

NEM SECURITY DEPOSIT ARRANGEMENTS

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Approved for distribution and use by:

APPROVED BY: Chin Chan
TITLE: Group Manager – Market Management

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VERSION RELEASE HISTORY

Version	Effective Date	Summary of Changes
1.0	Aug 2001	First Issue
2.0	Sep 2001	<p>On reviewing NEMMCO's submission for a Private ruling on the GST status of Security Deposits, the ATO requested that NEMMCO append the following to the last sentence of Security Deposit Agreement clause 5.1: ".....provided that NEMMCO no longer requires that part of the credit balance as security."</p> <p>An additional sentence has been inserted to the Recitals section of the Security Deposit Agreement:</p> <p>"Italicised terms used in this Agreement have the meanings given in the National Electricity Code."</p> <p>For consistency with proposed code changes the following has been removed from Security Deposit Agreement clause 5.2: "(which agreement must be in writing or must be confirmed in writing)"</p>
3.0	Oct 2001	Section 4. GST Consequences, two paragraphs have been appended to reflect the ATO Private Ruling received by AEMO, dated 01 October 2001.
4.0	Apr 2002	<p>Reflects the gazetting of Security Deposit Code clauses on Thursday 21 February 2002 primarily in Section 2. Background on Code clauses. For this reason, references to the Security Deposit Agreement have been removed.</p> <p>Further clarification regarding the available Security Deposit balance that maybe applied has been provided on Section 3.2 Applying a Security Deposit.</p> <p>Security Deposit Interest and Applications have been integrated to settlement statement formats at Section 5.</p> <p>At APPENDIX A the Application email template has been modified to include notification of maturity dates for Security Deposit balances that are not applied, despite reaching maturity dates, i.e. rollover.</p>
5.0	Jul 2005	Amended to recognise conversion from Code to Rules. Deadline for lodging SDAs moved from 11:45am to 10:00am (Sydney Time) to match prudential assessment.
6.0	Jun 2007	<i>NEMMCO has developed and approved a methodology for determining prudential margins in accordance with clause 3.3.8 of the Rules.</i>

Version	Effective Date	Summary of Changes
7.0	Aug 2007	<p>Spot Market Operations Timetable Rules 4.2 amended to:</p> <ol style="list-style-type: none"> 1. move the obligation for Market Participants to pay NEMMCO in cleared funds by 10:00am (Sydney Time) to 10:30am (Sydney Time) on Settlement Day (+20 business days); 2. clarify NEMMCO's payment time obligations to pay in cleared funds to Market Participants on Settlement Day (+20 business days) if: <ul style="list-style-type: none"> • All payments to NEMMCO are cleared by 10:30am and • Market Participant's, to be paid by NEMMCO, have entered their settlement transactions into Exigo by 13:00 Sydney Time
8.0	Jan 2008	The formula to calculate a Market Participant <i>Call Amount</i> has been amended in accordance with clause 3.3.11 of the <i>Rules</i> .
9.0	Sep 2009	Removed all references to NEMMCO
10.0	Aug 2010	<ul style="list-style-type: none"> ▪ Amended NEM settlements email address ▪ Document now specifies market - NEM
11.0	Oct 2011	<ul style="list-style-type: none"> ▪ Amended Section 6, Example 2 table. ▪ Corrected terminology for National Electricity Rules
12.0	Dec 2014	<ul style="list-style-type: none"> ▪ Updated email address for provision and application notifications ▪ Various minor text clarifications
13.0	August 2018	<ul style="list-style-type: none"> ▪ Converted document to new AEMO format ▪ Link to Prudential manual provided in related documents, therefore removed call notice section ▪ Prudential section added

Important Notice

Purpose

AEMO has prepared this document to provide information about security deposit arrangements, as at the date of publication.

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1. INTRODUCTION

1.1. Purpose and scope

This document provides guidance on arrangements related to security deposits provided to AEMO under 3.3.8A and applied under 3.3.13A of the National Electricity Rules (NER).

This document describes the arrangements between the Australian Energy Market Operator (AEMO) and *Market Participants* with respect to *security deposits* and other issues associated with security deposits.

1.2. Definitions and interpretation

1.2.1. Glossary

Terms defined in the NEL and the NER have the same meanings in this document unless otherwise specified in this document. Terms defined in the NER are intended to be identified in this document by italicising them, but failure to italicise a defined term does not affect its meaning.

The words, phrases and abbreviations in the table below have the meanings set out opposite them when used in this document.

Term	Definition
GST	Goods and Services Tax
NER	National Electricity Rules
NEL	National Electricity Law
NEM	National Electricity Market
OS	<i>outstandings</i>
SDA	Security Deposit Arrangements
TL	<i>trading limit</i>
TypA	<i>typical accrual</i>
PM	<i>prudential margin</i>
MCL	<i>maximum credit limit</i>
ATO	Australian Taxation Office

1.3. Related documents

Reference	Title	Location
Settlement Statement Format	Settlement Statement Layouts	http://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Settlements-and-payments/Settlements
Prudential Process	Prudential Supervision Process	http://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Settlements-and-payments/Prudentials-and-payments/Procedures-and-guides

2. NEM SECURITY DEPOSIT ARRANGEMENTS

2.1. Providing a Security Deposit

- (a) Pursuant to clause 3.3.8A of the NER, a *Market Participant* may, at any time, provide a *security deposit* to AEMO, to secure payment of any amount which may become payable in respect of a billing period.
- (b) *Market Participant* notifies AEMO of the *security deposit* via email to prudentials@aemo.com.au, an email template is provided in Appendix A.1.
- (c) AEMO will enter a matching transaction, per the *Market Participants* instructions from the email request, in Austraclear/Exigo.
- (d) Once the trade has settled in Austraclear, the *security deposit* will be reflected in the *Market Participants* Prudential Dashboard, a csv file is also provided detailing the interest rate.
- (e) For a *security deposit* to be recognised in the calculation of a *Market Participants* *outstandings* it needs to be received by AEMO in cleared funds prior to 11:30am Sydney Time.

2.2. Applying a Security Deposit

- (a) One day prior to the posting of the relevant NEM Final Statement, AEMO sends an email to the *Market Participant* requesting instructions for their maturing *security deposit* balance.
- (b) *Market Participant* notifies AEMO of their instructions, an email template is provided in Appendix A.2.
- (c) The Market Participant has 3 options available;
 - (i) Roll over the maturing *security deposit* balance in full. Please note – any interest earned cannot be rolled over and will always be applied to the relevant NEM Final Statement
 - (ii) Apply the full maturing *security deposit* balance and any interest earned to the relevant NEM Final Statement
 - (iii) Apply a portion of the maturing *security deposit* balance and any interest earned to the relevant NEM Final statement and roll the remaining balance to a future maturity Final week specified by the *Market Participant*.

The *Market Participant* can view the Prudential Dashboard to confirm that AEMO has acknowledged the request.

3. SETTLEMENT STATEMENT FORMAT

Clause 3.3.13A of the NER requires AEMO to include *security deposits* applications as a “set-off” credit to the settlement statement. The following transactions are reflected as line items in the Final Statement Tax Invoice;

- (a) *security deposits*
 - (b) *security deposit* interest
- and in the corresponding Settlement Report under *Security Deposit* Transactions;
- (c) Application set-off
 - (d) Interest earned per *security deposit* ID

An example of a Final Statement and Settlement Report are provided in Appendix B.

4. PRUDENTIALS

- (a) AEMO monitors the total *outstandings* or financial liability of all *Market Participants* to AEMO on a daily basis
- (b) For a *security deposit* to be recognised in the calculation of a *Market Participants outstandings* it needs to be received by AEMO in cleared funds prior to 11:30am Sydney Time.
- (c) If the *outstandings* exceed the *trading limit*, then a call notice may be issued. A call notice will usually be issued before 12 noon Sydney Time on any business day.
- (d) When a call notice is issued, the *Market Participant* must before 11.00am Sydney Time on the next business day to¹:
 - (i) Agree with AEMO an increase in the MCL by an amount not less than the call amount and to provide required additional credit support to AEMO;
 - (ii) Where the preceding paragraph is not satisfied, pay AEMO a *security deposit* of an amount not less than the call amount; or
 - (iii) Arrange, together with another *Market Participant* and in accordance with AEMO's procedures, for a credit ex-post reallocation to be submitted and accepted by AEMO for an amount of at least the call amount; or
 - (iv) Provide a combination of the above to at least the value of the call amount.

5. GST TREATMENT OF A SECURITY DEPOSIT

Division 99 of the GST Act², contains the following provision for the GST treatment of a deposit as security:

- (a) A deposit held as security for the performance of an obligation is not treated as consideration for a supply, unless the deposit:
 - (i) is forfeited because of a failure to perform the obligation; or
 - (ii) is applied as all or part of the consideration for the supply.

AEMO has formed the view that deposits paid by *Market Participants* meet the requirements of Division 99 of the GST Act. Payment of call amounts have also been characterised as security deposit amounts (SDAs) to ensure consistent treatment. The deposits are held as security for the performance of an obligation by *Market Participants*. That obligation is payment to AEMO of amounts owing for the supply of electricity and other services as set out in final statements.

When a *security deposit* is received, it has no GST consequences and does not need to be included in the Business Activity Statement (BAS). However, at the point it is applied against a final statement, it will become part of the consideration for the supply of electricity, and must be included in the BAS for that tax period together with other consideration received by AEMO for supplies made during that BAS/tax period.

In a private ruling issued to AEMO on 3 April 2000, the Commissioner confirmed that the final statement issued by AEMO is the relevant invoice for GST attribution purposes. Under the Rules, AEMO is only permitted to apply a *security deposit* against amounts owing by a *Market Participant* as determined by one or more final statements issued to the *Market Participant*. Therefore, in terms of section 99(1)(b) of the GST Act, the application of the *security deposit* by AEMO will always occur on or after the date of attribution for GST purposes.

¹ If AEMO gives a call notice to a Market Participant after 1:00 pm (Sydney time), then AEMO is deemed to have given that call notice on the next business day for the purposes of clause 3.3.13 of the National Electricity Rules.

² A New Tax System (Goods and Services Tax) Act 1999 (Cth).

Subsequently, *AEMO* submitted a private ruling request to the ATO in regard to the treatment of *security deposits* with respect to GST. In response the ATO Commissioner issued a private ruling on 01 October 2001 (authorisation number 6969).

The private ruling confirms *AEMO*'s view of the treatment of *security deposits* with respect to the GST, stating that:

1. "Yes, the deposits (including the call amount) that you receive from wholesale purchasers, are security deposits pursuant to Division 99 of the GST Act."
2. "The payment of a security deposit by a wholesale purchaser will not trigger attribution of the GST payable on the supply under section 29-5 of the GST Act."
3. "GST will be attributable to the tax period in which the invoice is issued."
4. "Input tax credits will be attributable to the tax period in which the invoice is issued."
5. "Division 165 of the GST Act will not apply to the receipt of security deposits by you."

Appendix A. NEM SECURITY DEPOSIT TEMPLATES

A.1 Provision of SDA Notification to AEMO

< AEMO STAFF MEMBER >

A Security Deposit amount of <\$N,NNN,NNN.NN> as per Rule 3.3.8A will be provided by <PARTICIPANT COMPANY NAME> <ABN> on <DD/MM/YYYY> and allocated to AEMO PARTICIPANTID < PARTICIPANTID is only required if the one company has multiple active Market System IDS >.

In accordance with Rule 3.3.13A AEMO is requested to apply this amount to <CONTRACTYEAR>, <WEEKNO> Final Statement. This application arrangement may be reviewed subject to Provision 3.3.13A.

Yours sincerely

<PARTICIPANT STAFF MEMBER>
<POSITION TITLE>
<CONTACT NUMBER>

A.2 Application of SDA Notification to AEMO

< AEMO STAFF MEMBER >

<PARTICIPANT COMPANY NAME> <ABN>, AEMO PARTICIPANTID < PARTICIPANTID is only required if the one company has multiple active Market System IDS > Principal SDA balance at <DD/MM/YYYY>, is an amount of <\$N,NNN,NNN.NN>.

In accordance with Rule 3.3.13A, AEMO is requested to apply an amount of <\$N,NNN,NNN.NN> and any interest earned, as a credit balance to <CONTRACTYEAR>, <WEEKNO> Final Statement.

AEMO is requested to apply the remaining balance to <CONTRACTYEAR>, <WEEKNO> Final Statement. This application arrangement may be reviewed subject to Rule 3.3.13A.

Yours sincerely

<PARTICIPANT STAFF MEMBER>
<POSITION TITLE>
<CONTACT NUMBER>

Appendix B. SETTLEMENT STATEMENT SAMPLES

B.1 Final Statement Sample

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Final Statement

Reference: NNNN/NNN/NNN/PARTICIPANTID
 MSATS CASEID: NNNNNN

Participant Company Name
 ABN: NN NNN NNN NNN
 Street No/ PO Box
 Street, City/State/Postcode

Enquiries 1300 361 011
Statement Date DD MONTH YYYY
Due Date DD MONTH YYYY
Statement Total \$NNN,NNN,NNN.NN

Summary of NEM Transactions for Week NN: DD Month YYYY - DD Month YYYY

Description	\$
Energy	NNN,NNN,NNN.NN
Ancillary Service	NNN,NNN,NNN.NN
Settlement Residue Auction	NNN,NNN,NNN.NN
Market Fees	NNN,NNN,NNN.NN
TNSP Residue	NNN,NNN,NNN.NN
Smelter-Reduction	NNN,NNN,NNN.NN
→ Security Deposits	NNN,NNN,NNN.NN
Reallocation	NNN,NNN,NNN.NN
Revision Adjustment	NNN,NNN,NNN.NN
Revision Interest	NNN,NNN,NNN.NN
Early Payment Interest	NNN,NNN,NNN.NN
Other	NNN,NNN,NNN.NN
GST	NNN,NNN,NNN.NN
Reassignment	NNN,NNN,NNN.NN
Total	NNN,NNN,NNN.NN

Payment Information:
 Nominated Payment Date: DD MONTH YYYY
 Nominated Payment Method: Austraclear

Market payments must be made using the Austraclear system. AEMO's Austraclear code is NEMM30. When the total above is a negative amount, the amount must be confirmed as a cleared payment to AEMO prior to 10:30am, Sydney Time, on the Due Date shown. When the total above is a positive amount, the amount will be available for receipting between 2pm and 4pm, Sydney Time, on the Due Date, subject to National Electricity Rules Clause 3.15.22

Notes to the statement



Tax Invoice

Detailed Transactions

Non Taxable Supplies made to AEMO

BAS Classification	Description	GST Exclusive (\$)	Sub Total (\$)
Input Taxed Supplies	Security Deposit Interest	NNN,NNN,NNN.NN	
	Direction Interest	NNN,NNN,NNN.NN	
	Revision Interest	NNN,NNN,NNN.NN	
	Early Payment Interest	NNN,NNN,NNN.NN	
	Manual Adjustment	NNN,NNN,NNN.NN	NNN,NNN,NNN.NN
GST-free Supplies	Smelter Reduction	NNN,NNN,NNN.NN	
	Manual Adjustment	NNN,NNN,NNN.NN	NNN,NNN,NNN.NN
Total Sales and Income & Other Supplies made to AEMO			NNN,NNN,NNN.NN

Supplies made by AEMO

BAS Classification	Description	GST Exclusive (\$)	Sub Total (\$)
Taxable Supplies	Energy NNN,NNN MWh	NNN,NNN,NNN.NN	
	Ancillary Service	NNN,NNN,NNN.NN	
	Compensation	NNN,NNN,NNN.NN	
	Pool Fee - EUA	NNN,NNN,NNN.NN	
	Pool Fee - NEM	NNN,NNN,NNN.NN	
	Manual Adjustment	NNN,NNN,NNN.NN	
	GST Exclusive Amount		NNN,NNN,NNN.NN
	GST Amount		NNN,NNN,NNN.NN
	GST Inclusive Amount		NNN,NNN,NNN.NN
Acquisitions with no GST	Direction Interest	NNN,NNN,NNN.NN	
	Revision Interest	NNN,NNN,NNN.NN	
	Smelter Reduction	NNN,NNN,NNN.NN	
	Settlement Residue Auction Fee	NNN,NNN,NNN.NN	
	Manual Adjustment	NNN,NNN,NNN.NN	NNN,NNN,NNN.NN
Total Sales and Income & Other Supplies made by AEMO			NNN,NNN,NNN.NN

Transactions Not Subject to GST

Description	GST Exclusive (\$)	Sub Total (\$)
Reallocation	NNN,NNN,NNN.NN	
TNSP Residue	NNN,NNN,NNN.NN	
Settlement Residue Auction	NNN,NNN,NNN.NN	
Security Deposits	NNN,NNN,NNN.NN	
Compensation	NNN,NNN,NNN.NN	
Manual Adjustment	NNN,NNN,NNN.NN	
Revision Adjustment	NNN,NNN,NNN.NN	
Reassignment	NNN,NNN,NNN.NN	NNN,NNN,NNN.NN
Statement Total for Week DD of YYYY		NNN,NNN,NNN.NN

- End of Report -

B.2 Settlement Report Sample

Security Deposit Transactions	
Application set-off	\$N, NNN, NNN. NN
Interest earned per Security DepositID:	
YYYYMMDD_SDNO%	\$N, NNN, NNN. NN
YYYYMMDD_SDNO%	\$N, NNN, NNN. NN
YYYYMMDD_SDNO%	\$N, NNN, NNN. NN
YYYYMMDD_SDNO%	\$N, NNN, NNN. NN
Total	\$N, NNN, NNN. NN