Suspension Event Process in the WEM

Presented to WA Electricity Consultative Forum
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20 October 2021

Overview

Purpose: Provide Market Participants with an overview of the default and Suspension Event processes in the WEM and an update on operational processes in place.

Agenda:

1 Overview of Suspension Event Processes

- Relevant WEM Rules
- Operational processes
- Timelines

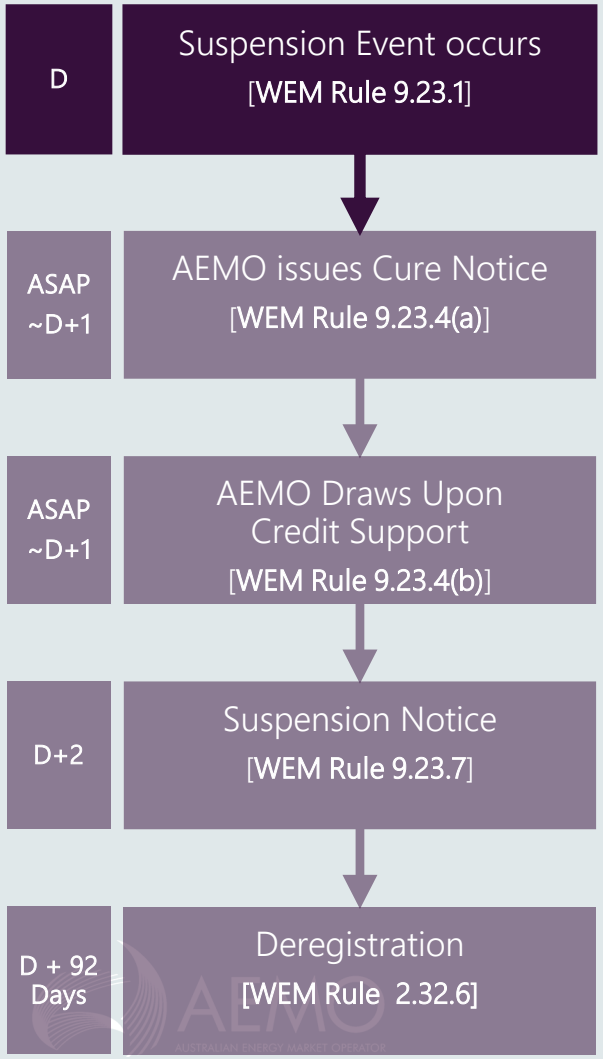
2 Discussion of Supplier of Last Resort Processes

- SoLR processes
- Legislative Requirements
- Current Status of Arrangements
- Interim measures

Overview

- A Suspension Event occurs when a Market Participant **fails to meet a specific obligation**. The specific Suspension Events are defined in the WEM Rules
- A Payment Default occurs when a Market Participant **fails to make a payment** by the time it is due
- These events can lead to:
  - The Market Participant being **suspended**, and/or
  - Financial impacts to other Market Participants via **short payments and Default Levies**

Suspension Event
Processes



- Clause 9.23.1 of the WEM Rules outlines the full list of Suspension Events.
- The most likely Suspension Events are:
  - A Market Participant **fails to make a payment** under the Market Rules before the time it is due
  - A Market Participant's Credit Support is drawn upon by AEMO and **payment is not received within 90 minutes**
  - A Market Participant is in **breach of a Prudential Obligation**, including failing to respond to a Margin Call
  - A Market Participant or a provider of Credit Support in relation to the Market Participant is **insolvent**

Suspension Event Processes

D	Suspension Event occurs [WEM Rule 9.23.1]
ASAP ~D+1	AEMO issues Cure Notice [WEM Rule 9.23.4(a)]
ASAP ~D+1	AEMO Draws Upon Credit Support [WEM Rule 9.23.4(b)]
D+2	Suspension Notice [WEM Rule 9.23.7]
D + 92 Days	Deregistration [WEM Rule 2.32.6]

- The following summarises the processes AEMO follows in relation a payment default.
- The processes create operational challenges for AEMO and the defaulting Participant
- If Credit Support does not fully cover the defaulted amount, Market Participants will be short paid, and each Market Participant is liable for any potential Default Levies.

Payment Default
At 10AM on Settlement Day
Rule Participant fails to make a payment by 10AM

Suspension Event

Credit Support
By ~11AM on Settlement Day
AEMO Draws Upon Credit Support to cover the defaulted amount.

Drawing on Credit Support may:
- resolve the Suspension Event.
- result in Credit Support less than Credit Limit which is another Suspension Event

Short Payment
By 1:30PM on Settlement Day
If there is insufficient Credit Support to cover the payment, AEMO must administer short payments on settlement day.

Repayment of Short Payment
Settlement Day + 5BD
If AEMO receives full or partial payment of the overdue amount, AEMO repays the short paid amounts

Default Levy
Settlement Day + 5BD
If AEMO is yet to recover the full amount, a Default Levy is raised.
Each Participant's share of the Default Levy is in proportion to their absolute generation or consumption

Suspension Event Processes

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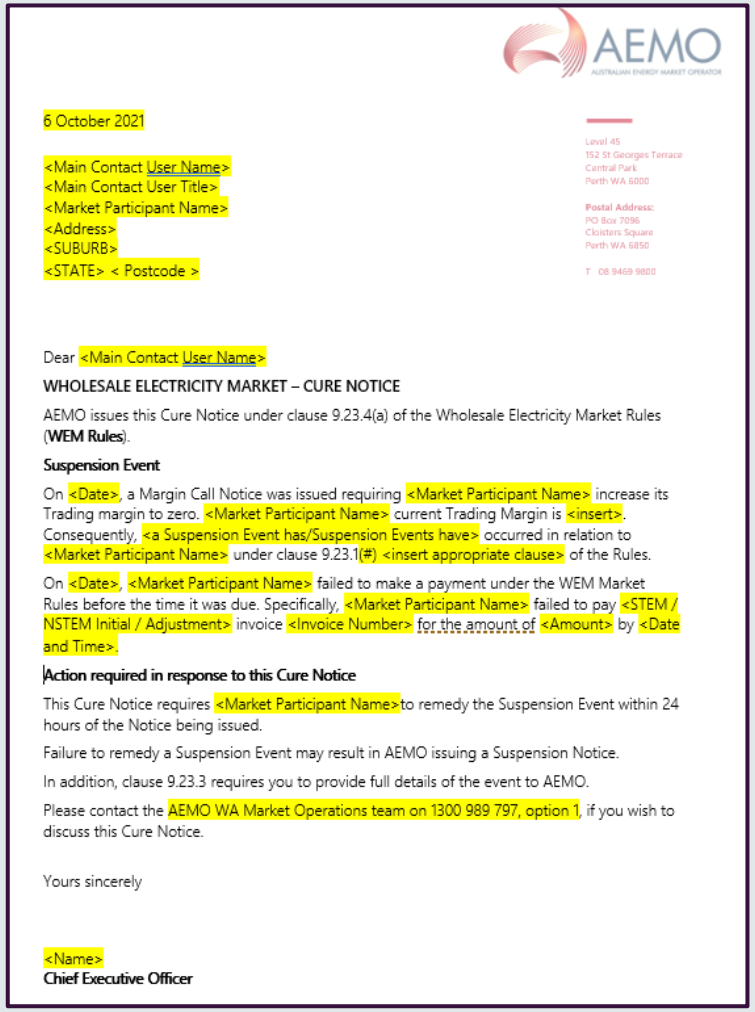
D + 92 Days	Deregistration [WEM Rule 2.32.6]

- AEMO must, as soon as practicable, issue a Cure Notice.
- A Cure Notice requires the Suspension Event to be remedied within 24 hours.
- The Cure Notice is a formal letter and will be issued by email to the Main Contact User listed in WEMS.
- A Cure Notice may be extended under clauses 9.23.5 or 9.23.6.

Example Template Cure Notice



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6 October 2021

<Main Contact User Name>
<Main Contact User Title>
<Market Participant Name>
<Address>
<SUBURB>
<STATE> < Postcode >

Level 45
152 St Georges Terrace
Central Park
Perth WA 6000

Postal Address:
PO Box 7096
Cloisters Square
Perth WA 6850

T 08 9469 9800

Dear <Main Contact User Name>

WHOLESALE ELECTRICITY MARKET – CURE NOTICE

AEMO issues this Cure Notice under clause 9.23.4(a) of the Wholesale Electricity Market Rules (**WEM Rules**).

Suspension Event

On <Date>, a Margin Call Notice was issued requiring <Market Participant Name> increase its Trading margin to zero. <Market Participant Name> current Trading Margin is <insert>. Consequently, <a Suspension Event has/Suspension Events have> occurred in relation to <Market Participant Name> under clause 9.23.1(#). <insert appropriate clause> of the Rules.

On <Date>, <Market Participant Name> failed to make a payment under the WEM Market Rules before the time it was due. Specifically, <Market Participant Name> failed to pay <STEM / NSTEM Initial / Adjustment> invoice <Invoice Number> for the amount of <Amount> by <Date and Time>.

Action required in response to this Cure Notice

This Cure Notice requires <Market Participant Name>to remedy the Suspension Event within 24 hours of the Notice being issued.

Failure to remedy a Suspension Event may result in AEMO issuing a Suspension Notice.

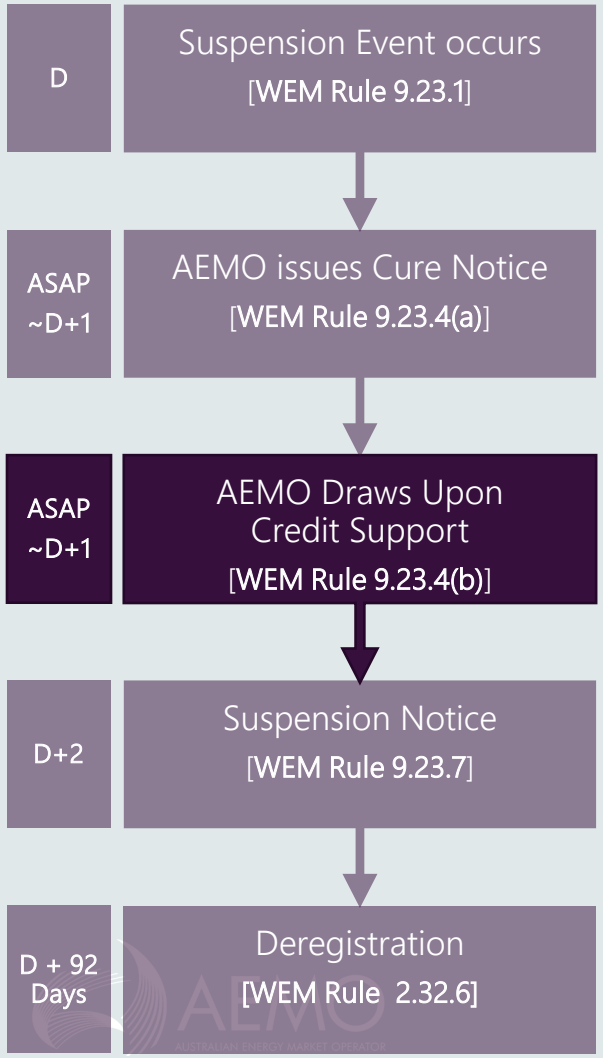
In addition, clause 9.23.3 requires you to provide full details of the event to AEMO.

Please contact the AEMO WA Market Operations team on 1300 989 797, option 1, if you wish to discuss this Cure Notice.

Yours sincerely

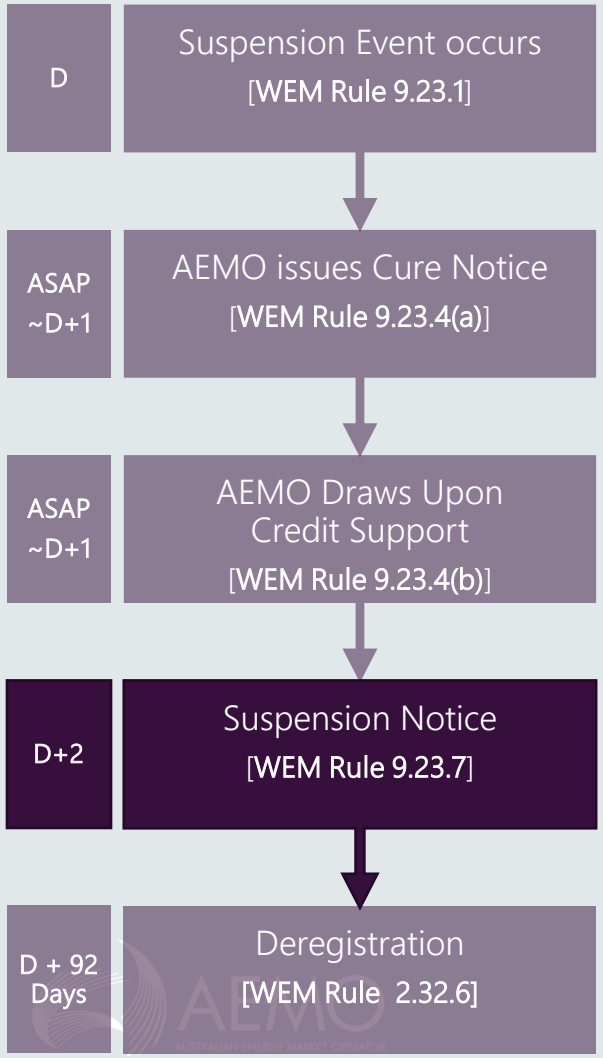
<Name>
Chief Executive Officer

Suspension Event
Processes



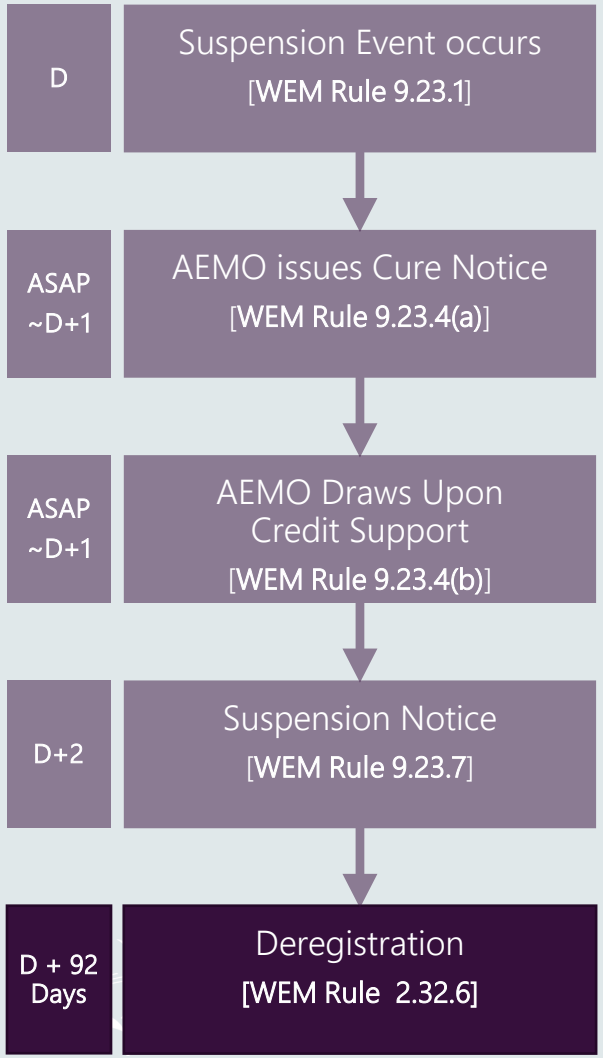
- AEMO **must**, as soon as practicable Draw Upon any Credit Support held for the amount which AEMO determines is actually or contingently owing under the WEM Rules.
- Drawing on Credit Support may result in Credit Support held by AEMO of less than the Credit Limit. This is a subsequent Suspension Event that must be remedied.

Suspension Event
Processes



- AEMO may issue a Suspension Notice to 'suspend' the participant from the WEM.
- AEMO may specify in a Suspension Notice directions that the relevant Participant must comply with to give effect to the suspension. [WEM Rule 2.32.2]
- A Participant must comply with the Suspension Notice, including [WEM Rule 2.32.4]:
  - trading or ceasing trading in the WEM as specified in the notice; and
  - continuing to meet any existing Reserve Capacity Obligations.
- Due to the design of the WEM, in particular the RCM and net settlement, the conditions imposed will depend on the specific circumstances.
- In addition, AEMO :
  - May require a Network Operator to disconnect Facilities (including Loads) registered by a suspended Participant to give effect to a Suspension Notice.
  - May reject any submissions from a Participant, and cancel any existing submissions.
  - May withhold payments owed to a defaulting Rule Participant. [MR 2.32.4]
  - Must inform all Rule Participants.

Suspension Event
Processes



- Where a Rule Participant has been suspended for 90 days, AEMO must notify the ERA, and the ERA may apply to the Electricity Review Board for a de-registration order

Supplier of Last Resort (SoLR)
Background

- A supplier or retailer of last resort framework would typically:
  - ensure that the customers from a Suspended Participant are transferred to a nominated retailer to ensure supply is maintained.
  - prevent a Suspended Participant from incurring further liabilities in the WEM.
- The Supplier of Last Resort (SoLR) framework in the WEM:
  - Is specified in the Electricity Industry Act 2004
  - Comes into operation if the retail license of the supplier has been cancelled, expired or surrendered
  - There is no link between a Suspension Event in the WEM Rules and a SoLR event in the Electricity Industry Act.
  - **Operational SoLR arrangements are not currently in place.**
- Currently, AEMO's only ability to prevent a Suspended Participant from incurring further liabilities is limited to directing Western Power to disconnect Facilities (e.g. Loads) under clause 2.32.9 of the WEM Rules.

Supplier of Last Resort (SoLR)
Implications

The following is an example of what may occur in the WEM without a fit for purpose Supplier of Last Resort framework.

A Market Customer is Suspended from the WEM

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Associated Loads of that Market Customer will continue to consume

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The Suspended Market Customer will continue to accrue liabilities.

↓

Default Levies may occur

If associated Loads cannot be transferred or disconnected, Default Levies may continue*.

*Default Levies may continue unless AEMO directs Western Power to disconnect Loads to give effect to a Suspension Notice or deregistration under WEM Rule 2.32.9

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Financial stress on all other Participants.

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Supplier of Last Resort
Interim Arrangements

- AEMO has raised this matter with Energy Policy WA and the Minister for Energy.
- After discussion with Energy Policy WA and the Minister for Energy, AEMO's management has updated its ***operational template*** Suspension Notice to include additional notification requirements.
- These interim measures may assist if a Suspension Event were to occur.

Template Suspension Notice – Additional Directions

1. Must notify the customers of all Loads associated with <Market Participant Name> that
   a) <Market Participant Name> has been suspended from the WEM;
   b) AEMO may require Western Power to disconnect Facilities registered by <Market Participant Name>, including any Load under clause 2.32.9 of the WEM Rules;
   c) small-use customers have a right of supply with Synergy on a standard contract; and
   d) larger customers should consider seeking alternative supply arrangements as soon as possible.

2. Must provide evidence of the notifications provided to customers to AEMO by <DD Month YYYY>

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Supplier of Last Resort
Operational Practice

- Each Suspension Event is unique:
  - As Suspension Event will require careful consideration of the specifics of the Suspension Event and the impact on other Market Participants
  - AEMO's Board has not delegated decision-making authority for Suspension Notices and other related decisions (e.g. disconnection of Loads) to AEMO's management.
  - AEMO's management cannot pre-empt any decision that AEMO's Board may make.
  - However, AEMO management has updated internal processes and templates to incorporate the proposed directions as a standard recommendation to AEMO's Board
- **Given current processes and rules, Default Levies may still occur.**
- Accordingly, AEMO is committed to working with Energy Policy WA to establish more robust long-term SoLR arrangements in the WEM.

Questions?