

NEM TRANSMISSION NETWORK SERVICE PROVIDER NEGATIVE SETTLEMENTS RESIDUE PROCEDURE

PREPARED BY: Metering and Settlements

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Approved for distribution and use



Matt Zema
Chief Executive Officer

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Glossary

- a) In this document, a word or phrase *in this style* has the same meaning as given to that term in the *National Electricity Rules (Rules)*.
- b) In this document, capitalised words or phrases or acronyms have the meaning set out opposite those words, phrases, or acronyms in the table below.
- c) Unless the context otherwise requires, this document will be interpreted in accordance with Schedule 2 of the *National Electricity Law*.

TERM	MEANING
appropriate TNSP	The TNSP determined in accordance with Rule 3.6.5(a)(4B)
Settlements Residue Report	A report produced as part of the issue of settlement statements, which provides a breakdown of residue amounts
SRA	Settlement Residue Auction
TNSP	<i>Transmission Network Service Provider</i>
Negative Settlements Residue Payment Amount	The amount which the TNSP must pay as part of the Negative Settlements Residue Payment Methodology
Negative Settlements Residue Payment Methodology	A payment interval and method in respect to clause 3.6.5(a)(4) and 3.6.5(a)(4A) of the Rules by which TNSP's must make payment to <i>AEMO</i>
Statement Amount	The total amount appearing on the TNSP's <i>preliminary statement</i>

1 Introduction

- a) This NEM Transmission Network Service Provider Negative Settlements Residue Procedure ("Procedure") is made in accordance with clauses 3.6.5(a)(4) and 3.6.5(a)(4A) of the Rules.
- b) This Procedure commences on 11 June 2012 and supersedes the NEM Transmission Network Service Provider Payment Procedure.
- c) This Procedure may only be amended in accordance with clauses 3.6.5(a)(4) and 3.6.5(a)(4A) of the Rules.
- d) If there is any inconsistency between this Procedure and the *Rules*, the *Rules* will prevail to the extent of that inconsistency.

2 Purpose

The purpose of this document is to set out a procedure to enable *AEMO* to recover amounts arising from negative *inter-regional and intra-regional settlements residues* in a timeframe that minimises the impact on the settlement of *Market Participants*.

3 Application of this Procedure

This Procedure applies to:

- *AEMO*; and
- each appropriate TNSP.

4 Legal and Regulatory Framework

Clauses 3.6.5(4) and 3.6.5(a)(4A) of the *Rules* require *AEMO* to determine a payment time, interval and method for recovery of negative *settlements residue* amounts from TNSPs on a date prior to the date for settlement of *final statements*.

AEMO must consult with TNSPs prior to a determination under *clause* 3.6.5(4). The appropriate TNSP must pay the negative *settlements residue* amount in accordance with *AEMO*'s determination.

5 Related Policies and Procedures

- *AEMO* document Methodology for the Allocation and Distribution of Settlements Residues
- *AEMO* document Dispatch SO_OP3705

6 Background

In the *National Electricity Market (NEM)* *settlements residue* can arise due to several reasons, including network losses and constraints. These residues are apportioned into two components.

- ***Inter-regional settlements residue***

This is the residue which is attributable to *regulated interconnectors*. *Inter-regional settlements residue* is distributed through the Settlements Residue Auction (SRA) process, after giving effect to any applicable jurisdictional derogation.

- **Intra-regional settlements residue**

This is the remaining *settlements residue* which arises from *intra-regional loss factors*. *Intra-regional settlements residue* is allocated to the appropriate TNSP of the importing *region* for both positive and negative amounts.

The calculation and apportionment of *settlements residues* is detailed in a methodology¹ document published by AEMO.

Both residue components can be either positive or negative dollar amounts, and the distribution/ recovery in each *trading interval* can be summarised in the table below:

Table 1: SUMMARY OF SETTLEMENTS RESIDUES

	POSITIVE AMOUNTS		NEGATIVE AMOUNTS
INTER-REGIONAL SETTLEMENTS RESIDUE	According to jurisdictional derogation		
	SETTLEMENT RESIDUE AUCTION		Appropriate TNSP of importing <i>region</i>
	SRA unit holders (sold units)	Appropriate TNSP of importing <i>region</i> (unsold units)	
INTRA-REGIONAL SETTLEMENTS RESIDUE	Appropriate TNSP		

This procedure relates to the recovery of negative amounts accrued by a TNSP with respect to *inter-regional and intra-regional settlements residues*.

6.1 Negative Inter-regional Settlements Residue

Negative *inter-regional settlements residues* can occur for a number of reasons, but typically arise when there is an energy flow from a higher-priced *region* to a lower-priced *region* (counter-price flow). These negative amounts are recovered from the appropriate TNSP of the importing *region* as part of the settlement of the *billing period* in which they occur.

AEMO has a system operating procedure² which deals with the management of negative residues where the magnitude of the residue exceeds a predetermined threshold. Due to power system security requirements, it is possible for the negative residue to become very large, for example:

An *interconnector* between 2 regions with a flow of 1000MW (i.e. 500MWh per *trading interval*)

Prices in the *regions* are \$10,000 and \$100 (flow from higher to lower priced *region*)

Negative Residue = 500MWh x (\$10,000 - \$100) = \$4.95 Million per *trading interval*

The residue would be limited by the *cumulative price threshold* being exceeded, however could reach \$4.95 Million x 15 = **\$74 Million**

6.2 Negative Intra-regional Settlements Residue

Negative *intra-regional settlements residues* arise from the estimation of losses required in determination of *settlement amounts* in a *region*. This estimation can lead to an overall under recovery of the amount owed for energy generated in a *billing period*. These negative amounts are

¹ AEMO document "National Electricity Rules Clause 3.6.5 – Methodology for the Allocation and Distribution of Settlements Residues"

² AEMO document "Dispatch SO_OP3705"

recovered from the appropriate TNSP of the *region* as part of the settlement of the *billing period* in which they occur.

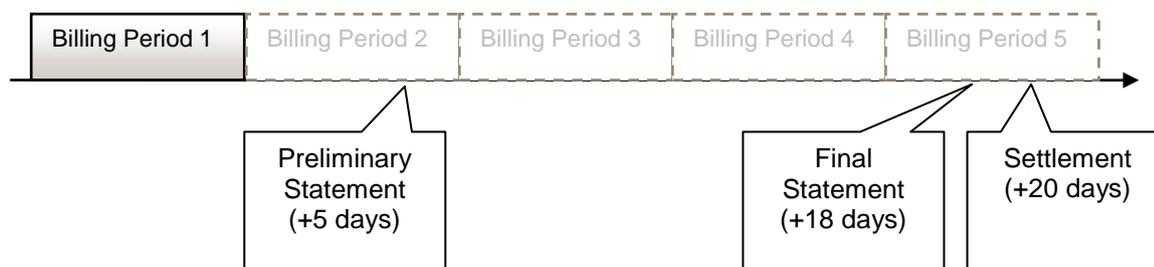
6.3 Market Participant Settlement Cycle

Participants who buy and sell energy in the *NEM* are required to settle with *AEMO* based on a weekly cycle. The amounts for each *trading interval* that lie within each *billing period* are settled on the 20th *business day* after the end of the *billing period*, as defined in clauses 3.15.16 and 3.15.17 of the Rules.

AEMO first collects all amounts payable by *market participants*, and assuming no unpaid amounts, then makes payment to the relevant *market participants*. In the event of negative residues, the amount *AEMO* receives from *market participants* would be less than the amount *AEMO* has to pay to *market participants*. The negative residue must be recovered from TNSPs prior to *AEMO* making payment, otherwise *AEMO* would need to reduce the actual payments (shortfall) as defined by clause 3.15.22 of the Rules.

The diagram below represents the timeline for settlement of a *billing period* (Billing Period 1):

FIGURE 1: MARKET PARTICIPANT SETTLEMENT TIMELINE



The key milestones for a *billing period* are:

- **Preliminary Statement**

A statement issued on the 5th *business day* after the end of the *billing period*, which provides the participant with an indicative value of *settlement amounts* prior to financial transactions occurring. The amounts are calculated based on versions of metering data available at the time.

- **Final Statement**

A statement issued on the 18th *business day* after the end of the *billing period*, which is the actual amounts that are required to be settled. The amounts are calculated based on versions of metering data available at the time.

- **Settlement**

Financial transactions occur on the 20th *business day* after the end of the *billing period*, using the amounts identified in the final statement.

7 Payment Overview

As required under *Rules* 3.6.5(a)(4) and 3.6.5(a)(4A), *AEMO* must determine the payment interval and method by which any negative *inter-regional and intra-regional settlement residues* are recovered from the appropriate TNSPs.

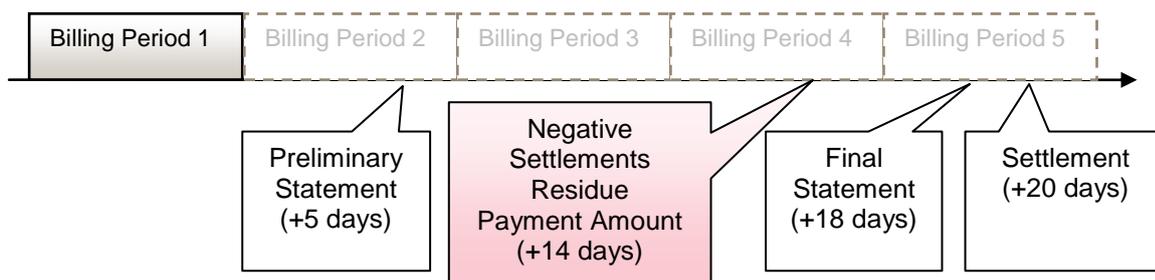
TNSPs are not required to comply with the prudential requirements of the *Rules*, and consequently do not provide *credit support* to *AEMO*. In the event of a TNSP failing to pay *AEMO* with respect to

negative residues, it is possible that AEMO would need to reduce the payments to participants in accordance with *Rule 3.15.22*.

To reduce the risk of shortfall in the NEM, a TNSP payment process has been determined that requires the appropriate TNSP to pay negative *inter-regional and intra-regional settlement residues* no later than the 14th *business day* after the end of the *billing period*. The amount to be paid is determined based on the total *settlement amounts* (Statement Amount) determined as part of the *preliminary statement*, which is issued on the 5th *business day* after the end of the *billing period*.

The diagram below represents the timeline for settlement by an appropriate TNSP of a *billing period* (Billing Period 1):

FIGURE 2: TNSP SETTLEMENT TIMELINE



The amount the appropriate TNSP is required to prepay (referred to as the Negative Settlements Residue Payment Amount) is the Statement Amount, where this is a negative amount and its absolute value is greater than \$100,000.

The amount to be paid early is calculated as:

Negative Settlements Residue Payment Amount

$$= -1 \times (\text{Statement Amount}) \text{ where Statement Amount} < \$100,000$$

else = zero

As part of the *preliminary statement*, a Settlement Residue Report is issued to each appropriate TNSP which specifies the Statement Amount including the amount of each negative *inter-regional settlements residue* and the amount of each *intra-regional settlements residue* for the *billing period*. A sample format is shown in the Appendix.

The appropriate TNSP is required to pay the Negative Settlements Residue Payment Amount by 4:30pm Sydney time (the nominal closing time for Austraclear) on the 14th *business day* after the end of the *billing period*. Payment must be received by AEMO in cleared funds using the normal electronic funds transfer facility (currently Austraclear).

Any funds received will be managed by AEMO in a similar way to the treatment of security deposits, which involves the following:

- AEMO will invest the funds on the TNSP's behalf, with a maturity aligned with the final settlement
- Any interest will be credited to the TNSP as part of the final settlement
- AEMO will automatically offset the funds against the final settlement amount, such that the TNSP is only required to settle the remainder.

If the appropriate TNSP fails to make payment in full of the Negative Settlements Residue Payment Amount, the TNSP will be subject to a *default event* under clause 3.15.21(a)(1). AEMO is not able to make a claim on credit support, however may issue a default notice. AEMO would co-ordinate with the TNSP to identify and resolve any issues preventing payment, and escalate the default event with TNSP management, the AER and relevant jurisdictional regulators.

8 Payment Process

- a) *Transmission Network Service Providers* are required to settle with *AEMO*, in accordance with clause 3.15.16 of the Rules and the payment process defined in this section.
- b) With respect of the *billing period*, the positive and negative *inter-regional settlements residues* are calculated separately.
- c) With respect of the *billing period* a total *intra-regional settlements residue* amount is calculated.
- d) All other settlement amounts and adjustments arising from *revised statements* are settled with *AEMO* in accordance with clause 3.15.16.
- e) Interest costs arising under 3.6.5(4A) will be recovered in accordance with the payment of *final statements* under clause 3.15.16.

8.1 Positive Settlements Residue

- a) The total positive *settlements residue*, calculated as the sum of *intra-regional settlements residues* and *inter-regional settlements residues* in respect of the *billing period*, is settled with *AEMO* in accordance with clause 3.15.16.
- b) The total positive *settlements residue* is reported in the Settlements Residue Report. A sample format is shown in the Appendix.

8.2 Negative Settlements Residue

- a) The total negative *settlements residue*, calculated as the sum of *intra-regional settlements residues* and *inter-regional settlements residues* in respect of the *billing period*, is settled in accordance with the Negative Settlements Residue Payment Methodology defined in section 8.3.

8.3 Negative Settlements Residue Payment Methodology

- a) *AEMO* will issue a *preliminary statement* in accordance with clause 3.15.14. Provided with this statement will be a Settlements Residue Report, which details the amount of negative *inter-regional settlements residue* and any *intra-regional settlements residue*. A sample format is shown in the Appendix.
- b) The Negative Settlements Residue Payment Amount is calculated as:
$$-1 \times (\text{Statement Amount}) \text{ where Statement Amount} < \$100,000$$

else zero.
- c) Where the Negative Settlements Residue Payment Amount is other than zero, the appropriate TNSP must make a payment to *AEMO* of the Negative Settlements Residue Payment Amount.
- d) Payment by the appropriate TNSP must be made using the electronic funds transfer facility established by *AEMO* under clause 3.15.2.
- e) Payment appropriate must be made in cleared funds before 4:30pm Sydney time on the 14th *business day* after the end of the *billing period*.

8.4 Negative Settlements Residue Payment management

- a) Where a Negative Settlements Residue Payment Amount has been received, *AEMO* will manage these funds as a security deposit in accordance with rule 1.11. The funds will only be invested with financial institutions that are under the prudential supervision of the Australian Prudential Regulation Authority.

- b) Any income derived from the management of the Negative Settlements Residue Payment Amount will be credited to the TNSP.
- c) The Negative Settlements Residue Payment Amount will be automatically applied by AEMO with respect to the relevant *billing period*.
- d) The TNSP is not required to provide any notices or reach agreement with AEMO in respect of the security deposit, as would otherwise be necessary for a *Market Participant* in accordance with clause 3.3.13A.

9 Prudential Supervision Process

9.1 Defaulted Negative Settlements Residue Payment

- a) If an appropriate TNSP is required to make payment under Section 4.3, but payment is not made by the required time, the TNSP is subject to a default event under clause 3.15.21(a)(1) of the Rules.
- b) Where a TNSP is subject to a *default event* due to non-payment, AEMO may take any or all the following actions in addition to any actions that may be taken under clause 3.15.21:
 - i. Co-ordinate and escalate the matter with the TNSP to achieve payment.
 - ii. Issue a *default notice* under clause 3.15.21(b)(1).
 - iii. Notify the AER of the *default event* and/or the issue of a *default notice*.
 - iv. Notify the relevant jurisdictional regulator of the *default event* and/or the issue of a *default notice*.

Appendix – Sample Extract of Settlements Residue Report

FINAL Settlements ref 2009/036/004/SAMPLE

Week Number 36 from 30-Aug-2009 to 05-Sep-2009

Intra-Regional Residue		
For Region REG1	\$100,000.00	
Participant Portion	100.00%	
Payment		\$100,000.00
Inter-Regional Residue allocated by Jurisdictional Derogation		
For Inter-Connector INTERCON1 Flowing from REG1		\$200.00
For Inter-Connector INTERCON2 Flowing from REG2		\$300.00
Negative Residue Amounts		
For Inter-Connector INTERCON1 Flowing from REG1		-\$400.00
For Inter-Connector INTERCON2 Flowing from REG2		-\$50,000.00
SRA Amounts		
For Inter-Connector INTERCON1 Flowing from REG1 Quarter 3		\$600.00
Auction Fees		-\$70.00
Payment		\$530.00
For Inter-Connector INTERCON2 Flowing from REG1 Quarter 3		\$8,000.00
Auction Fees		-\$900.00
Payment		\$7,100.00

Total Residue Allocated		\$57,230.00