WEM Payment Default Process
Impact of Aggregating Non-STEM Adjustment Trades

Presented to WA Electricity Consultative Forum
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Background

Summary

- AEMO has identified that the current operational processes for facilitating settlement day trades may compromise the short payment process in the event of a Payment Default.
- This would lead to a non-compliance.
- This was identified during the implementation of the new WEM Prudential and Settlement Service (PaSS)

Purpose

- The purpose of this presentation is to:
  - Provide an overview of the issue.
  - Provide an overview of the proposed amendments to the operational processes to mitigate the issue.
  - Outline the implications for Rule Participants.

Summary of Process Issue

Current Process

- AEMO settles 3 Invoices, each associated with an adjusted Non-STEM Settlement Statement on the same day
- AEMO's current settlement process requires participants to enter a single trade in Austraclear that is the net of the 3 Invoice amounts.
- The current process may be non-compliant with MR 9.22.6.

Issue

- In the event of a Payment Default AEMO may be required to short-pay the market in accordance with MR 9.24.3A. The current process will:
  - Compromise AEMO's ability to short-pay the market; and
  - Result in AEMO being non-compliant with MR 9.24.3A.

Current Operational Process

Invoice \ Participant	A	B	C	Net
Adjustment 1	-$1	$0	$1	**$0**
Adjustment 2	-$2	$0	$2	**$0**
Adjustment 3	$0	$3	-$3	**$0**
Net	**-$3**	**$3**	**$0**	**$0**

- If A pays AEMO $3 for the aggregated invoice then AEMO pays B $3. There are no transactions with C.
- There are two issues with this operational practice:
  1. If A fails to pay AEMO $3 (for **Adj1 and Adj2**):
     - MR 9.24.3A(b) states Payment Defaults are specific to an Invoice (i.e. a single Non-STEM Statement)
     - AEMO should therefore short pay C (for **Adj1 and Adj2**), however this is not possible.
     - If AEMO short pays B (for **Adj3**) then it would be non-compliant with MR 9.24.3A(b).
  2. If A fails to pay AEMO $1 (partial Payment Default) then it is unclear which Invoice is associated with the Payment Default, making it unclear how the market should be settled

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Rule Defined Process

Invoice \ Participant	A	B	C	Net
Adjustment 1	-$1	$0	$1	**$0**
Adjustment 2	-$2	$0	$2	**$0**
Adjustment 3	$0	$3	-$3	**$0**
~~Net~~	~~-$3~~	~~$3~~	~~$0~~	~~$0~~

- The WEM Rules do not contemplate that invoices should be aggregated.
- Therefore under the WEM Rules:
  - Before 10AM, A should pay AEMO $1 (Adj1), A should pay AEMO $2 (Adj2) & C should pay AEMO $3 (Adj3)
  - After 10AM, AEMO should pay C $1 (Adj1), AEMO should pay C $2 (Adj2) & AEMO should pay B $3 (Adj3)
- If A fails to pay AEMO $1 for Adj1 and $2 for Adj2 then AEMO would be able to short pay C for Adj1 and Adj2 (on settlement day)
- This process has two anticipated impacts for Market Participants:
  1. There may be a cashflow implication for participants who are required to pay AEMO prior to 10am, only to be paid after 10am.
  2. Participants would be required to make additional Austraclear trades for Non-STEM adjustments.

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Anticipated Participant Impacts – Cashflow

- There is a cashflow implication where a participant may be required to pay AEMO prior to 10am, only to be paid after 10am
- The table provides an assessment of the materiality of the cashflow implication **over 8 years** between July 2013 and July 2021.
- A materiality of $10k means the participant paid AEMO $10k in the morning, only to receive ≥ $10k back in the afternoon.

Materiality	Occurrences	Occurrences (%)
$\$200k < x$	0	0.0%
$\$100k < x \leq \$200k$	3	0.1%
$\$50k < x \leq \$100k$	10	0.2%
$\$10k < x \leq \$50k$	40	1.0%
$\$1k < x \leq \$10k$	147	3.5%
$\$1 < x \leq \$1k$	704	17.0%
$x < \$1$	3238	78.2%

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Anticipated Participant Impacts – Increase in Austraclear Trades

- Participants would be required to make additional Austraclear trades for Non-STEM adjustments.
- In accordance with the current ASX Schedule of Fees the minimum cost of processing a transaction using Austraclear is $5.50 ex GST per Cash Trade.
- This would lead to an additional $132 in Austraclear Fees per Participant per year.

Settlement of…	Current trades per year	Corrected trades per year
STEM Invoice	52	52
Non-STEM Initial Invoice	12	12
Non-STEM Adjustment Invoices	12	36
Total	52 STEM + 24 Non-STEM	52 STEM + 48 Non-STEM

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AEMO's proposed next steps

Proposed Way Forward

- AEMO proposes to:
  - amend the operational processes for facilitating settlement day trades to align with WEM Rules and address the issues identified.
  - require Market Participants to settle 3 Austraclear trades on adjustment settlement day (i.e. one for each of the 3 Invoices associated with the adjusted Non-STEM Settlement Statement)

Next Steps

- ✓ **AEMO:** Inform Market Participants of:
  - ✓ Operational and compliance issues with AEMO's current operational processes for facilitating settlement day trades; and
  - ✓ Proposed way forward.
- ☐ **Market Participants:** Consider this matter and raise any concerns or feedback on this proposed change in operational process and application of the WEM Rules by 3 November.
- ☐ **AEMO:** Consider feedback and if required, inform participants of the date the proposed updated operational process will take effect.

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Questions and Feedback

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