension Event is not rectified, the proposed amendment does not alter the obligation on the IMO to initiate steps to Draw Upon Credit Support and issue a Cure Notice as soon as practicable.

However the proposed amendment allows for the drawing upon Credit Support process to be stopped, and the issuance of a Cure Notice to be avoided, where they are no longer necessary.

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### **2. Explain the reason for the degree of urgency:**

The IMO proposes that this Rule Change Proposal be progressed through the Standard Rule Change Process.

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### **3. Provide any proposed specific changes to particular Rules:** (for clarity, please use the current wording of the Rules and place a ~~strike through~~ where words are deleted and underline words added)

9.23.4. If the IMO becomes aware that a ~~s~~Suspension ~~e~~Event has occurred in relation to a Rule Participant, then the IMO must as soon as practicable:

- (a) subject to clause 9.23.5, issue a notice (“**Cure Notice**”), requiring that the default be remedied within 24 hours from the time the Cure Notice is issued; and
- (b) if it has not already done so, Draw Upon Credit Support held in relation to that Market Participant for the amount which the IMO determines is actually or contingently owing by the Market Participant to the IMO under these Market Rules<sub>1</sub>.

except where the Suspension Event has been remedied before the IMO has issued a Cure Notice and drawn upon the Credit Support.

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**4. Describe how the proposed Market Rule change would allow the Market Rules to better address the Wholesale Market Objectives:**

The IMO considers that the proposed amendments will better achieve objective (d)(to *minimise the long-term cost of electricity supplied to customers from the South West Interconnected System*) by:

- a) stopping the process of drawing upon Credit Support in time to avoid the subsequent requirement for replacement Credit Support to be provided by the relevant Participant; and
- b) reducing the administrative cost of issuing a Cure Notice and drawing upon Credit Support when those steps are no longer necessary.

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

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**5. Provide any identifiable costs and benefits of the change:**

**Costs:** None identified.

**Benefits:**

- Avoids the requirement for the provision of replacement Credit Support if payment is received and the Suspension Event no longer exists
- Reduces the administrative cost of issuing a Cure Notice and drawing upon Credit Support when those steps become unnecessary.