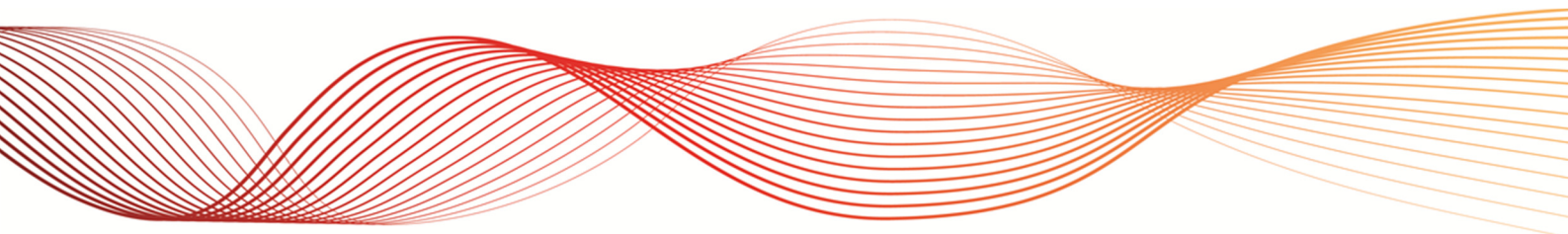


WEM OPERATIONAL FINANCIAL CONTINGENCIES

Published: **November 2015**



IMPORTANT NOTICE

Purpose

AEMO has prepared this document to provide information about AEMO's contingency procedures to deal with contingent settlement related events impacting the Western Australian Wholesale Electricity Market (WEM), as at the date of publication.

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CONTENTS

1.	INTRODUCTION	4
2.	AUSTRACLEAR	4
2.1	AEMO Rule Obligations	4
2.2	Participant Settlement Requirements	4
2.3	Austraclear Processes	5
2.4	Austraclear Queue Management	6
3.	SETTLEMENT IN DEFAULT SITUATIONS	7
3.1	Requirements of the Market Rules	7
3.2	AEMO Default Process Timeline	8
4.	CONCLUSIONS AND RECOMMENDATIONS	10
4.1	Summary of Key Points	10
4.2	Recommendations	10



1. INTRODUCTION

This document relates to the Western Australian Wholesale Electricity Market (WEM) and its purpose is to:

- Provide an overview explanation of the Austraclear settlement transaction processes, including the interactions between Austraclear, the Participant's bank and the Reserve Bank;
- Clarify the responsibility of Market Participants under the Market Rules;
- Outline the processes and actions that AEMO will undertake if Participants do not meet these responsibilities; and
- Provide some recommendations and proposals to Participants that are experiencing difficulties in meeting these settlement requirements.

2. AUSTRACLEAR

2.1 AEMO Rule Obligations

Clause of the WEM Rules 9.22.4 places an obligation on AEMO to select an electronic funds transfer facility for the WEM settlement transactions:

AEMO must nominate that an electronic funds transfer ("EFT") facility is to be used by all Market Participants and Rule Participants for the purpose of some or all settlements under these Market Rules.

AEMO has nominated Austraclear as the EFT facility on the basis that it has successfully provided similar services in the National Electricity Market (NEM) over the last decade.

This section of the report lays out the settlement requirements that Participants must meet under the Market Rules as well as the Austraclear and bank interactions that Participants must understand and control in order to meet these requirements.

2.2 Participant Settlement Requirements

The WEM design includes two fundamentally separate settlement processes. Short Term Electricity Market (STEM) settlement processes are performed on a weekly basis while non-STEM settlement processes are performed on a monthly basis.

Under the WEM design, settlement transactions are performed on the Settlement Day, two business days after the provision of invoices to participants. This applies across both the STEM and non-STEM markets, and also applies to both initial settlement runs and adjustment runs. Clause of the WEM Rules 9.22.6 and clause of the WEM Rules 9.22.8 define the timelines that Participants must follow when finalising transactions on the Settlement Day:



- **Clause of the WEM Rules 9.22.6:** If an Invoice indicates that a Rule Participant owes an amount to AEMO, then the Rule Participant must pay the full amount to AEMO (in cleared funds) by 10 AM on the date specified in the Invoice in accordance with clause 9.16.1(b), 9.16.2(e), and 9.16.4(d) (as applicable), whether or not it disputes the amount indicated to be payable.
- **Clause of the WEM Rules 9.22.8:** If an Invoice indicates that AEMO owes an amount to a Rule Participant, then AEMO must pay the full amount to the Rule Participant (in cleared funds) by 2 PM on the date specified in the Invoice in accordance with clause 9.16.1(b), 9.16.2(e), and 9.16.4(d) (as applicable), except as provided for in clause 9.24

As defined in clause 9.22.6, Participants must pay AEMO in cleared funds by 10 AM Western Standard Time. It is vital that all Participants understand that there are processes that Austraclear and Participant banks must undergo in order to progress an entered transaction into cleared funds and that in some cases these processes can take significant time.

It is solely the Market Participant's responsibility to oversee these Austraclear and bank processes and to ensure that cleared funds are provided to AEMO by 10 AM on the Settlement Day. When it can, AEMO will provide general prompts and assistance to Participants where it is suspected that payments may be running late, but it would be inappropriate for AEMO to become directly involved in this process in any manner.

Where a Participant owes money to AEMO, it is solely the responsibility of the Participant to ensure that all banking and Austraclear processes are completed and cleared funds are presented to AEMO by 10 AM WST on the Settlement Day.

2.3 Austraclear Processes

There are a number of processes and tests that need to be performed by Participants, AEMO, Austraclear, the Participant's bank and the Reserve Bank in order to complete the settlement transaction process. This section provides a high level explanation of these processes and indicates from where delays to the process can originate.

2.3.1 Transaction Initiation

In order to initiate a transaction between a Participant and AEMO, both the Participant and AEMO must enter and authorise the transaction in the Austraclear Exigo interface. Once either party has entered the transaction, the record will be assigned the status "Unmatched". Once both parties have entered the transaction (with equal amounts as either "Payable" or "Receivable") the record will be assigned the status "Matched".

It is vital that Participants understand that a "Matched" transaction does not mean that cleared funds have been provided to the receiving party. The tests outlined below must also be successfully finalised before the transaction is given the status "Completed" and the cleared funds are provided.



2.3.2 Cash Limit Test

Once the transaction has been initiated and assigned the Exigo status “Matched”, the transaction will be queued with an internal status of “Pending Cash Limit Test”. The Participant’s bank sets the Market Participant’s cash limit. At regular intervals an external process runs through all queued transactions that are “Pending Cash Limit Test” and checks the transaction amount against the Participant’s cash limit. Where the transaction amount exceeds the cash limit, the transaction will fail until the Participant’s bank increases the Participant’s cash limit. Where a settlement transaction amount is unusually high, it is possible that the transaction can become “stuck” at this point.

2.3.3 Real Time Gross Settlement Test

Once the transaction has passed the cash limit test, it is assigned the internal status “Pending RTGS Test”, indicating that the transaction between the Participant’s bank and the Reserve Bank is not yet completed. The RTGS test involves a check on the Participant’s bank limit, which is set by the Reserve Bank. If the transactions to be processed by the Participant’s bank exceed the bank limit, transactions can stall at this point. To minimise the risk of this occurring, Participants should contact their bank to ensure that their transactions are always given a “Priority” status (as discussed in the next section).

2.4 Austraclear Queue Management

Transactions can be placed on the queue with the following Statuses:

- **Priority:** This is the highest status level given. All “priority” transactions will be sent to the cash limit test first. All of these transactions need to be settled before the systems attempt to settle any “active” transactions. Priority transactions are progressed provided the limit is not exceeded by more than a fixed amount determined by a loan provision from the Reserve Bank specifically for this purpose.
- **Active:** These are medium priority transactions. These will be processed after there are no more “priority” transactions, but subject strictly to the limits. It follows that a steady influx of priority transactions can cause active transactions to fail.
- **Deferred:** These transactions will not be submitted to the settlement process while holding this status.

All transactions that must be complete by 10 AM should be given priority status. Active status is not suitable for transactions that must be completed by a certain time in the day. **It is vital that Participants ensure that their banks routinely give payable transactions the Priority Status as they must be complete by 10 AM WST.**

If a transaction cannot progress past any of the “pending” stages explained in the previous section, the Participant should rectify the situation with their bank immediately.

Participants must ensure that, in relation to amounts payable to AEMO, all of the steps and tests discussed above are successfully concluded and the transaction is assigned the status “completed” by 10 AM WST on the Settlement Day.



Failure by a Participant to facilitate payment by the due time and date constitutes an event of default and a Suspension Event, as well as a breach of the Market Rules. All such failures will be reported to AEMO Compliance team for follow up.

3. SETTLEMENT IN DEFAULT SITUATIONS

3.1 Requirements of the Market Rules

Clause of the WEM Rules 9.24.1 allows AEMO to draw on Credit Support where a participant has failed to meet their payment by the time it is due.

In the event that a Market Participant fails to make a payment under these Market Rules to AEMO before it is due, then AEMO may draw upon any Credit Support in relation to that Market Participant to meet the payment.

Further to this if AEMO has insufficient funds to pay all Market Participants at the time required under the Market Rules, AEMO must short pay participants based on the formula laid provided in **clause of the WEM Rules 9.24.3**.

Notwithstanding anything else in these Market Rules, if at any time the total amount received by AEMO from Rule Participants in cleared funds (“Total Amount”) is not sufficient to make the payments which AEMO is required to make under these Market Rules (for example, as a result of default by one or more Rule Participants), then AEMO’s liability to make those payments is limited to the Total Amount. AEMO must apply the Total Amount as follows:

- (a) first , AEMO must apply the Total Amount to satisfy:
- i. *payment of Revenue Requirement Settlement Amounts to the AEMO, System Management and the Economic Regulation Authority (including as contemplated by clause 9.22.10);*
 - ii. *payments which AEMO 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 AEMO is required to make under Network Control Service Contracts; and*
 - iv. *funds required to be disgorged or repaid by AEMO 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 AEMO 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 AEMO 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 AEMO 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 AEMO after the application of paragraph (a).

For the remainder of this report, the process of calculating the short payments required under this clause 9.24.3 is referred to as the Short Payment Process.

Where a Market Participant is in default due to non-payment by 10 AM on the Settlement Day AEMO will endeavour to draw on credit support under **clause of the WEM Rules 9.24.1** rather than short pay Participants under **clause of the WEM Rules 9.24.3**. However, it should be noted that there may be circumstances where this credit support is not provided by the bank in a timely manner. In cases such as this, short payments will result.

3.2 AEMO Default Process Timeline

Credit Support can be provided by Market Participants in the form of security deposits or Bank Undertakings or Guarantees. A requirement of Bank Undertakings lodged with AEMO is that cleared funds must be available to AEMO within 90 minutes of the instrument and a written demand being presented to the Participant's bank. To meet the timeline provided below AEMO has identified that this 90 minute process will need to commence by 11:00 WST at the latest.

In relation to security deposits, AEMO has been informed that the funds will also require approximately 90 minutes to be cleared. Therefore timing for default processes in the case in security deposits is just



as critical as it is for Bank Undertakings. With these points in mind, AEMO will follow the steps laid out below in the case of Participant default on settlement payments.

Time (WST)	Action
09:00	AEMO will commence contacting any Participants with outstanding payable transactions.
10:00	AEMO will advise Participants with outstanding payable transactions that they are in default.
10:00	For Participants that have provided bank guarantees or undertakings, AEMO will begin calling on bank instruments.
11:00	Short Payment Process calculations will be commenced.
11:00	AEMO will aim to present credit support instruments and written demand to the relevant bank (the funds should be available by 12:00). Note that although some banks have set the cut-off time as early as 11:30, AEMO will endeavour to approach the bank by 11:00 so that the funds will be cleared by 12:30, thus preventing the cancellation of the normal payments as outlined below.
11:00	For Participants that have provided security deposits, AEMO will commence processes for calling on credit support from these security deposits.
12:30	Cleared funds through either the bank instrument or the security deposit should become available.
12:30	Where credit support has been unsuccessful, AEMO will notify all Participants of short payment amounts as applicable. (These Participants will need to adjust their Austraclear entries to reflect these short payment amounts.)
12:45	AEMO will cancel normal payments that are no longer applicable, and will replace these with short payment amounts.
12:45	As the normal payments have been deleted from this system, the arrival of the delayed payment to AEMO from this point will not halt the short payment process. In this case, the short payments will be corrected on the following day under clause of the WEM Rules 9.24.4.
13:15	AEMO will authorise all new payment amounts in the Austraclear system.
13:28	Austraclear closes.**
** Note that this Austraclear closing time is the worst case and applies during Eastern State daylight saving periods only.	

AEMO reserves the right to alter these times to meet the circumstances of the market should the need arise.



4. CONCLUSIONS AND RECOMMENDATIONS

4.1 Summary of Key Points

The key points raised in this document are repeated below:

- Where a Participant owes money to AEMO, it is solely the responsibility of the Participant to ensure that all banking and Austraclear processes are completed and cleared funds are presented to AEMO by 10 AM WST on the Settlement Day;
- It is vital that Participants ensure that their banks routinely give payable transactions the Priority Status as they must be complete by 10 AM WST.
- Participants must ensure that, in relation to amounts payable to AEMO, all of the steps and tests discussed above are successfully concluded and the transaction is assigned the status “completed” by 10 AM WST on the Settlement Day;
- Where a Participant is in default due to non payment of settlement amounts, and that Participant has provided credit support in the form of a bank guarantee or undertaking, AEMO will commence the process of preparing to draw down funds from this credit support at 10 AM WST.
- Where a Participant is in default due to non payment of settlement amounts, and that Participant has provided credit support in the form of a security deposit, AEMO will commence to draw down funds from this credit support at 11 AM WST.

4.2 Recommendations

As discussed above, it is recommended that Participants understand the Austraclear queue management process and ensure that their banks are placing the appropriate priority on the settlement transactions. Participants are encouraged to develop a good working relationship with their banks so that issues can be resolved quickly.

For Participants that continue to experience issues with their settlement responsibilities, AEMO would like Participants to consider using the option of early payment. Under this option, Participants that owe monies to AEMO on a particular Settlement Day could elect to pay this money one business day early.

AEMO would need to be notified with sufficient lead time so that Austraclear transactions could be initiated on the appropriate day. This could be organised through one of the following:



4.2.1 Early Payment

For any particular settlement run that results in payments from the Participant to AEMO, the Participant could elect to pay early. AEMO would enter the corresponding transaction into Austraclear with a transaction date for the business day before the Settlement Day. The Participant would then authorise the payment a day early.

4.2.2 Standing Early Payment

A Participant could nominate themselves for a Standing Early Payment. In this case, for every STEM and Non-STEM settlement run that results in payments from the Participant to AEMO, AEMO would enter this transaction into Austraclear with a transaction date for the business day before the Settlement Day.

In order to elect for early payment, the Participant will need to notify AEMO by 9:00 AM WST on the day before the Settlement Day.

Participants should note that interest calculations will not be applicable to these early payment options. The amount calculated and displayed on the invoice as payable to AEMO would apply without the application of additional interest calculations.

Participants interested in participating in the early payment option should email AEMO Operations Team at wa.operations@aemo.com.au by 9:00 AM WST on the day before the relevant Settlement Day.