

SETTLEMENTS RESIDUE AUCTION RULES

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National Electricity Market Settlements Residue Auction Rules 7 November 2014

1. Introduction

1.1 Purpose

These *auction rules* have been developed by AEMO in accordance with clause 3.18.3 of the *Rules*.

1.2 Application

These *auction rules* will govern all *auctions* conducted by AEMO.

1.3 Amendment

- (a) AEMO may amend these *auction rules* in accordance with clauses 3.18.3(d), (e) and (f) of the *Rules*.
- (b) An amendment to these *auction rules* will have effect from the later of:
 - (i) the date the amendment is approved or supported by the *settlement residue committee* in accordance with clause 3.18.3(d) of the *Rules*; and
 - (ii) the date specified by AEMO and *published* on the AEMO Website.

1.4 Conduct of Auctions

AEMO may:

- (a) suspend, or remove a suspension on, conducting *auctions* in respect of any *directional interconnector* for any Relevant Quarter in accordance with clause 3.18.2(d) of the *Rules*; or
- (b) cease conducting *auctions* in accordance with clause 3.18.2(e) of the *Rules*.

2. Interpretation

2.1 Definitions

The following definitions apply unless the context requires otherwise:

AEMO Website means the website located at <http://www.aemo.com.au>.

Auction LP means the linear programming problem set out in **Schedule 2**.

APA means an *auction participation agreement*.

- (a) in the same form as that set out in **Schedule 1**; or

(b) in the same form as that set out in **Schedule 1** to a previous version of these *auction rules*.

Auction Participant means a person entitled to participate in an *auction* in accordance with **clause 3** and who has entered into an APA with *AEMO*.

Available Units means, in respect of an *auction*, the number of Units to be made available at an *auction* as determined in accordance with **clause 6.1**.

Bid means a single price bid for a specified number of Units available during an *auction* for a specified Relevant Quarter and a reference to a Bid includes Single Category Bids, single Quarter Bids, Linked Category Bids and Linked Quarter Bids (or any combination of Category Bids and Quarter Bids).

Bid Database means the *AEMO* database where Bids for an *auction* are accumulated.

Bid File means a file submitted to *AEMO* by an Auction Participant in accordance with **clause 7.3(a)**.

Bidding Period means, in respect of set of *auctions*, the bidding period for that set of *auctions* described in **clause 7.1(a)**.

Category Bids includes a reference to Single Category Bids and Linked Category Bids.

GST has the meaning given in section 195-1 of the A New Tax System (Goods and Services) Tax Act 1999 (Cth).

Linked Bid means a Bid that is either a Linked Category Bid or a Linked Quarter Bid or both.

Linked Category Bid means a Bid that specifies more than zero Units in more than one Unit Category.

Linked Quarter Bid means a Bid that specifies more than zero Units for more than one Relevant Quarter.

Market Clearing Price means, in respect of a Unit Category and a Relevant Quarter, the lowest price in respect of which Units are allocated in that Unit Category for that Relevant Quarter in accordance with **clause 9**.

Maximum Units means, in respect of a Unit Category and a Relevant Quarter, the number of Units to be made available in that Unit Category for that Relevant Quarter, as published under **clause 4.5**.

NEMNET means the electronic communication system established between *AEMO* and locations in Adelaide, Brisbane, Melbourne and Sydney to which *Registered Participants* may connect for the purposes of the *Rules*.

Purchase Statement means the statement provided to each Successful Participant in accordance with clause 10.3

Quarter means a period of 3 calendar months commencing on the first day of July, October, January or April.

Quarter Bids includes a reference to Single Quarter Bids and Linked Quarter Bids.

Relevant Quarter means the Quarter in respect of which an *auction* is conducted in accordance with **clause 5.1**.

Single Category Bid means a Bid that specifies more than zero Units in only one Unit Category.

Single Quarter Bid means a Bid that specifies more than zero Units for only one Relevant Quarter.

SRDA means a *settlements residue distribution agreement*.

Successful Participant means an Auction Participant to whom Units are allocated in accordance with **clause 9**.

Unit has the meaning given to it in **clause 4.1**, and a reference to “Units” may be a reference to Units in a specific Unit Category or a reference to Units in all Unit Categories, as the context requires.

Unit Category means a category of Units as defined in **clause 4.2**.

Any word or phrase *in this style* has the same meaning given to that word or phrase in the National Electricity Rules.

2.2 Interpretation

Headings are for convenience only and do not affect interpretation. The following rules of interpretation apply unless the context requires otherwise.

- (a) The singular includes the plural and conversely.
- (b) A gender includes all genders.
- (c) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (d) A reference to a person, corporation, trust, partnership, unincorporated body or other entity includes any of them.
- (e) A reference to a clause or Schedule is a reference to a clause of or a schedule to these *auction rules*.
- (f) A reference to an agreement or document (including a reference to these *auction rules*) is to the agreement or document as amended, varied, supplemented, novated or replaced, except to the extent prohibited by the *auction rules* or that other agreement or document.
- (g) A reference to a person includes the person’s successors, permitted substitutes and permitted assigns (and, where applicable, the person’s legal personal representatives).
- (h) A reference to legislation or to a provision of legislation includes a modification or re-enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it.
- (i) A reference to \$ or dollars is to Australian currency.
- (j) A reference to a time is to *Eastern Standard Time*.

- (k) The word “includes” or “including” or “such as” are not words of limitation, and when introducing an example, do not limit the meaning of the words to which the example relates to examples of a similar kind.

3. Participation

3.1 Auction Participation Agreement

To participate in an *auction*, a person must enter into an APA with *AEMO*.

3.2 Eligibility Criteria

AEMO will enter into an APA with a person only if that person:

- (a) is registered under the *Rules* as a *Generator*, *Market Customer*, *Trader*, or a person seeking to be eligible for registration as a *Trader* under clause 2.5A of the *Rules*
- (b) is not registered under the *Rules* as a *Transmission Network Service Provider*; or
- (c) would not be a 'retail client' as defined in section 761G(7) of the Corporations Act 2001 (Cth), if that person entered into an SRDA with *AEMO*.

AEMO will not enter into an APA with a person if:

- (d) *AEMO* has previously terminated an APA with the person under clause 13.3(c) or (d) of the APA as a result of a failure by that person to pay the purchase price for an SRDA on the due date;
- (e) that person is a *Market Participant* who has been suspended from trading under clause 3.15.21 of the *Rules*; or
- (f) *AEMO* believes, on reasonable grounds, that the person is acting on behalf of or in concert with a person:
 - (i) who has not entered into an APA;
 - (ii) who is a *Transmission Network Service Provider*; or
 - (iii) described in **paragraphs (d) or (e)**; or
- (g) in the case of a *Trader* who is not resident in, or does not have a permanent establishment in Australia, unless the *Trader* has appointed an agent in accordance with clause 2.5A(c)(2) of the *Rules* who has also entered into the same APA as the *Trader*.

3.3 Default Event under the Rules

AEMO may refuse to enter into an APA with a *Market Participant* in relation to whom a *default event* has occurred.

3.4 Continuing Eligibility

From time to time, Auction Participants must demonstrate to *AEMO*'s reasonable satisfaction and in a timeframe specified by *AEMO* that they continue to satisfy the eligibility criteria detailed in **clause 3.2**. An Auction Participant must advise *AEMO* promptly if it no longer satisfies the eligibility criteria in **clause 3.2**.

3.5 Limited Participation

An Auction Participant must comply with any condition or restriction in respect of the Auction Participant's participation in the *auctions* imposed on the Auction Participant by the *Rules*.

4. Units

4.1 Definition

- (a) There is a category of Units for each *directional interconnector*.
- (b) Units are defined with respect to a Relevant Quarter.
- (c) In each Unit Category, a Unit is an entitlement to an amount equal to the difference between the amounts defined in **paragraphs (i) and (ii)**:
 - (i) the total of, for each *billing period* or part of a *billing period* that falls within the Relevant Quarter, an amount that is the greater of:
 - (A) a proportion of the net *settlements residue* attributable to the *directional interconnector* for that Unit Category under clause 3.6.5 of the *Rules*, arising in respect of that *billing period* or part of a *billing period*; and
 - (B) zero;
 - (ii) the *auction expense fees* per Unit for the Unit Category that has been set for the Relevant Quarter.

4.2 Unit Categories

- (a) The Unit Categories, and the *directional interconnector* for each Unit Category, are set out in the following table:

Unit category	directional interconnector
SAVIC	South Australia to Victoria
VICSA	Victoria to South Australia
VICNSW	Victoria to New South Wales
NSWVIC	New South Wales to Victoria
NSWQLD	New South Wales to Queensland
QLDNSW	Queensland to New South Wales

- (b) *AEMO* may, with the approval of the *settlement residue committee*, introduce a new Unit Category in respect of a new *directional interconnector* by *publication* on the *AEMO Website* at least 10 *business days* prior to the first *auction* proposed to be conducted by *AEMO* for Units in that new Unit Category.

4.3 Maximum Units and Proportional Entitlements

Subject to **clause 4.4** and **4.5**, *AEMO* must determine and *publish* the maximum number of units to be made available in each Unit Category for a Relevant Quarter and the proportions referred to in clause 4.1(c)(1)(A) for each Unit Category in accordance with the following principles:

- (a) The maximum number of units for a unit category will be reviewed when there is confirmation to *AEMO* that work is being undertaken which will result in a material change to the interconnector capacity, or other relevant trigger.
- (b) The maximum number of units for the unit category should represent a reasonable measure of nominal interconnector capacity assigned to the *directional interconnector*, noting the actual capacity of the relevant *directional interconnector* will vary and at any time may be higher or lower than the nominal capacity assigned to that *directional interconnector* for this purpose.
- (c) The proportions are to be determined by taking the inverse of the maximum number of units, expressed as a percentage.
- (d) *AEMO* must ensure that the maximum number of units and the proportions are published on its website at all times.

4.4 Alterations

- (a) *AEMO* may, at any time prior to the date that is 10 *business days* prior to the first *auction* for a Relevant Quarter, alter:
- (i) the proportion referred to in **clause 4.1(c)(i)(A)** to apply in respect of a Unit Category for that Relevant Quarter; or
 - (ii) the maximum number of Units to be made available in a Unit Category for that Relevant Quarter.

- (b) *AEMO* will, not less than 10 *business days* prior to the first *auction* proposed to be conducted by *AEMO* for Units in a new Unit Category, determine:
 - (i) the proportion referred to in **clause 4.1(c)(i)(A)** to apply in respect of each new Unit Category; and
 - (ii) the maximum number of Units to be made available in each new Unit Category.
- (c) The *settlement residue committee* must approve changes to the maximum number of units and proportions.

4.5 Notifications

The proportion referred to in **clause 4.1(c)(i)(A)** for each Unit Category and the maximum number of Units to be made available in each Unit Category for a Relevant Quarter will be published on the *AEMO Website* 10 *business days* prior to the first *auction* for the Relevant Quarter.

5. Auction Timetable

5.1 Tranches

In each Quarter, one auction will be conducted for the Units made available across all Unit Categories for each of the twelve Relevant Quarters.

5.2 Deleted

5.3 Notifications

Subject to **clause 5.4**, the dates on which *auctions* for a Relevant Quarter will be held will be *published* on the *AEMO Website* 10 *business days* prior to the first *auction* for the Relevant Quarter.

5.4 Alterations to Timetable

Notwithstanding the publication of *auction* dates under **clause 5.3**, *AEMO* may change the date of any *auction* by:

- (a) notifying each Auction Participant of the revised date for the *auction*; and
- (b) *publishing* the revised date for the *auction* on the *AEMO Website*,

at least 10 *business days* prior to the then published date for the *auction*.

6. Auction Units

6.1 Available Units

The number of Units to be made available in a Unit Category at each *auction* for Units in that Unit Category for a Relevant Quarter will be determined as follows:

- (a) at the first *auction* for the Relevant Quarter, the number of Units made available will be equal to the Maximum Units for that Unit Category divided by the number of whole Quarters between the date of the first auction and the end date of the Relevant Quarter rounded down to an integer.
- (b) at each of the second, and subsequent *auctions* for the Relevant Quarter, the number of Units made available in the Unit Category will be the total of:
 - (i) the number of Units made available at the first *auction* for that Relevant Quarter in that Unit Category, and
 - (ii) if it is the last *auction* for a Relevant Quarter, any Units that otherwise have not been made available due to rounding down, and
 - (iii) any Units in that Unit Category that were listed at a previous auction but remain unallocated.

6.2 Notification

The Available Units in a Unit Category for an *auction* for Units in that Unit Category will be *published* on the AEMO Website 10 *business days* prior to the date of the *auction*.

7. Bidding Procedure

7.1 Bidding Period

- (a) The Bidding Period for each set of *auctions* will commence at 10:00 am (EST) on the first business day of the last month preceding each Relevant Quarter and end at 2.00pm (EST) on the date on which that set of *auctions* is conducted.
- (b) AEMO will not access the Bid Database until after the end of the Bidding Period.

7.2 Bids

- (a) For each set of *auctions*, an Auction Participant may submit a Bid File containing a maximum of 2000 Bids.
- (b) Subject to **paragraph (c)**, each Bid may be for any number of Units from any combination of Unit Categories and Relevant Quarters provided that each Bid must specify:
 - (i) either zero Units or a whole number of Units in each Unit Category for each Relevant Quarter; and
 - (ii) a single price (in dollars and cents) for the Bid.
- (c) Where a set of *auctions* is conducted in respect of Units in specified Unit Categories or for specified Relevant Quarters only, a Bid submitted in respect of the *auction* must specify zero Units in each other Unit Category or Relevant Quarter, as the case may be.
- (d) Bids must be made on a GST exclusive basis.

- (e) Bids must not be less than zero.

7.3 Bidding Procedure

Bids must be submitted to *AEMO* as follows:

- (a) Bids must be submitted via NEMNET by way of a Bid File that is in a format approved by *AEMO*;
- (b) the Bid File for a set of *auctions* may be submitted at any time during the Bidding Period, and may be varied, withdrawn or replaced at any time before the end of the Bidding Period; and
- (c) subject to **clause 7.4**, the Bid File in the Bid Database at the end of the Bidding Period for a set of *auctions* will be taken to be the Bid File submitted for that set of *auctions*.

7.4 Defective Bids

AEMO will reject any Bid that:

- (a) is made by a person who is not a party to an APA; or
- (b) is in breach of a condition or restriction in respect of an Auction Participant's participation in the *auctions* that is imposed on the Auction Participant under the *Rules*,

and may, in its absolute discretion, reject any Bid that:

- (c) is made by an Auction Participant that is otherwise in breach of its APA or any SRDA;
- (d) does not comply with the requirements of **clause 7**;
- (e) is not made in accordance with these *auction rules* in any other respect; or
- (f) is made by a person who has not provided *AEMO* with such documents and information as *AEMO* has requested under **clause 8.2**.

8. Allocation of Units

8.1 Unit Allocation

For each *auction*, Units in each Unit Category for each Relevant Quarter will be allocated to Bids by solving the Auction LP, pursuant to which the value of the Units allocated to Bids in each Unit Category for each Relevant Quarter is maximised subject to:

- (a) the number of Units available in each Unit Category for each Relevant Quarter; and
- (b) the number of Units for which Bids are submitted in each Unit Category for each Relevant Quarter.

8.2 Proof of Eligibility

At any time before Units are allocated consequent upon an *auction*, AEMO may request any person who has participated in that *auction* to provide it with such documents and information as AEMO requires to satisfy itself that the person continues to meet the eligibility criteria detailed in **clause 3.2**, and that person must comply promptly with that request.

9. Purchase Price

9.1 Common Price

Successful Participants at an *auction* will pay the same price for Units in the same Unit Category and Relevant Quarter.

9.2 Auction LP

The purchase price for each Unit Category for each Relevant Quarter will be determined by solving the Auction LP, pursuant to which:

- (a) where, in respect of a Unit Category and a Relevant Quarter the number of Units for which Bids are submitted is less than the number of Available Units, the purchase price for that Unit Category for that Relevant Quarter will be zero;
- (b) where, in respect of a Unit Category and a Relevant Quarter the number of Units for which Bids are submitted equals or exceeds the number of Available Units, the purchase price for that Unit Category for that Relevant Quarter will be the Market Clearing Price; and
- (c) the Market Clearing Price will be determined by maximising the revenue to AEMO for the Units allocated under **clause 8**.

9.3 Payments to AEMO

For the avoidance of doubt, the payment to AEMO by a Successful Participant of any amount under clause 3.12.2 of the *Rules* is not to be taken as a payment towards the purchase price of a Unit.

10. Results

10.1 Confirmation

AEMO will, within two *business days* after each set of *auctions*, send each Auction Participant that submitted a Bid File in respect of that set of *auctions* a confirmation via NEMNET setting out:

- (a) the number of Units for each Unit Category for each Relevant Quarter that have been allocated to the Auction Participant;
- (b) the purchase price per Unit for each Unit Category for each Relevant Quarter in respect of which Units have been allocated to the Auction Participant;

- (c) the aggregate purchase price for the Units allocated to the Auction Participant for each Relevant Quarter; and
- (d) the total purchase price for the Units allocated to the Auction Participant.

10.2 Notification

The following results of each set of *auctions* will be published on the AEMO Website within 5 *business days* after the date on which the set of *auctions* is conducted:

- (a) details of the Bids made at each *auction* conducted in that set of *auctions* (without identifying the relevant Auction Participant);
- (b) the purchase price per Unit for each Unit Category for each Relevant Quarter; and
- (c) the number of Units sold in each Unit Category for each Relevant Quarter.

10.3 Purchase Statement

AEMO will issue a confirmation (called the Purchase Statement) to each successful Auction Participant via NEMNET *two business days* prior to the settlement date for each Relevant Quarter settling out:

- (a) the total cost for the purchase of the Units which have been allocated to the Auction Participant for that Relevant Quarter;
- (b) the Units purchased, the purchase price per Unit and the amount payable for each tranche of each Unit category for that Relevant Quarter;
- (c) the date on which payment is due (which is the 14th *business day* of the Relevant Quarter; and
- (d) the time on the payment date at which payment is due

11. Auction Expense Fees

11.1 Notification

AEMO will set *auction expense fees* per Unit for each Unit Category for each Relevant Quarter. The *auction expense fees* per Unit for each Unit Category for a Relevant Quarter will be *published* on the AEMO Website 10 *business days* prior to the first *auction* for the Relevant Quarter.

11.2 Auction Expense Fees Calculation

Auction expense fees must be calculated using the following formula:

$$F_{u,q} = \frac{E_q \times P_{u,qts} \times N_{u,qts}}{\sum_u (P_{u,qts} \times N_{u,qts}) \times N_{u,q}}$$

Where:

- $F_{u,q}$ = *auction expense fee* per Unit for Unit Category “u” and Relevant Quarter “q” (\$ per Unit);
- E_q = AEMO’s auction expenses after any reconciliation under Section 11.3 to be recovered via *auction expense fees* in Relevant Quarter “q” (\$);
- $P_{u,qIs}$ = average *auction* clearing price for Unit Category “u” for the last corresponding Relevant Quarter that has been settled “qIs”;
- $N_{u,q}$ = maximum number of Units available in Unit Category “u” in Relevant Quarter “q”; and
- $N_{u,qIs}$ = maximum number of Units available in Unit Category “u” for the last corresponding Relevant Quarter that has been settled “qIs”.

Note: The ‘corresponding Relevant Quarter’ refers to a quarter at the same time of the year as the Relevant Quarter. For example, if the Relevant Quarter is the first quarter for the year, the corresponding Relevant Quarter that has been settled would be the most recently settled “first quarter”.

11.3 Reconciliation

At the conclusion of each *financial year*, AEMO must reconcile the *auction expense fees* recovered from Auction Participants for that *financial year* against the costs incurred and adjust the *auction expense fees* for the next *financial year* to recover or return the difference.

SCHEDULE 1
Auction Participation Agreement
DETAILS

Date:

Parties:

1 **Australian Energy Market Operator Limited**
ABN 94 072 010 327
of Level 22, 530 Collins Street, MELBOURNE VIC 3000 (**AEMO**)
and

2 **[name]**
ABN
of [address] (**Auction Participant**).
and¹

3 **[name]**
ABN
of [address] (**Agent**).

Austraclear Account:

¹ Delete the text starting with the 'and' if there is no Agent.

**Address for Service of
Notices:**

To AEMO:

Level 22, 530 Collins Street, MELBOURNE VIC 3000
Facsimile: 03 9609 8080
Attention: Group Manager Settlements and Prudentials

cc:

Level 22, 530 Collins Street, MELBOURNE VIC 3000
Facsimile: 03 9609 8080
Attention: Group Manager Legal

To the Auction Participant:

[address]
Facsimile:
Attention: ²

To the Agent:

[address]
Facsimile:
Attention:

² Delete the remainder of the text in this box from this point if there is no Agent.

OPERATIVE PROVISIONS:

1. Definitions and Interpretations

1.1 Definitions

The following definitions apply unless the context requires otherwise:

AEMO Clearing Account means Austraclear account NEMM30 or such other Austraclear account as is notified to the Auction Participant by *AEMO*.

Bid has the meaning given to it in the *auction rules*.

Bid File has the meaning given to it in the *auction rules*.

Confirmation means a confirmation sent to the Auction Participant by *AEMO* in accordance with clause 10.1 of the *auction rules*.

Disclosed Information means:

- (a) the information contained or referred to in the AEMO Settlements Residue Auction Information Memorandum (any version); and
- (b) any other information provided to the Auction Participant by or on behalf of *AEMO* in connection with an *auction*.

Distribution Instalment means, in respect of an SRDA, an instalment of SRDA Units to be distributed in accordance with **clause 6.2**.

GST has the meaning given to it in section 195-1 of the A New Tax System (Goods and Services) Tax Act 1999 (Cth).

Input Tax Credit has the meaning given to it in section 195-1 of the A New Tax System (Goods and Services) Tax Act 1999 (Cth).

NEMNET has the meaning given to it in the *auction rules*.

Purchase Price means, in respect of an SRDA, the aggregate purchase price for the Relevant Quarter, as specified in the Relevant Confirmation.

Purchase Statement has the meaning given to it in the *auction rules*.

Reconciliation Statement is defined in **clause 7**.

Relevant Confirmation means, in respect of an SRDA, the Confirmation pursuant to which the SRDA is formed in accordance with **clause 4.2**.

Relevant Quarter has the meaning given to it in the *auction rules*.

SRDA means a *settlements residue distribution agreement*. **SRDA Units** means, in respect of an SRDA, the Units specified in the Relevant Confirmation for that Relevant Quarter and, for the avoidance of doubt, may include Units in more than one Unit Category.

Taxable Supply has the meaning given to it in section 195-1 of the A New Tax System (Goods and Services) Tax Act 1999 (Cth).

Unit has the meaning given to it in the *auction rules*.

Unit Category has the meaning given to it in the *auction rules*.

Any word or phrase *in this style* has the same meaning given to that word or phrase in the National Electricity Rules.

1.2 Interpretation

Headings are for convenience only and do not affect interpretation. The following rules of interpretation apply unless the context requires otherwise.

- (a) The singular includes the plural and conversely.
- (b) A gender includes all genders.
- (c) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (d) A reference to a person, corporation, trust, partnership, unincorporated body or other entity includes any of them.
- (e) A reference to a clause or Schedule is a reference to a clause of or a schedule to this Agreement.
- (f) A reference to an agreement or document (including a reference to this Agreement) is to the agreement or document as amended, varied, supplemented, novated or replaced, except to the extent prohibited by this Agreement or that other agreement or document.
- (g) A reference to a person includes the person's successors, permitted substitutes and permitted assigns (and, where applicable, the person's legal personal representatives).
- (h) A reference to legislation or to a provision of legislation includes a modification or re-enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it.
- (i) A reference to \$ or dollars is to Australian currency.
- (j) A reference to a time is to *Eastern Standard Time*.
- (k) The word "includes" or "including" or "such as" are not words of limitation, and when introducing an example, do not limit the meaning of the words to which the example relates to examples of a similar kind.

2. Term

This Agreement commences on the date specified in the **Details** and continues until it is terminated in accordance with **clause 13**.

3. Auctions

3.1 General

The Auction Participant:

- (a) acknowledges that AEMO will conduct the *auctions* in accordance with the *auction rules*; and
- (b) agrees that it will participate in the *auctions* in accordance with the *auction rules*, and on the terms and conditions set out in this Agreement.

4. Settlements Residue Distribution Agreements

4.1 Eligibility

AEMO will only enter into an SRDA with *eligible persons* who meet and continue to satisfy the criteria detailed in the *Rules*, or clause 3.2 of the *auction rules*.

4.2 Formation

The parties agree that if:

- (a) the Auction Participant submits a Bid File to AEMO; and
- (b) AEMO allocates Units to the Auction Participant in accordance with the *auction rules* and sends a Confirmation to the Auction Participant,

the parties will have entered into an SRDA in respect of each Relevant Quarter for which the Auction Participant has been allocated Units, pursuant to which AEMO unconditionally agrees to grant to the Auction Participant, and the Auction Participant agrees to acquire, the SRDA Units for the Purchase Price on the terms and conditions set out in this Agreement.

4.3 Term of SRDA

Each SRDA commences on the date of the Relevant Confirmation and, subject to **clause 13**, continues until 16 *business days* after receipt by the Auction Participant of the Reconciliation Statement to be provided by AEMO under **clause 7**.

4.4 Separate Agreements

Each SRDA is a separate agreement and shall be subject to the terms and conditions set out in this Agreement.

5. Purchase Price

5.1 Separate Agreements

For each SRDA, the Auction Participant must pay the Purchase Price by the payment date and time specified in the Purchase Statement by authorising the transfer of funds in dollars to the AEMO Clearing Account.

5.2 Default Interest

The Auction Participant must pay interest at the *bank bill rate* calculated as simple interest on a daily basis from the date on which payment of the Purchase Price was due in accordance with **clause 5.1** up to and including the date of payment.

6. Distribution of Units

6.1 Default Interest

For each SRDA, the Auction Participant is entitled to receive the greater of:

- (a) \$10 per SRDA Unit; and
- (b) the amount that is represented by the SRDA Units.

For the avoidance of doubt, the payment by AEMO to the Auction Participant of any amount under clause 3.12.2 of the *Rules*, or in accordance with an assessment made by an independent expert under clause 3.12.3 of the *Rules* following a referral to that independent expert under clause 3.12.2(l) or 3.12.2(m) of the *Rules*, is not to be taken as a payment towards the amount referred to in **paragraph (a)**.

6.2 Distribution Instalments

AEMO must distribute the *settlements residue* represented by SRDA Units in instalments as follows:

- (a) a Distribution Instalment must be made in respect of each *billing period* or part of a *billing period* falling within the Relevant Quarter to which the SRDA Unit relates;
- (b) the Distribution Instalment must be included on the statements provided by AEMO in respect of the relevant *billing period* under clauses 3.15.14 and 3.15.15 of the *Rules*; and
- (c) each Distribution Instalment must be made on the date on which payments in respect of the relevant *billing period* are to be made by AEMO under clause 3.15.17 of the *Rules*,

provided that AEMO is not obliged to make any Distribution Instalments under an SRDA unless the Auction Participant has paid the Purchase Price for that SRDA.

6.3 Calculation of Instalments

For each SRDA Unit, the amount of each Distribution Instalment must be determined as follows:

- (a) the amount of *settlements residue* for each Distribution Instalment is based on the *settlements residue* for the relevant Unit Category in respect of the relevant *billing period* or part of a *billing period*; and
- (b) *auction expense fees* are deducted from the first Distribution Instalment provided that, if a Distribution Instalment would be a negative amount, no distribution will be made and the remaining part of the *auction expense fees* will be deducted from the next Distribution Instalment or, if necessary, the next succeeding Distribution Instalments until the adjustment has been fully made or all of the Distribution Instalments have been made.

6.4 Adjustment to Settlements Residue

If any adjustment is made to the amount of the *settlements residue* for a Unit Category in respect of a *billing period* covered by an SRDA, AEMO must, subject to **clause 6.1**, pass on that adjustment to the Auction Participant as follows:

- (a) AEMO must issue to the Auction Participant such revised statements and other statements as may be required under clause 3.15.19 of the *Rules* specifying the adjustment and interest calculated in accordance with clause 3.15.19 of the *Rules*; and

- (b) AEMO or the Auction Participant, as the case may be, must pay the adjustment and interest payable in respect of the adjustment in accordance with clause 3.15.20 of the *Rules*.

6.5 Reconciliation Adjustment

Any adjustment set out in a Reconciliation Statement must be paid on a date specified by AEMO, between 10 and 15 *business days* from the issue of the Reconciliation Statement that coincides with a payment time stated in a *final statement* issued under clause 3.15.15 of the *Rules*.

6.6 Payment Procedure

All Distribution Instalment payments and adjustments must be effected through the Austraclear system as follows:

- (a) payments by AEMO must be made by authorising the transfer of funds in dollars to the Austraclear Account specified in the **Details** or such other Austraclear account notified to AEMO by the Auction Participant; and
- (b) payments by the Auction Participant must be made by authorising the transfer of funds in dollars to the AEMO Clearing Account.

6.7 Default Interest

- (a) Subject to **paragraph (b)**, if any amount specified in **clause 6** is not paid on the due date, AEMO or the Auction Participant, as the case may be, must pay interest at the *bank bill rate* calculated as simple interest on a daily basis from the date the amount was due up to and including the date of payment.
- (b) The parties agree that interest is not payable on an amount under this **clause 6.7** if interest is payable on that amount under clause 3.15.25 of the *Rules*.

7. Reconciliation Statement

For each SRDA, AEMO must, within 10 *business days* after the last Distribution Instalment has been made, provide the Auction Participant with a Reconciliation Statement via NEMNET, setting out:

- (a) the total amount that has been distributed to the Auction Participant under the SRDA;
- (b) the amount to which the Auction Participant is entitled under the SRDA under **clause 6.1**; and
- (c) any adjustments required to be made to ensure the requirements of **clause 6.1** have been satisfied.

8. Goods and Services Tax

8.1 GST to be added to amounts payable

- (a) The parties acknowledge that:
 - (i) all amounts payable under this Agreement including the Purchase Price and *auction expense fees*, are expressed to be exclusive of GST; and
 - (ii) any Bid is made on a GST exclusive basis.

- (b) If GST is payable on a Taxable Supply made by *AEMO* to an Auction Participant, the amount payable for that Taxable Supply will be the amount expressed in this Agreement plus GST.

8.2 Impact of GST on the Calculation of Amounts Payable

Without limiting **clause 8.1**:

- (a) If an amount payable under this Agreement is calculated by reference to or relates to a cost, expense, liability or similar amount (**Liability**) incurred by a party, the Liability shall be reduced by the amount of any Input Tax Credit to which that party is entitled in respect of that Liability.
- (b) If an amount payable under this Agreement is calculated by reference to or relates to price, value, sales, revenue or a similar amount (**Revenue**), the Revenue shall be exclusive of GST.
- (c) If *AEMO* becomes liable to pay GST on a Taxable Supply to the Auction Participant prior to the time that it is entitled to receive in full the consideration for that Taxable Supply, the Auction Participant will, at the request of *AEMO*, pay to *AEMO* an amount equal to the GST payable on the Taxable Supply at least 7 days before the time that *AEMO* is liable to pay the GST.

9. Dispute Resolution

The dispute resolution procedures set out in clause 8.2 of the *Rules* will apply to any dispute arising in relation to this Agreement, a SRDA or otherwise in relation to any *auction*.

10. Auction Participant Acknowledgements

10.1 General

The Auction Participant acknowledges, in respect of this Agreement and each SRDA, that neither *AEMO*, nor any person acting on behalf of or associated with *AEMO*, makes any representation, gives any advice, or gives any warranty or undertaking of any kind in respect of this Agreement, an SRDA, the Units, or the *auctions* or otherwise in relation to or in connection with this Agreement, or any transaction or arrangement contemplated under this Agreement.

10.2 Acknowledgements

Without limiting the generality of **clause 10.1**, the Auction Participant acknowledges, in respect of this Agreement and each SRDA, the following:

- (a) each SRDA is speculative and a high risk investment, and it is not possible to predict the amount of *settlements residue* the subject of a SRDA accurately;
- (b) the Disclosed Information does not constitute an invitation, offer or recommendation by or on behalf of *AEMO*;
- (c) the purpose of the Disclosed Information is to provide the Auction Participant with information to assist it in making decisions regarding bidding for Units in the *auctions*;
- (d) the Disclosed Information does not purport to contain all of the information that the Auction Participant requires for the purpose of making decisions regarding bidding for Units in the *auctions*, and does not purport to have been prepared having regard to the Auction Participant's business objectives, financial situation or particular needs;

- (e) neither *AEMO*, nor any person acting on behalf of or associated with *AEMO*, makes any representation or warranty either express or implied as to the accuracy, reliability or completeness of the Disclosed Information;
- (f) the Auction Participant will not rely in any way on the Disclosed Information or on the skill or judgement of *AEMO* or any person acting on behalf of or associated with *AEMO* and will rely absolutely on its own opinion and professional advice based on its own independent analysis, assessment, investigation and appraisal in making decisions regarding bidding for Units in the *auctions*; and
- (g) the Auction Participant will carry out all investigations it considers relevant and will examine and acquaint itself concerning:
 - (i) the contents, correctness and sufficiency of the Disclosed Information; and
 - (ii) any other information which it considers relevant to the risks, contingencies and other circumstances which could affect the *settlements residue* and the Auction Participant's decisions regarding bidding for Units in the *auctions*.

10.3 Waiver

To the maximum extent permitted by law, the Auction Participant waives any right that it has (whether at the date of this Agreement or a SRDA or otherwise) to bring any action or to make any claim against *AEMO* or any person acting on behalf of or associated with *AEMO* arising (directly or indirectly) out of any alleged negligent act or omission, misrepresentation, or conduct which is likely to mislead, deceive or confuse on the part of *AEMO* or any person acting on behalf of or associated with *AEMO* in providing the Disclosed Information or otherwise in relation to the *auctions*.

11. Liability

11.1 Implied Warranties

To the maximum extent permitted by law and except as otherwise provided in this Agreement, all terms, conditions, warranties or statements (whether express, implied, written, oral, collateral, statutory or otherwise) which would be implied or incorporated into this Agreement or a SRDA as having been given by *AEMO* in favour of the Auction Participant are excluded and *AEMO* disclaims all liability in relation to them.

11.2 Limitation of Liability

Despite any other provision of this Agreement and except as otherwise provided by law:

- (a) *AEMO* is not liable to make any payment (whether by way of damages or otherwise) for any breach of any representation, warranty, condition or obligation unless a claim is made in writing by the Auction Participant (setting out in reasonable detail the nature of the claim and the damages sought) on or before the date that is 6 months after the end of the Relevant Quarter covered by the SRDA to which the claim relates; and
- (b) *AEMO* will not be liable for an amount for breach of representation, warranty, condition or obligation which would exceed, in the aggregate, the amount of the Purchase Price that has been paid by the Auction Participant in respect of the SRDA to which the claim relates.

11.3 Notification

If the Auction Participant becomes aware of a claim or potential claim against *AEMO* with respect to any breach of any representation, warranty, condition or obligation, the Auction Participant must notify *AEMO* in writing within 5 Business Days after becoming so aware.

11.4 Statutory Immunity

For the avoidance of doubt and despite any other provision of this Agreement, nothing in this Agreement, SRDA, or the *auction rules* varies or excludes the operation of section 119 and 120A of the *National Electricity Law*.

11.5 Agents Liability³

Where an Agent is a party to this Agreement, the Agent will be jointly and severally liable with the Auction Participant in relation to the Auction Participant's obligations under this Agreement and any SRDA entered into by the Auction Participant.

12. Auction Costs

The Auction Participant will be responsible for all costs and expenses incurred by it in connection with the *auctions*. *AEMO* will not be liable on any grounds whatsoever for costs or expenses incurred by the Auction Participant in the conduct of due diligence in relation to the Units, making decisions regarding bidding for Units in the *auctions* or in any other way in connection with the *auctions*.

13. Termination

13.1 National Electricity Market

This Agreement and each SRDA will terminate immediately if the *National Electricity Market* permanently ceases to operate. For the avoidance of doubt, this **clause 13.1** does not come into effect by reason of *AEMO* declaring the *spot market* to be suspended for any of the reasons set out in clause 3.14.3 of the *Rules*.

13.2 Continuing Eligibility

AEMO may terminate this Agreement and any or all of the SRDAs between *AEMO* and the Auction Participant by notice to the Auction Participant if:

- (a) the Auction Participant ceases to satisfy the criteria specified in clause 3.2 of the *auction rules*;
- (b) the Auction Participant does not demonstrate to *AEMO*'s reasonable satisfaction that it continues to satisfy the criteria specified in clause 3.2 of the *auction rules*;
- (c) the Auction Participant fails to provide *AEMO* with the evidence sought by *AEMO* under clause 3.3 of the *auction rules* by the date and time requested by *AEMO*;

³ This clause can be deleted if there is no Agent.

- (d) the Auction Participant breaches any condition or restriction in respect of the Auction Participant's participation in the *auctions* that is imposed on the Auction Participant pursuant to the *Rules*.

13.3 Breach

- (a) If a party commits a material breach of this Agreement that relates to a particular SRDA, and fails to remedy that breach within 3 *business days* after being required in writing to do so, the other party may terminate the SRDA to which the breach relates by further notice to the other party.
- (b) If the Auction Participant commits a material breach of this Agreement that does not relate to a particular SRDA, and fails to remedy that breach within 3 *business days* after being required in writing to do so, *AEMO* may terminate this Agreement and any or all of the SRDAs between *AEMO* and the Auction Participant by further notice to the Auction Participant.
- (c) If:
 - (i) *AEMO* terminates a SRDA under **clause 13.3(a)**; and
 - (ii) *AEMO* and the Auction Participant are parties to SRDAs in respect of which, at the date the SRDA is terminated under **clause 13.3(a)**, the Purchase Price has not been paid,

AEMO may, by notice to the Auction Participant, require the Auction Participant to pay the Purchase Price under each such SRDA within 35 *business days* after receiving the notice. If the Auction Participant does not comply with the notice *AEMO* may terminate this Agreement and each such SRDA by further notice to the Auction Participant.
- (d) If:
 - (i) *AEMO* has served two notices on the Auction Participant under **clause 13.3(a)** or **clause 13.3(b)**, or has served one notice on the Auction Participant under each of **clause 13.3(a)** and **clause 13.3(b)**; and
 - (ii) the Auction Participant commits a further material breach of this Agreement,

AEMO may, even if the previous material breaches were remedied within 3 *business days* after the Auction Participant was required in writing to do so, terminate this Agreement and any or all of the SRDAs between *AEMO* and the Auction Participant by notice to the Auction Participant.
- (e) For the purposes of **clause 13**, a failure by the Auction Participant to pay the purchase price for a SRDA on the due date is a material breach of this Agreement that relates to that SRDA.

13.4 Insolvency

Any party may terminate this Agreement and any or all of the SRDAs between the parties by notice to each other party if:

- (a) the other party stops or suspends or threatens to stop or suspend payment of its debts;
- (b) the other party is insolvent within the meaning of section 95A of the Corporations Act 2001 (Cth);
- (c) the other party is required to be presumed insolvent by reason of section 459C(2) of the Corporations Act 2001 (Cth);
- (d) the other party fails to comply with a statutory demand (within the meaning of section 459F(1) of the Corporations Act 2001 (Cth));

- (e) an administrator is appointed over all or any of the assets or undertaking of the other party or any step preliminary to the appointment of such an administrator is taken;
- (f) a controller within the meaning of section 9 of the Corporations Act 2001 (Cth), or similar officer is appointed to all or any of the assets or undertaking of the other party; or
- (g) an application or order is made, proceedings are commenced, a resolution is passed or proposed in a notice of meeting or an application to a court or other steps are taken for the winding up or dissolution of the other party or for the other party to enter an arrangement, compromise or composition with or assignment for the benefit of its creditors, a class of them or any of them.

13.5 Settlements Residue Calculation

The Auction Participant may, by notice to AEMO, terminate an SRDA if there is a change in the way in which the *settlements residue* is calculated during the term of the SRDA that affects the calculation of *settlements residue* the subject of the SRDA Units.

13.6 Purchase Price Adjustment

If an SRDA is terminated under **clause 13.1** or by the Auction Participant under **clause 13.3(a)** or **clause 13.5**, the Auction Participant is entitled to a refund of a proportion of the Purchase Price equal to the proportion of the number of *billing periods* for which Distribution Instalments have not been made to the total number of *billing periods* for the Relevant Quarter.

13.7 Adjustments to Settlements Residue

AEMO is not required to pass on an adjustment under **clause 6.4** in respect of an SRDA that has been terminated under **clause 13.2, 13.3** or **13.4**.

13.8 Continuing Rights

The termination or expiration of this Agreement or an SRDA does not affect:

- (a) the rights of a party to recover an amount, or the obligation of a party to pay an amount, that became payable prior to the date of termination or expiration;
- (b) any rights of a party that otherwise relate to, or may arise in the future from, any breach or non-observance of obligations under this Agreement or the SRDA; or
- (c) the operation of **clauses 6.4, 6.5, 6.6, 6.7, 7, 8, 9, 10, 11, 12** or **13**.

14. General

14.1 Notices

Any notice, demand, consent or other communication (**Notice**) required by this Agreement:

- (a) must be in writing and signed by a person duly authorised by the sender;
- (b) must be delivered to the intended recipient by prepaid post (if posted to an address in another country, by registered airmail) or by hand or fax to the address or fax number specified in the **Details**;
- (c) will be taken to be duly given or made:

- (i) in the case of delivery in person, when delivered;
- (ii) in the case of delivery by post, two *business days* after the date of posting (if posted to an address in the same country) or seven *business days* after the date of posting (if posted to an address in another country); and
- (iii) in the case of fax, on receipt by the sender of a transmission control report from the despatching machine showing the relevant number of pages and the correct destination fax machine number or name of recipient and indicating that the transmission has been made without error,

but if the result is that a Notice would be taken to be given or made on a day that is not a *business day* in the place to which the Notice is sent or is later than 4.00pm (local time) it will be taken to have been duly given or made at the commencement of business on the next *business day* in that place.

14.2 Entire Agreement

This Agreement and each SRDA entered into in accordance with this Agreement contains the entire agreement between the parties with respect to its subject matter and supersedes all prior agreements and understandings between the parties in connection with it.

14.3 Amendment

An amendment to this Agreement or an SRDA will be effective only if made in writing and executed by all parties.

14.4 Assignment

- (a) *AEMO* may assign its rights and obligations under this Agreement and any SRDA to any person without the other parties' consent.
- (b) Neither the Auction Participant, nor the Agent, is permitted to assign or otherwise transfer their respective rights and obligations under this Agreement and any SRDA without *AEMO*'s consent.

14.5 No Waiver

No failure, or delay, in exercising any right, power or remedy by a party operates as a waiver. A single or partial exercise of any right, power or remedy does not preclude any other or further exercise of that or any other right, power or remedy. A waiver is not valid or binding on the party granting that waiver unless made in writing.

14.6 Further Assurances

Each party agrees to do all things and execute all deeds, instruments, transfers or other documents as may be necessary or desirable to give full effect to this Agreement and the transactions contemplated by it.

14.7 No Merger

The rights and obligations of the parties will not merge on the completion of any transaction contemplated by this Agreement. They will survive the execution and delivery of any assignment or other document entered into for the purpose of implementing a transaction.

14.8 Costs and Stamp Duty

Each party must bear its own costs arising out of the negotiation, preparation and execution of this Agreement. All stamp duty (including fines, penalties and interest) that may be payable on or in connection with this Agreement and any instrument executed under this Agreement must be borne by the Auction Participant.

14.9 Governing Law and Jurisdiction

This Agreement and each SRDA is governed by the laws of Victoria. Each party submits to the non-exclusive jurisdiction of courts exercising jurisdiction there in connection with matters concerning this Agreement and each SRDA.

14.10 Counterparts

This Agreement may consist of a number of copies, each signed by one or more parties to this Agreement. If so, the signed copies make up one document and the date of this Agreement will be the date on which the last counterpart was signed.

EXECUTED AS AN AGREEMENT

SIGNED for and on behalf of **AEMO** in the presence of:

Signature (Witness)

Signature

Print Name (Witness)

Print Name

Date

Date

SIGNED for and on behalf of the **AUCTION PARTICIPANT** in the presence of:

Signature (Witness)

Signature

Print Name (Witness)

Print Name

Date

Date

SIGNED for and on behalf of the **AGENT** in the presence of:⁴

Signature (Witness)

Signature

Print Name (Witness)

Print Name

Date

Date

⁴ Delete this whole section if there is no Agent.

SCHEDULE 2

Linear Programming Problem

Let the following be defined as:

- i index for directed interconnectors
- b index for bids
- p_b price of bid b
- $q_{b,i}$ quantity of bid b for units on interconnector i
- q_b^{\max} max quantity bid on any interconnector for bid b
- r_i reserve price⁵ for directed interconnector i
- u_i units offered on directed interconnector i

The decision variables in the LP are defined as follows:

- x_b the quantity of bid b cleared in the SRA. This is the quantity on the directed interconnector for which the highest quantity is sought in the bid. If it is a linked bid, all other element flows can be imputed by applying the ratio of the offer to the maximum offer.
- y_i the unused, or uncleared quantity on interconnector i
- $x_b, y_i \geq 0$.

The LP is defined as:

$$\text{Maximise, Market Value} = \sum_i r_i y_i + \sum_b p_b x_b \quad (1)$$

Subject to,

$$x_b \leq q_b^{\max} \quad \forall b \quad (2)$$

$$\sum_b \frac{q_{b,i}}{q_b^{\max}} x_b + y_i \leq u_i \quad \forall i \quad (3)$$

- The first term in objective function (1) represents the value of uncleared units at the reserve price. Note that the reserve price was previously an exogenous input to the LP, the reserve price is no longer used. The second term represents the value realised in the auction. The sum of the two terms is referred to as the market value;
- Constraint (2) means that a bid cleared cannot exceed the bid block size; and

⁵ Reserve prices are no longer used in SRA and are therefore set to 0. However, the functionality exists in the software and the formulation includes reserve prices.

- Constraint (3) ensures that the LP apportions units appropriately across the interconnectors for a linked bid. Linked bids can include both spatial linkages across interconnectors and inter-temporal linkages across quarters. The structure of the LP can deal with either form of linked bids, though changes to the input structure would be required to enable with both forms of linked bids to be handled within a single LP.

Associated with each constraint is a shadow price (the dual or the marginal value of the constraint) which indicates the impact on the objective function of a unit change to the right hand side parameter of the constraint. For example, the bid block size constraint shadow price would indicate the increase in market value were the bid block to be increased. The shadow price is zero if the resource (bid volume in this case) has not reached its limit. Stated differently, the shadow price of a constraint is an imputed market “price” (an opportunity value) that could be realised were it possible to marginally relieve the constraint.

Interpretation of Market Clearing Prices: Dual of Linear Program

Duality theory allows an LP to be re-expressed in terms of constraint shadow prices in an equivalent form. In this case, there are two constraints on interconnector and bid volume. The LP problem can be re-expressed in terms of the shadow prices (or “duals”, or marginal value) on the constraints:

ω_i the dual associated with the interconnector constraint (3)

λ_b the dual associated with the bid block size constraint for bid b (2)

$\omega_i, \lambda_b \geq 0$.

The equivalent dual LP may be expressed as,

$$\text{Minimise } \sum_i u_i \omega_i + \sum_b q_b^{\max} \lambda_b \quad (4)$$

$$\sum_b \frac{q_{b,i}}{q_b^{\max}} \omega_i + \lambda_b \geq p_b \quad \forall b \quad (5)$$

$$\omega_i \geq r_i \quad \forall i \quad (6)$$

The dual LP states in general terms the total rents to the auctioneer and bidders should be minimised subject to the prices being consistent with the bids that have been cleared, and the reserve prices.