

Independent Market Operator

SETTLEMENT TRANSACTION
TIMELINES AND AUSTRACLEAR
PROCESSES

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1. INTRODUCTION

Experience gained from recent settlement runs in the Wholesale Electricity Market (WEM) suggests that some Participants need to enhance their awareness of settlement responsibilities and the implications of not meeting these responsibilities.

The purpose of this report 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 the IMO 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

Clause 9.22.4 of the Market Rules place an obligation on the IMO to select an electronic funds transfer facility for the WEM settlement transactions:

The IMO 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.

The IMO 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.

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. Market Rule clauses 9.22.6 and 9.22.8 define the timelines that Participants must follow when finalising transactions on the Settlement Day:

- **Clause 9.22.6:** *If an Invoice indicates that a Rule Participant owes an amount to the IMO, then the Rule Participant must pay the full amount to the IMO (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 9.22.8:** *If an Invoice indicates that the IMO owes an amount to a Rule Participant, then the IMO 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 the IMO **in cleared funds** by 10 AM Western Standard Time¹. 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 the IMO by 10 AM

¹ All times in the Market Rules are expressed in Western Standard Time

on the Settlement Day. When it can, the IMO will provide general prompts and assistance to Participants where it is suspected that payments may be running late, but it would be inappropriate for the IMO to become directly involved in this process in any manner.

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

Austraclear Processes

There are a number of processes and tests that need to be performed by Participants, the IMO, 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.

1. Transaction Initiation

In order to initiate a transaction between a Participant and the IMO, both the Participant and the IMO 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. 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.

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).

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 the IMO, 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.

3. SETTLEMENT IN DEFAULT SITUATIONS

Requirements of the Market Rules

Clause 9.24.1 of the Market Rules allows the IMO 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 the IMO before it is due, then the IMO may draw upon any Credit Support in relation to that Market Participant to meet the payment.

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

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

- (a) first, the IMO must apply the Total Amount to satisfy:
- i. payment of Revenue Requirement Settlement Amounts to the IMO, System Management and the Economic Regulation Authority (including as contemplated by clause 9.22.10);
 - ii. payments which the IMO 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 the IMO is required to make under Network Control Service Contracts; and
 - iv. funds required to be disgorged or repaid by the IMO 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 the IMO 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 the IMO 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 the IMO 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 the IMO 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* the IMO will endeavour to draw on credit support under clause 9.24.1 rather than short pay Participants under clause 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.

IMO 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 the IMO is that cleared funds must be available to the IMO within 90 minutes of the instrument and a written demand being presented to the Participant's bank. To meet the timeline provided below the IMO has identified that this 90 minute process will need to commence at 11:00 WST.

In relation to security deposits, the IMO has been informed that the funds will also require approximately 90 minutes to be cleared. Therefore timing for default processes in the case of security deposits is just as critical as it is for Bank Undertakings. With these points in mind, the IMO will follow the steps laid out below in the case of Participant default on settlement payments.

Time (WST)	Action
09:00	The IMO will commence contacting any Participants with outstanding payable transactions.
10:00	The IMO will advise Participants with outstanding payable transactions that they are in default.
10:00	For Participants that have provided bank guarantees or undertakings, the IMO will begin calling on bank instruments.
11:00	Short Payment Process calculations will be commenced.
11:00	The IMO 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, the IMO 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, the IMO 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, the IMO 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	The IMO 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 the IMO 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 9.24.4 of the Market Rules.
13:15	The IMO 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.

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

4. CONCLUSIONS AND RECOMMENDATIONS

Summary of Key Points

The key points raised in this document are repeated below:

- **Where a Participant owes money to the IMO, it is solely the responsibility of the Participant to ensure that all banking and Austraclear processes are completed and cleared funds are presented to the IMO 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 the IMO, 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, the IMO 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, the IMO will commence to draw down funds from this credit support at 11 AM WST.**

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, the IMO would like to extend the offer of early payment. Under this option, Participants that owe monies to the IMO on a particular Settlement Day could elect to pay this money one business day early. The IMO 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:

Early Payment

For any particular settlement run that results in payments from the Participant to the IMO, the Participant could elect to pay early. The IMO 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.

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 the IMO, the IMO 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 the IMO 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 the IMO would apply without the application of additional interest calculations.

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