



INDEPENDENT  
MARKET  
OPERATOR

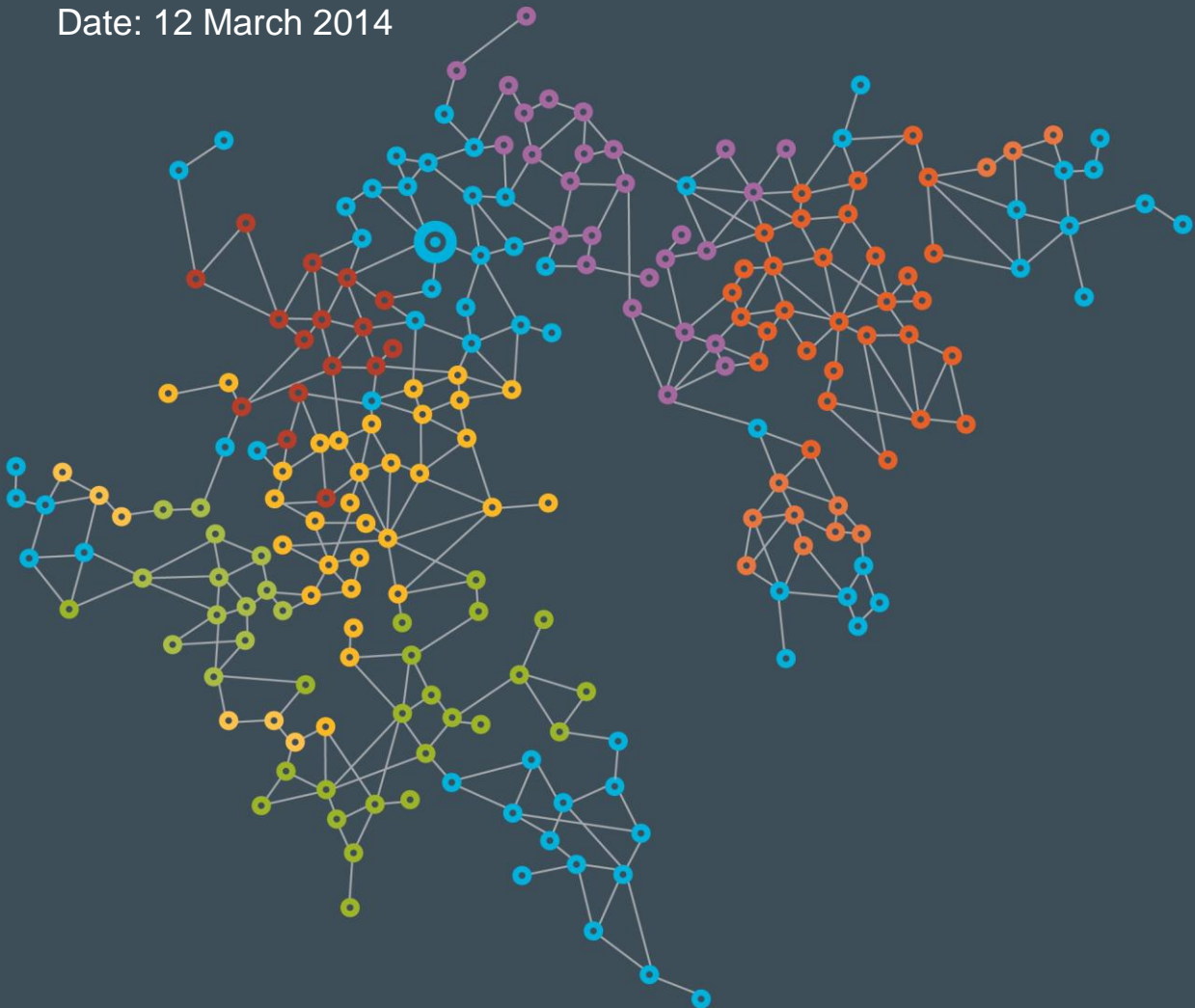
---

# Final Rule Change Report Prudential Requirements

RC\_2012\_23  
Standard Rule Change Process

---

Date: 12 March 2014



## TABLE OF CONTENTS

<b>1. Rule Change Process and Timetable</b> .....	<b>5</b>
<b>2. Proposed Amendments</b> .....	<b>5</b>
2.1. The Rule Change Proposal.....	5
2.2. The IMO’s Initial Assessment of the Proposal.....	7
2.3. Protected Provisions, Reviewable Decisions and Civil Penalties .....	7
<b>3. Consultation</b> .....	<b>8</b>
3.1. The Market Advisory Committee.....	8
3.2. Submissions Received During the First Submission Period .....	8
3.3. The IMO’s Response to Submissions Received During the First Submission Period ....	9
3.4. Submissions Received During the Second Submission Period .....	9
3.5. The IMO’s Response to Submissions Received During the Second Submission Period	9
3.6. Public Forums and Workshops .....	16
<b>4. The IMO’s Draft Assessment</b> .....	<b>16</b>
<b>5. The IMO’s Proposed Decision</b> .....	<b>16</b>
<b>6. The IMO’s Final Assessment</b> .....	<b>16</b>
6.1. Additional Amendments to the Proposed Amending Rules .....	17
6.2. Wholesale Market Objectives .....	17
6.3. Practicality and Cost of Implementation .....	18
<b>7. The IMO’s Decision</b> .....	<b>19</b>
7.1. Reasons for the Decision.....	19
<b>8. Amending Rules</b> .....	<b>19</b>
8.1. Commencement .....	19
8.2. Amending Rules .....	19
<b>Appendix 1. Further Amendments to the Proposed Amending Rules</b> .....	<b>29</b>

## Executive Summary

### ***Proposed Amendments***

The IMO submitted this Rule Change Proposal on 14 August 2013 to seek amendments to several clauses related to prudential requirements to provide greater clarity in relation to the obligations of both Market Participants and the IMO. The IMO identified issues and proposed amendments in the following areas:

- (a) Credit Limit determinations;
- (b) Determining the expected value of a transaction;
- (c) Accounting for voluntary prepayments in the calculation of the Outstanding Amount;
- (d) Typical Accrual and the amount of a Margin Call;
- (e) Arrangements for Credit Support and Reserve Capacity Security; and
- (f) The list of entities meeting the Acceptable Credit Criteria.

### ***Consultation***

The pre Rule Change Proposal was first presented to the Market Advisory Committee (MAC) at its 20 March 2013 meeting where some MAC members requested further analyses on the effects on Market Participants' Credit Limits of using historical settlement data for a maximum of 24 months in the past, as opposed to 48 months. The IMO circulated the analyses to individual Market Participants in May 2013. Subsequently, the IMO presented the revised pre Rule Change Proposal and the associated proposed amended Market Procedure: Prudential Requirements to the MAC at its 7 August 2013 meeting. The MAC members agreed that the proposal should be submitted formally into the Standard Rule Change Process.

The first submission period was held between 15 August and 25 September 2013. Submissions were received from Alinta Energy, Community Electricity, Perth Energy and Synergy. The submitters were generally supportive of the majority of the proposed amendments. However, specific issues were raised in relation to the guiding principles and use of certain variables in Credit Limit determinations (including the measure of the value of transactions owed) and with the practicality of applying a 24-hour response time to Margin Calls.

The second submission period was held between 25 October 2013 and 11 February 2014. The timeframe for the second submission period was extended to allow for the proposed amended Market Procedure to be consulted on by the IMO Procedure Change and Development Working Group and submitted into the Procedure Change Process.

During the second submission period, two submissions were received. Community Electricity supported the proposed amendments and Alinta Energy expressed support for the majority of the proposed amendments. Additionally, Alinta Energy reiterated its concerns on the use of the highest value of transactions owed to determine Credit Limits.

### ***Assessment against Wholesale Market Objectives***

The IMO considers that the proposed amendments better achieve Wholesale Market Objective (a) by providing clarity on the calculation of the Outstanding Amount and the inclusion of voluntary prepayments which will promote accuracy in monitoring Trading Margins and making Margin Calls, thereby minimising the potential financial risk to the market. The proposed amendments will improve the management of timelines and processes around Credit Support arrangements which will reduce overall risk created in the market due to Suspension Events, thereby promoting overall prudential security.

The IMO also considers that the proposed amendments better achieve Wholesale Market Objective (b) by increasing transparency and predictability of the IMO's decisions on key prudential requirements which will reduce barriers to entry for new entrants and promote greater competition in the market.

The IMO considers that the proposed amendments are consistent with the remaining Wholesale Market Objectives.

### ***Practicality and Cost of Implementation***

The IMO has not identified any significant costs associated with implementing the proposed amendments. However, the IMO notes that the application of voluntary prepayments to the calculation of Outstanding Amount and its effects on other variables in the prudential risk report have an associated IT implementation cost of \$85,000 which will be accommodated within the IMO's existing budget.

The IMO has not identified any issues with the practicality of implementing the proposed amendments.

### ***The IMO's Decision***

The IMO's decision is to accept the Rule Change Proposal as modified following the first and second submission periods.

### ***Next Steps***

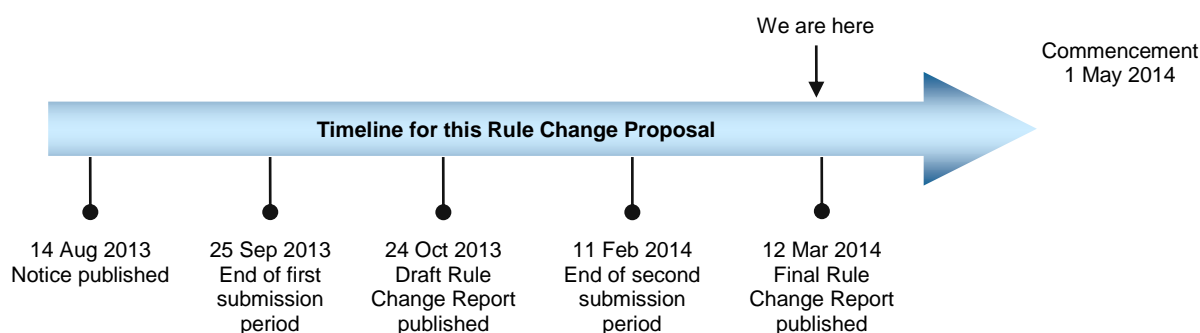
The Amending Rules are proposed to commence at **8.00 AM** on **1 May 2014**.

## 1. Rule Change Process and Timetable

On 14 August 2013, the IMO submitted a Rule Change Proposal regarding amendments to numerous clauses related to prudential requirements in the Wholesale Electricity Market (WEM) Rules (Market Rules).

This proposal is being processed using the Standard Rule Change Process, described in section 2.7 of the Market Rules. In accordance with clause 2.5.10 of the Market Rules, the IMO decided to extend the timeframe for the second submission period as outlined in the notices of extension published on 19 December 2013 and 14 January 2014. The IMO extended the timeframe to allow sufficient time for consultation on the associated proposed amended Market Procedure: Prudential Requirements. The IMO published the Draft Rule Change Report on 24 October 2013.

The key dates in processing this Rule Change Proposal are:



## 2. Proposed Amendments

### 2.1. The Rule Change Proposal

The IMO identified several clauses related to prudential requirements where clarification was required in relation to the obligations of both Market Participants and the IMO. The IMO identified issues and proposed amendments in the following areas:

- (a) **Credit Limit determination** – The IMO identified three aspects of the Credit Limit determination process that needed clarification:
- (i) Clauses 2.37.1, 2.37.2 and 2.37.3 of the Market Rules specify the IMO's obligations around determining, revising and reviewing a Market Participant's Credit Limit. The IMO considered that the clauses require stronger linkages between the obligations and the associated processes.
  - (ii) Clause 2.37.4 of the Market Rules specifies the Credit Limit as a predicted amount not expected to be exceeded more than once in a 48-month period. The clause also outlines a list of factors that the IMO must take into account when determining a Market Participant's Credit Limit. The IMO considered that its current practice of using historical settlements data to determine a Market Participant's anticipated maximum exposure over any 70-day period has proved to be a robust, predictable and repeatable tool. Further, the

IMO observed that some of the factors listed in the clause have proven to be less practical in application than the use of actual data or objective and reasonable estimates. Therefore, the IMO proposed to amend this clause to increase transparency and clarity of its current practice.

- (iii) Clause 2.37.5 of the Market Rules requires a Market Participant to notify the IMO of certain circumstances that may affect its Credit Limit. The IMO considered that the clause should be drafted as a general requirement for both Market Customers and Market Generators. Additionally, the IMO also considered that the clause should include scenarios where a Market Participant is able to request the IMO to consider a decrease in its Credit Limit.
- (b) **Determining the expected value of a transaction** – Clause 2.37.9 of the Market Rules requires the IMO to provide guidelines, consistent with the methodology for Credit Limit determinations, to be used by the IMO and Market Participants to assess whether a Market Participant's Trading Margin will be exceeded following a submission in the market. The IMO considered that a definitive and prescriptive guideline was not practicable given the way submissions are made and liabilities arise in the market. The IMO also noted that the associated Market Procedure did not include a guideline for this purpose. The IMO proposed amendments to clause 2.37.9 of the Market Rules (renumbered to clause 2.41.5) to outline a list of factors (in place of a guideline) in the Market Procedure to determine the expected value of a transaction. Further, the IMO proposed minor amendments to clauses 2.41.2 and 2.41.3 of the Market Rules to refer to the list of factors in proposed amended clause 2.41.5.
- (c) **Accounting for voluntary prepayments in the Outstanding Amount** – Currently, a Market Participant is able to make a voluntary prepayment to decrease its Outstanding Amount (thereby increasing its Trading Margin) and allowing it to continue to transact securely in the market. The IMO considered that clause 2.40.1 of the Market Rules should explicitly account for voluntary prepayments as an input into the calculation of a Market Participant's Outstanding Amount. This will reduce the financial risk associated with Suspension Events and provide assurance to Market Participants on their continued ability to participate in the market.
- (d) **Typical Accrual and the amount of a Margin Call** – Clause 2.42.2 of the Market Rules outlines the concept of Typical Accrual and clause 2.42.3 specifies that the Margin Call amount must be determined as the difference between a Market Participant's Outstanding Amount and Typical Accrual. The IMO considered that Typical Accrual is a complex concept and is not likely to produce a more reliable estimate compared to the Outstanding Amount. Therefore, the IMO proposed to remove the concept of Typical Accrual and determine the amount of a Margin Call as that amount that will raise the Trading Margin to zero.
- (e) **Arrangements for Credit Support and Reserve Capacity Security** – Clauses 2.38.1, 2.38.2 and 2.38.3 of the Market Rules outline the requirements of a Market Participant to submit, maintain and replace its Credit Support. The IMO considered that these clauses should provide greater clarity on a Market Participant's obligations with regard to the amount, the type of arrangement and the timeline for replacement of its Credit Support.

The IMO noted that clauses 4.13.1, 4.13.2C, 4.13.3 and 4.13.4 of the Market Rules which are related to the submission, maintenance and replacement of Reserve Capacity Security should also be amended accordingly for consistency.

- (f) **List of entities meeting the Acceptable Credit Criteria** – Clause 2.38.7(a) of the Market Rules places an obligation on the Credit Support provider to supply evidence that it continues to meet the Acceptable Credit Criteria every 12 months. The IMO considered that the obligation should be placed on the Market Participant that is using that Credit Support provider because, for the purpose of the Market Rules, the Market Participant is responsible for maintaining valid Credit Support. The Credit Support provider falls outside the purview of the Market Rules, resulting in the obligation becoming unenforceable. Therefore, the IMO proposed amendments to clause 2.38.7(a) to reflect that the requirement to supply evidence of meeting Acceptable Credit Criteria is placed on the Market Participant.

For full details of the Rule Change Proposal please refer to the Market Web Site: [http://www.imowa.com.au/RC\\_2012\\_23](http://www.imowa.com.au/RC_2012_23)

## **2.2. The IMO's Initial Assessment of the Proposal**

The IMO decided to proceed with the proposal on the basis that Rule Participants should be given an opportunity to provide submissions as part of the rule change process.

## **2.3. Protected Provisions, Reviewable Decisions and Civil Penalties**

Clauses 2.37.1, 2.37.2 and 2.37.3 of the Market Rules are classified as Reviewable Decisions. The IMO has proposed amendments to these clauses to clarify the prudential requirements which place obligations on Market Participants and the IMO, and strengthen the linkages with the associated Market Procedure. As the proposal does not intend to change the intent of these Reviewable Decisions, the IMO does not believe that this proposal will require changes to the Electricity Industry (Wholesale Electricity Market) Regulations 2004 (Regulations).

Clause 2.37.5 of the Market Rules has an associated Category B civil penalty under the Regulations. While the intent of this clause has not been changed, the IMO proposes to renumber this clause to clause 2.37.8 to improve clarity of the Market Rules. In addition, the IMO has included a sub-clause that provides for a Market Participant to notify the IMO of any changes in circumstances that may result in a decrease in the Market Participant's Credit Limit. The IMO is of the view that the civil penalty should only apply to clause 2.37.8(a) which, if not complied with, imposes financial risk to the market. These proposed amendments will require corresponding amendments to Schedule 1 of the Regulations.

The IMO proposes to amend clauses 2.38.1, 2.38.2 and 2.38.3 of the Market Rules to include a reference to clause 2.38.4 which outlines the form in which Credit Support must be provided. Clause 4.13.3 and 4.13.4 of the Market Rules, which apply to Reserve Capacity Security, have been amended in a similar way to refer to clause 4.13.5. Clauses 2.38.1, 2.38.2, 2.38.3, 4.13.3 and 4.13.4 of the Market Rules have associated Category B civil penalties under the Regulations. The IMO notes that the proposed amendments do not change a Market Participant's obligations and is therefore of the view that the civil penalties remain appropriate.

Clause 2.41.2 of the Market Rules also has an associated Category B civil penalty. The IMO has proposed amendments to this clause to refer to a list of factors to determine the expected value of transactions, rather than provide a guideline. The IMO notes that the proposed amendment does not change the obligation on Market Participants and is therefore of the view that the civil penalty remains appropriate.

Clause 2.42.4 of the Market Rules has an associated Category C civil penalty. The IMO has proposed amendments to this clause to clarify the response time for a Margin Call Notice. The IMO notes that the proposed amendment does not change the obligation on Market Participants and is therefore of the view that the civil penalty remains appropriate.

The IMO has engaged with the Public Utilities Office to discuss the proposed amendments and subsequent changes to the Regulations.

### **3. Consultation**

#### **3.1. The Market Advisory Committee**

The pre Rule Change Proposal was first presented at the Market Advisory Committee (MAC) at its 20 March 2013 meeting where two MAC members queried the effect of reducing the time period of historical settlement data to be considered in Credit Limit determinations from 48 to 24 months. The IMO conducted further analyses on the impact of this change and circulated it to Market Participants on an individual basis in May 2013.

Following this, the IMO presented a revised version of the pre Rule Change Proposal to the MAC at its 7 August 2013 meeting. The IMO also provided the proposed amended Market Procedure to assist the MAC members to consult on the entire package of amendments. Two MAC members sought clarification on the operational aspects of certain proposed Amending Rules. MAC members generally agreed that the IMO should submit the Rule Change Proposal formally and progress it using the Standard Rule Change Process.

Further details are available in the MAC meeting minutes available on the Market Web Site: <http://www.imowa.com.au/MAC>

#### **3.2. Submissions Received During the First Submission Period**

The first submission period for this Rule Change Proposal was between 15 August and 25 September 2013. Submissions were received from Alinta Energy, Community Electricity, Perth Energy and Synergy.

Community Electricity supported the Rule Change Proposal on the grounds that it clarified, simplified and improved the existing clauses. Perth Energy supported the proposals that improved the transparency and predictability of the IMO's decisions that affected Market Participants. Alinta Energy was generally supportive of the intention of most of the proposed amendments. Synergy supported the principles underlying the proposed amendments but sought clarifications on certain aspects.

A few submissions raised specific issues with regard to the use of the maximum exposure over a 70-day period as the basis for determining a Market Participant's Credit Limit. Concerns were also raised with the practicality of implementing a 24 hour window for responding to Margin Calls.

A copy of all submissions in full received during the first submission period is available on the Market Web Site: [http://www.imowa.com.au/RC\\_2012\\_23](http://www.imowa.com.au/RC_2012_23).



### **3.3. The IMO's Response to Submissions Received During the First Submission Period**

The IMO's response to submissions received during the first submission period are detailed in section 4.3 of the Draft Rule Change Report available on the Market Web Site: [http://www.imowa.com.au/RC\\_2012\\_23](http://www.imowa.com.au/RC_2012_23)

### **3.4. Submissions Received During the Second Submission Period**

Following publication of the Draft Rule Change Report, the second submission period was held between 25 October 2013 and 11 February 2014. The timeframe for the second submission period was extended in accordance with extension notices published on 17 December 2013 and 14 January 2014 to allow consultation on the proposed amended Market Procedure.

During the second submission period, the IMO received submissions from Alinta Energy and Community Electricity.

Community Electricity was supportive of the proposed amendments in the Draft Rule Change Report. Alinta Energy continued to support the intention of the majority of the proposed amendments. Alinta Energy also expressed support for reinstating the response time for Margin Calls from 24 hours to one Business Day to improve practicality of implementation.

However, Alinta Energy reiterated its concerns with regard to using the maximum exposure over a 70-day period to determine a Market Participant's Credit Limit. Alinta Energy considered that an assessment of the trade-off between protecting the market from potential risk of Payment Default and holding a specific level of Credit Support from all Market Participants had not been provided to stakeholders. It also considered that the IMO had not adequately demonstrated how the proposed calculation of Credit Limits would better achieve the Wholesale Market Objectives.

A copy of all submissions in full received during the second submission period is available on the following Market Web Site [http://www.imowa.com.au/RC\\_2012\\_23](http://www.imowa.com.au/RC_2012_23)

### **3.5. The IMO's Response to Submissions Received During the Second Submission Period**

The IMO's responses to each of the issues identified during the second submission period are presented in the table over the page.

	Submitter	Comment/Change Requested	IMO's Response
1.	Alinta Energy	Alinta is concerned that the re-numbering of a significant number of clauses in this rule change may make it difficult to maintain a clear historical record of changes, which in other regulatory contexts has proven difficult in conducting a robust audit. Alinta's preference is to retain the existing numbering of clauses.	The IMO has proposed re-numbering several clauses to improve clarity and readability. The IMO considers that the benefits outweigh any potential difficulties that may be caused by the re-numbering. Additionally, the IMO has previously re-numbered clauses in the Market Rules in similar circumstances and notes that the provision of rule change reports on the Market Web Site provides an adequate audit trail.

	Submitter	Comment/Change Requested	IMO's Response
2.	Alinta Energy	<p>Alinta reiterates its concerns on using the maximum exposure amount to set a Market Participant's Credit Limit. Alinta considers that the IMO has failed to provide sufficient rationale for the conservative approach adopted in the prudential regime. Alinta is concerned that there has been no consideration of whether the proposed amendments appropriately account for the important trade-off between protecting the market and holding excessive amounts of participants' capital in the form of Credit Support. Alinta reiterates that nowhere else in the Market Rules, including for the purposes of procuring sufficient capacity to cover the Reserve Capacity Target (which is acknowledged to be a conservative approach) is a level of 100% coverage prescribed.</p> <p>Alinta also considers that the IMO has not adequately demonstrated how the proposed calculation of Credit Limits will better the Market Objectives nor why the market should be required to pay the level of Credit Support that will be required under the proposed highly conservative approach. In fact the experience of the NEM would suggest that even the current less conservative approach (as is embedded in the WEM Market Rules) is inefficient, capital intensive and ultimately increases prices to end consumers (inconsistent with market objectives (a) and (d)).</p>	<p>The IMO notes Alinta's concern and reiterates that this Rule Change Proposal is intended to bring the Market Rules in alignment with the IMO's current practice to provide an accurate reflection of the Prudential Obligations. The IMO's current methodology for determining the Credit Limit is based on the Market Participant's theoretical maximum exposure amount that has already been reached once. As noted in the Draft Rule Change Report, this approach results in the IMO holding sufficient prudential security to adequately protect the overall market from individual Market Participant's Payment Default. Further, clause 2.37.4(d) as currently stated requires the IMO to adjust Credit Limits for the period from Market Participant default to deregistration. If an appropriate adjustment for these events could be made, prudential costs for individual Market Participants may increase substantially.</p> <p>The IMO has commenced work on assessing potential improvements to the energy market and the settlement process, identified in the Market Rules Evolution Plan. A holistic review of the Prudential Obligations, including an assessment of the adequate level of prudential security, should be undertaken to support the implementation of any changes to the market and settlement arrangements.</p>

	Submitter	Comment/Change Requested	IMO's Response
3.	Alinta Energy	<p>Alinta maintains its position that the ability for a Market Participant to request a review of its Credit Limit should be included in the Market Rules. The IMO's requirement for participants to provide a notification where there has been a change in circumstances that may justify a revision to a Credit Limit (new clause 2.37.8) does not address Alinta's core concern. This is because following such a notification the IMO is provided with discretion as to whether to reconsider a participant's Credit Limit. This includes under the proposed amended Market Procedure where there is no express provision for the IMO to actually undertake a reassessment outlined in section 2.8.6. The approach being adopted by the IMO provides no regulatory certainty that a re-assessment will occur within a reasonable timeframe.</p>	<p>The IMO considers that the proposed amendment to new clause 2.37.8 of the Market Rules as outlined in the Draft Rule Change Report clarifies a Market Participant's obligations with regard to notifying the IMO of a circumstance that may justify a potential increase to its Credit Limit. Further, clause 2.37.8(b) of the Market Rules allows for a Market Participant to notify the IMO when it considers that a potential decrease to its Credit Limit may be justified.</p> <p>The IMO notes Alinta's concern that an express provision for the IMO to make a decision following a notification under clause 2.37.8 of the Market Rules and a timeline has not been provided in the proposed amended Market Procedure. The IMO has addressed this by amending step 2.8.3 of the revised Market Procedure and including a reasonable timeframe for the IMO to make a decision on revision of Credit Limits.</p> <p>However, the IMO considers that it is important to retain discretion on whether or not to revise a Market Participant's Credit Limit because a uniform approach to differing circumstances should not be applied.</p>

	Submitter	Comment/Change Requested	IMO's Response
4.	Alinta Energy	<p>Alinta maintains its position that the Amending Rules should be updated to clarify what time period for historical data will be used in determining a facility's Credit Limit to avoid confusion, particularly given the drafting still states it could be any 70 day period which could potentially include the period impacted on by the Varanus island explosion. While clarity that the 70 day period is from within the last 24 months is provided in the Market Procedure this is an important consideration that should be reflected in the rules.</p> <p>More generally it's unclear how a "maximum exposure over any 70 day period" is a principle for the purposes of determining a facility's Credit Limit but defining a "maximum exposure over any 70 day period occurring during the last 24 months" would not be considered to be a principle. Alinta suggests more consideration is required as to what should be considered "principles" for the purposes of the Market Rules.</p>	<p>As noted in the Draft Rule Change Report, the look back period of 24 months only applies to existing Market Participants for which at least three months of settlement data is available. Where less than three months of settlement data is available (as in the case of new Market Participants) the IMO estimates a reasonable exposure over a 70-day period.</p> <p>Therefore, the IMO considers that the guiding principle for all Market Participants, being the maximum exposure over a 70-day period, is appropriately retained in the Market Rules and the historical time period from which to select the 70-day period, which applies as a matter of implementation to existing Market Participants, is moved to the Market Procedure.</p> <p>Additionally, the IMO considers that the proposed clause 2.37.4(c) of the Market Rules directly links the definition of Credit Limit to the methodology defined in the Market Procedure. This removes ambiguity related to the look-back period of historical data and ensures that future amendments cannot be made to this clause without simultaneously considering the Market Procedure.</p>
5.	Alinta Energy	<p>Alinta requests that based on the NEM regime for responding to Call Notices, the IMO:</p> <ul style="list-style-type: none"> <li>• considers whether similar flexibility to that contained within the NEM Rules with respect to late calls (as outlined in clause 3.3.13(b) of the National Electricity Rules) could be reflected in the WEM Rules; and</li> <li>• considers whether there should be an express ability for the IMO to extend the timeframes for providing additional credit support where a margin call is issued to avoid a participant unnecessarily going into default.</li> </ul>	<p>Based on feedback received during consultation, the IMO has decided to provide a timeline of one Business Day or a longer period as approved by the IMO. More details on determining the timeline for responding to Margin Call Notices and for providing replacement Credit Support is provided in step 5.4.2 of the Market Procedure.</p>

	Submitter	Comment/Change Requested	IMO's Response
6.	Alinta Energy	<p>Alinta disagrees with the IMO's views that clause 2.38.1 is currently ambiguous – the drafting makes it clear that if at any time a Market Participant doesn't meet the Acceptable Credit Criteria it must provide a Credit Support. The current requirement appears to have been developed taking into account the important trade-off between protecting the market and holding excessive amount of participant's capital in the form of Credit Support. The rationale for moving away from this approach is unclear. In particular it remains uncertain what risk a company that in its own right meets the Acceptable Credit Criteria (which in the WEM is likely to be backed by the state) would pose to the market to justify holding a potentially significant amount of capital as credit support. Alinta acknowledges that another important consideration in this case may be the implications of not having a level playing field for all Market Participants, i.e. by only requiring Credit Support from participants with a lower credit rating. Alinta assumes that the IMO's proposal seeks to ensure that it is clear under the rules that all participants will be required to provide Credit Support to ensure an even playing field exists.</p> <p>Additionally, Alinta continues to consider that the IMO's proposed drafting of clauses 2.38.1, 2.38.2 and 2.38.3 and similar clauses in Reserve Capacity Security adds unnecessary additional prescription to the rules.</p>	<p>As noted in the Draft Rule Change Report, the Market Rules intend that Credit Support is held in the name of a Market Participant if the IMO has determined a positive Credit Limit amount. This ensures that in the event of a default, the Credit Support is available for the IMO to Draw Upon. As outlined in clause 2.38.4 of the Market Rules, the Credit Support must be either a Security Deposit or a bank undertaking/guarantee which must be from an entity that meets the Acceptable Credit Criteria and which itself is not a Market Participant.</p> <p>The proposed amendments to clause 2.38.1 of the Market Rules clarify that the Market Participant is responsible for ensuring the IMO holds Credit Support either as a Security Deposit or as a bank undertaking/guarantee from an entity that meets the Acceptable Credit Criteria. The proposed Amending Rules do not change the intent or current operation of the requirement for Market Participants to provide Credit Support.</p> <p>Additionally, the IMO considers that greater clarity is added to clauses 2.38.1, 2.38.2 and 2.38.3 of the Market Rules by expressly stating the Market Participant's obligations. Similar clauses in the section on Reserve Capacity Security in the Market Rules have been amended to ensure consistency.</p>

	Submitter	Comment/Change Requested	IMO's Response
7.	Alinta Energy	It is unclear in the context of amendments to clause 2.38.7 what potential "enforcement" issue the IMO is referring to in its Draft Report as necessitating the change. If an entity doesn't meet the criteria it simply doesn't go on the list of acceptable providers. If it does meet the criteria then it is included on the list and subject to the IMO's monitoring processes. Alinta acknowledges that the IMO's monitoring activities only assess whether an entity continues to have an acceptable credit rating – not if it meets all the acceptable credit criteria. It is however unclear how expressly enabling a financial entity to provide evidence to enable it to be included onto the list would change the responsibility of a participant for making sure its credit is from a provider who meets the acceptable credit criteria.	As highlighted in the Draft Rule Change Report, for the purpose and implementation of the Market Rules, the entity of concern is the Market Participant. The responsibility for ensuring that the Credit Support provider continues to meet the Acceptable Credit Criteria rests with the Market Participant that has engaged that Credit Support provider. Additionally, the proposed Amending Rule does not disallow either the Credit Support provider or the Market Participant from supplying evidence to the IMO. Instead, it places the requirement on the Market Participant which is the appropriate entity for the operation of the rule.

### 3.6. Public Forums and Workshops

The IMO presented the associated proposed amended Market Procedure for Prudential Requirements to the IMO Procedure Change and Development Working Group (IMOPWG) at its 20 September 2013 meeting. Some members sought clarification on the calculation of the Outstanding Amount and operational aspects of the prudential risk report. The IMO revised the Market Procedure based on the feedback provided and re-circulated it to IMOPWG members on 13 December 2013 for further comment. The IMO also provided an example of the prudential risk report to demonstrate the planned implementation, outlining the calculation of the Outstanding Amount and the impact on the Trading Margin and any potential Margin Call.

No other public forums or workshops were held with regard to this Rule Change Proposal.

## 4. The IMO's Draft Assessment

The IMO's draft assessment against clauses 2.4.2 and 2.4.3 of the Market Rules and analysis of the Rule Change Proposal are provided in section 5 of the Draft Rule Change Report available on the Market Web Site.

## 5. The IMO's Proposed Decision

The IMO's proposed decision was to accept the Rule Change Proposal as modified following the first submission period.

The wording of the relevant Amending Rules was presented in section 7 of the Draft Rule Change Report.

The IMO made its proposed decision on the basis that the proposed Amending Rules:

- better achieved Wholesale Market Objectives (a) and (b);
- were consistent with the remaining Wholesale Market Objectives; and
- had the general support of the MAC and the submissions received during the first submission period.

## 6. The IMO's Final Assessment

In preparing its Final Rule Change Report, the IMO must assess the Rule Change Proposal in light of clauses 2.4.2 and 2.4.3 of the Market Rules.

Clause 2.4.2 of the Market Rules outlines that the IMO *"must not make Amending Rules unless it is satisfied that the Market Rules, as proposed to be amended or replaced, are consistent with the Wholesale Market Objectives"*. Additionally, clause 2.4.3 states, when deciding whether to make Amending Rules, the IMO must have regard to the following:

- any applicable policy direction from the Minister regarding the development of the market;
- the practicality and cost of implementing the proposal;



- the views expressed in submissions and by the MAC; and
- any technical studies that the IMO considers necessary to assist in assessing the Rule Change Proposal.

The IMO notes that there has not been any applicable policy direction from the Minister in respect of this Rule Change Proposal nor has it commissioned a technical review in respect of this Rule Change Proposal. A summary of the views expressed in submissions and by the MAC is available in section 3 of this Final Rule Change Report.

Details of the additional amendments to the Amending Rules presented in the Draft Rule Change Report are presented in section 6.1 below. The IMO's assessment of the Rule Change Proposal inclusive of the amendments made following the first and second submission periods is outlined in the following sub-sections.

### **6.1. Additional Amendments to the Proposed Amending Rules**

The IMO notes that the proposed Amending Rules (clause 2.38.3 which relates to the provision of replacement Credit Support and clause 2.42.4 of the Market Rules which relates to provision of Credit Support in response to a Margin Call Notice) in the Draft Rule Change Report had been amended to replace the timeline of one Business Day to 24 hours. This timeline had been introduced to ensure that the financial risk in the market arising from a time lag in responding to a Margin Call or providing replacement Credit Support was minimised.

During the submission periods for this Rule Change Proposal and consultation with IMOPWG members on the proposed amended Market Procedure, concerns were raised on the practicality of implementing this timeline. Following the publication of the Draft Rule Change Report, further information was considered by the IMO and it formed the view that 24 hours is not practicable for several large banks to respond and has therefore decided to provide a timeline of one Business Day or a longer period as approved by the IMO. More details on determining the timeline for responding to Margin Call Notices and for providing replacement Credit Support is provided in the Market Procedure.

Further amendments to the Amending Rules presented in the Draft Rule Change Report are provided in Appendix 1 of this Final Rule Change Report.

### **6.2. Wholesale Market Objectives**

The IMO considers that the Market Rules as a whole, if amended as presented in section 7, will not only be consistent with the Wholesale Market Objectives but also allow the Market Rules to better address Wholesale Market Objectives (a) and (b).

The IMO's assessment is presented below:

*(a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system*

The IMO believes the proposed amendments to the prudential requirements will allow the Market Rules to better achieve Wholesale Market Objective (a) as it will:

- provide clarity in relation to the Outstanding Amount and the inclusion of voluntary

prepayments which will promote accuracy in monitoring Trading Margins and making Margin Calls and facilitate Market Participants in managing their prudential security over the short-term, thereby minimising the potential financial risk to the WEM and promoting economic efficiency; and

- allow improved management of timelines and processes around Credit Support arrangements which will reduce overall risk created in the WEM due to Suspension Events, thereby promoting economic efficiency.

*(b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors*

The IMO believes the proposed amendments to the prudential requirements will also allow the Market Rules to better achieve Wholesale Market Objective (b) as it will increase transparency in the WEM by providing more information on a Market Participant's Credit Limit determination, thereby reducing barriers to entry for new entrants.

The proposed amendments will also improve the overall integrity of the Market Rules by employing a principles-based approach, moving the more prescriptive detail into the Market Procedure for Prudential Requirements. It will also improve the linkages between the Market Rules and the Market Procedure.

### **6.3. Practicality and Cost of Implementation**

#### **6.3.1. Cost:**

The IMO has not identified any significant costs associated with implementing the proposed amendments. However, the IMO considers that the application of voluntary prepayments to the calculation of Outstanding Amount and its impact on other variables in the prudential risk report have an associated IT implementation cost of \$85,000 which will be accommodated within the IMO's existing budget.

#### **6.3.2. Practicality:**

The IMO does not consider that there are any issues with the practicality of implementation of the proposed changes.

#### **6.3.3. Amendments to Associated Market Procedures:**

The necessary amendments to the Market Procedure for Prudential Requirements (PC\_2013\_04) have been progressed in parallel with this Rule Change Proposal. The Procedure Change Report will be published on 12 March 2014 together with this Final Rule Change Report. More details on the Procedure Change Proposal (PC\_2013\_04) are available on the Market Web Site: [http://www.imowa.com.au/pc\\_2013\\_04](http://www.imowa.com.au/pc_2013_04)

The IMO notes that the amendments required to the Market Procedure for Reserve Capacity Security in response to the proposed Amending Rules are also underway.

## 7. The IMO's Decision

Based on the matters set out in this report, the IMO's decision is to accept the Rule Change Proposal as modified following the first and second submission periods.

### 7.1. Reasons for the Decision

The IMO has made its decision on the basis that the Amending Rules:

- better achieve Wholesale Market Objectives (a) and (b);
- are consistent with the remaining Wholesale Market Objectives; and
- have the general support of the MAC and the submissions received during the first and second submission periods.

Additional detail outlining the analysis behind the IMO decision is outlined in section 6 of this Final Rule Change Report.

## 8. Amending Rules

### 8.1. Commencement

The amendments to the Market Rules resulting from this Rule Change Proposal are proposed to commence at **8.00 AM** on **1 May 2014**.

### 8.2. Amending Rules

The IMO has decided to implement the following Amending Rules (~~deleted text~~, added text):

#### 2.37. Credit Limit

- 2.37.1. The IMO must determine a Credit Limit for each Market Participant in accordance with clause 2.37.4.
- 2.37.2. Subject to clauses 2.37.3 and 2.42.7, the IMO may review and revise a Market Participant's ~~revise the Credit Limit of a Market Participant~~ at any time.
- 2.37.3. The IMO must review each Market Participant's ~~the Credit Limit of a Market Participant~~ at least once each year.
- 2.37.4. Subject to clauses 2.37.5 and 2.37.6, the Credit Limit for a Market Participant is the dollar amount determined by the IMO as being equal to the amount that the IMO reasonably expects will not be exceeded over any 70 day period, where this amount is:
- (a) the maximum net amount owed by the Market Participant to the IMO over the 70 day period;
- (b) determined by applying the factors set out in clause 2.37.5; and

(c) calculated in accordance with the Market Procedure referred to in clause 2.43.1.

~~2.37.4. The Credit Limit for each Market Participant is the dollar amount determined by the IMO as being equal to the maximum net amount that the Market Participant is expected to owe the IMO over any 70 day period where this amount is not expected to be exceeded more than once in a 48 month period. When determining the Credit Limit for a Market Participant the IMO must take into account:~~

- ~~(a) the average level and volatility of the Balancing Price and the STEM Clearing Price for the previous 48 months, or such shorter time period as data is available for;~~
- ~~(b) the metered quantity data for the Market Participant, or an estimate of their expected generation and consumption where no meter data is available;~~
- ~~(c) the correlation between the Relevant Dispatch Quantity and the Balancing Price;~~
- ~~(d) the length of the settlement cycle and the process set out in clauses 9.23, 9.24 and 2.32;~~
- ~~(e) a reduction in the Credit Limit reflecting applicable bilateral contract purchase quantities, where these quantities are the historical bilateral contract submissions, or an estimate of the Market Participant's expected bilateral contract levels where no historical bilateral contract submission data is available;~~
- ~~(f) the historical STEM sales and purchases, or an estimate of the Market Participant's expected STEM sales and purchases where no historical STEM sale and purchase data is available;~~
- ~~(fA) the historical level of payments under clause 9.8.1 or an estimate of the Market Participant's expected level of payments under clause 9.8.1 where no historical payment data is available;~~
- ~~(g) the expected level of Ancillary Service payments;~~
- ~~(h) the statistical distribution of the accrued amounts that may be owed to the IMO;~~
- ~~(i) the degree of confidence that the Credit Limit will be large enough to meet large defaults; and~~
- ~~(j) any past breach of the Regulations or these Market Rules by, the Market Participant or a related entity of the Market Participant.~~

2.37.5. When determining a Market Participant's Credit Limit the IMO must take into account:

- (a) the Market Participant's historical level of payments based on metered quantity data for the Market Participant, or an estimate of the Market Participant's future level of payments based on its expected generation and consumption quantities where no metered quantity data is available;
- (b) the Market Participant's historical level of Bilateral Contract sale and purchase quantities as reflected in historical Bilateral Contract submissions, or an estimate

- of the Market Participant's expected level of Bilateral Contract sale and purchase quantities where no historical Bilateral Contract submission data is available;
- (c) the Market Participant's historical level of STEM settlement payments under clause 9.6.1, or an estimate of the Market Participant's future level of STEM settlement payments based on its expected STEM sales and purchases where no historical STEM settlement payment data is available;
- (d) the Market Participant's historical level of Reserve Capacity settlement payments under clause 9.7.1, or an estimate of the Market Participant's future level of Reserve Capacity settlement payments based on its number of Capacity Credits where no historical Reserve Capacity settlement payment data is available;
- (e) the Market Participant's historical level of Balancing settlement payments under clause 9.8.1, or an estimate of the Market Participant's future level of Balancing settlement payments based on its expected transactions in the Balancing Market where no historical Balancing settlement payment data is available;
- (f) the Market Participant's historical level of Ancillary Service settlement payments under clause 9.9.1, or an estimate of the Market Participant's future level of Ancillary Service settlement payments based on its expected Ancillary Service provision where no historical Ancillary Service settlement payment data is available;
- (g) the Market Participant's historical level of Outage Compensation settlement payments under clause 9.10.1, or an estimate of the Market Participant's future level of Outage Compensation settlement payments based on its expected level of Outages where no historical Outage Compensation settlement payment data is available;
- (h) the Market Participant's historical level of Reconciliation settlement payments under clause 9.11.1, or an estimate of the Market Participant's future level of Reconciliation settlement payments where no historical Reconciliation settlement payment data is available;
- (i) the Market Participant's historical level of Market Participant Fee settlement payments under clause 9.13.1, or an estimate of the Market Participant's future level of Market Participant Fee settlement payments based on its expected generation or consumption quantities where no historical Market Participant Fee settlement payment data is available;
- (j) the length of the settlement cycle; and
- (k) any other factor that the IMO considers relevant.

~~2.37.5. A Market Participant must notify the IMO as soon as practicable where it considers that:~~

- ~~(a) its metered consumption quantities in a Trading Month will significantly exceed the amount assumed in the last calculation of its Credit Limit; or~~
- ~~(b) its quantity of electricity purchased bilaterally in a Trading Month will be significantly lower than assumed in the last calculation of its Credit Limit.~~

- 2.37.6. In determining a Market Participant's Credit Limit under clause 2.37.4, the IMO may, to the extent it considers relevant, take into account a minimum amount that the IMO considers would adequately protect the Wholesale Electricity Market if a Suspension Event were to occur in relation to that Market Participant.
- 2.37.7. The IMO must notify each Market Participant of its Credit Limit, including any revised Credit Limit under clause 2.37.2. The IMO must provide details of the basis for the determination of the Credit Limit (with references to the factors specified in clause 2.37.5 and the Market Procedure referred to in clause 2.43.1).
- ~~2.37.58. A Market Participant must notify the IMO as soon as practicable wWhere it considers that any of the circumstances specified in the relevant Market Procedure for the purposes of this clause (which are circumstances that may result in an increase or decrease in a Market Participant's Credit Limit) have occurred or may occur:~~
- ~~(a) the Market Participant must notify the IMO as soon as practicable if the circumstance may result in an increase in the Market Participant's Credit Limit; and~~
  - ~~(b) the Market Participant may notify the IMO if the circumstance may result in a decrease in the Market Participant's Credit Limit.~~
- ~~(a) its metered consumption quantities in a Trading Month will significantly exceed the amount assumed in the last calculation of its Credit Limit; or~~
- ~~(b) its quantity of electricity purchased bilaterally in a Trading Month will be significantly lower than assumed in the last calculation of its Credit Limit.~~

~~2.37.6. [Blank]~~

~~2.37.7. [Blank]~~

~~2.37.8. The IMO must notify each Market Participant of their Credit Limit, and provide details of the basis for the determination of the Credit Limit.~~

~~2.37.9. The IMO must develop guidelines in the Market Procedure referred to in clause 2.43 for determining the expected value of a transaction. The guidelines must be consistent with the methodology that the IMO uses to determine Credit Limits for Market Participants.~~

## **2.38. Credit Support**

- ~~2.38.1. Where at any time a Market Participant does not meet the Acceptable Credit Criteria set out in clause 2.38.6, then the A Market Participant, must ensure that, at all times, the IMO holds the benefit of Credit Support that is:~~
- ~~(a) in the form specified in clause 2.38.4; and~~

(b) ~~in an amount not less than its~~the most recently determined Credit Limit for that Market Participant.

2.38.2. Where a Market Participant's existing Credit Support is due to expire or cease to have effect for any other reason~~terminate~~, then that Market Participant must, ~~at least 10 Business Days before the time when the existing Credit Support will expire or terminate~~, ensure that the IMO holds the benefit of a replacement Credit Support that is:

(a) in the form specified in clause 2.38.4;

(b) ~~in an amount not less than the level required under clause 2.38.1(b); and~~

(c) ~~that will become effective when at the expiry of the existing Credit Support expires or otherwise ceases to have effect.~~

2.38.3. Where a Market Participant's Credit ~~Support~~Limit is affected by any of the circumstances specified in the Market Procedure referred to in clause 2.43.1 for the purposes of this clause~~increased~~, or where the existing Credit Support is no longer current or valid (for example, because the credit support provider ceases to meet the Acceptable Credit Criteria) or where some or all of the Credit Support has been drawn on by the IMO in accordance with these Market Rules, then that Market Participant must ensure that the IMO holds the benefit of a replacement Credit Support that is:

(a) in the form specified in clause 2.38.4;

(b) ~~in an amount not less than the level required under clause 2.38.1(b); and~~

(c) effective ~~within one~~ before the end of the next Business Day or within any longer period approved in writing by the IMO, after the Market Participant first becomes aware of the relevant change in circumstance (whether by reason of the Market Participant's own knowledge or a notification by the IMO).

2.38.4. The Credit Support for a Market Participant must be:

(a) an obligation in writing that:

- i. is from a ~~eCredit sSupport~~ provider, who must be an entity which meets the Acceptable Credit Criteria and which itself is not a Market Participant;
- ii. is a guarantee or bank undertaking in a form prescribed by the IMO;
- iii. is duly executed by the ~~eCredit sSupport~~ provider and delivered unconditionally to the IMO;
- iv. constitutes valid and binding unsubordinated obligations to the ~~eCredit sSupport~~ provider to pay to the IMO amounts in accordance with its terms which relate to ~~obligations of the relevant Market Participant's obligations~~ under the Market Rules; and
- v. permits drawings or claims by the IMO up to a stated amount; or

- (b) a cash deposit (“**Security Deposit**”) made with the IMO by or on behalf of the Market Participant.

2.38.7. The IMO must maintain on the Market Web Site a list of entities which:

- (a) ~~have provided~~ the IMO is satisfied, based on evidence provided by Market Participants in the previous ~~12~~twelve months, ~~with evidence satisfactory to the IMO that they~~ meet the Acceptable Credit Criteria outlined in clause 2.38.6; or
- (b) the IMO has determined in its absolute discretion meet the Acceptable Credit Criteria outlined in clause 2.38.6.

## 2.40. Outstanding Amount

2.40.1. The Outstanding Amount for a Market Participant at any time equals the total amount calculated as follows:

(a) ~~— [Blank]~~

(b) ~~— the total amount calculated as follows:~~

- (a)~~i~~- the aggregate of the amounts payable by the Market Participant to the IMO under these Market Rules, including amounts for all past periods for which no Settlement Statement has yet been issued, and whether or not the payment date has yet been reached; less
- (b)~~ii~~- the aggregate of the amounts payable by the IMO to the Market Participant under these Market Rules, including amounts for all past periods for which no Settlement Statement has yet been issued, and whether or not the payment date has yet been reached; less
- (c) the aggregate of any amounts paid by the Market Participant to the IMO for the purpose (to be specified by the Market Participant in accordance with the Market Procedure referred to in clause 2.43.1) of reducing the Outstanding Amount and increasing the Trading Margin on each day during the period from the Trading Day on which the Outstanding Amount is calculated up to and including either the next STEM Settlement Date or the next Non-STEM Settlement Date whichever settlement date occurs first.

## 2.41. Trading Margin

2.41.2. A Market Participant must not make any submission to the IMO where the transaction contemplated by the submission, if valued according to the list of factors referred to in clause 2.41.5, could result in ~~the Trading Margin of the Market Participant's Trading Margin~~ being exceeded, ~~were the transaction to be valued according to the expected value guidelines referred to in clause 2.37.9.~~

2.41.3. The IMO may reject any submission from a Market Participant where in the IMO's opinion the transaction contemplated by the submission, if valued according to the list of



~~factors referred to in clause 2.41.5, could result in the Trading Margin of the Market Participant's Trading Margin being exceeded, were the transaction to be valued according to the expected value guidelines referred to in clause 2.37.9.~~

2.41.5. The IMO must publish in the Market Procedure referred to in clause 2.43.1, a list of factors to be taken into account for determining the expected value of a transaction. The factors must be consistent with the methodology that the IMO uses to determine Credit Limits for Market Participants.

## **2.42. Margin Call**

2.42.1. If, at any time, a Market Participant's Trading Margin ~~is less than~~ drops to zero or below, then the IMO may issue a Margin Call Notice to the Market Participant, specifying the amount of the Margin Call.

2.42.2. ~~[Blank]The Typical Accrual for a Market Participant at any time is the amount that the IMO determines would have been the Outstanding Amount of the Market Participant at that time if the prices and quantities applying to amounts payable by the Market Participant were equal to the average prices and quantities as applied in the most recent determination of the Market Participant's Credit Limit.~~

2.42.3. The amount of the Margin Call must be the amount that will increase the Market Participant's Trading Margin to zero, ~~equal to the Market Participant's Outstanding Amount less the Market Participant's Typical Accrual.~~

2.42.4. ~~Where a Margin Call Notice is issued, the~~ A Market Participant must within one Business Day from the ~~respond to a Margin Call Notice being issued~~ respond to the Margin Call within the time specified in the Market Procedure referred to in clause 2.43.1 for the purposes of this clause, by either:

(a) paying to the IMO in cleared funds a Security Deposit as contemplated under clause 2.38.4(b); or

(b) ensuring the IMO has the benefit of additional Credit Support of the kind contemplated by clause 2.38.4(a),

in the amount of the Margin Call.

2.42.7. ~~Where~~ The IMO issues a Margin Call Notice, it must review a ~~the Market Participant's Credit Limit within 30 Business Days after issuing a Margin Call Notice to that Market Participant, of the relevant Market Participant and increase the Credit Limit in line with the amount of the Margin Call.~~

## **2.43. Prudential Market Procedure**

2.43.1. The IMO must develop a Market Procedure dealing with:

...

- (e) ~~guidelines~~the list of factors to be taken into account for assessing the expected value of transactions;
- (f) issuing of Margin Calls; and
- (g) other matters relating to clauses 2.37 to 2.42,

...

#### **4.13. Reserve Capacity Security**

4.13.1. Where the IMO assigns Certified Reserve Capacity to a Facility that is yet to enter service (or re-enter service after significant maintenance or having been upgraded), the relevant Market Participant must ensure that the IMO holds the benefit of a Reserve Capacity Security that is:

- (a) in the form specified in clause 4.13.5; and
- (b) ~~in~~ an amount determined under clause 4.13.2(a) by the date and time specified in clause 4.1.13.

4.13.2C Where under clause 4.13.2B the IMO notifies a Market Participant that excess Reserve Capacity Security is currently held, then a Market Participant may replace the existing Reserve Capacity Security with a replacement Reserve Capacity Security. ~~The replacement Reserve Capacity Security~~ which must:

- (a) be in the form specified in clause 4.13.5;
- (b) ~~be in~~ an amount not less than the amount required under clause 4.13.2(b); and
- (b) ~~c~~ become effective before the IMO returns any excess Reserve Capacity Security.

4.13.3. Where a Market Participant's existing Reserve Capacity Security is due to ~~terminate~~ expire or cease to have effect for any other reason and after that ~~termination~~ expiration the Market Participant will continue to have an obligation to ensure the IMO holds the benefit of a Reserve Capacity Security under clause 4.13.1, then that Market Participant must ensure that the IMO holds the benefit of a replacement Reserve Capacity Security that is. The replacement Reserve Capacity Security must:

- (a) in the form specified in clause 4.13.5;
- (b) ~~be~~ an amount not less than the amount required under clause 4.13.2; and
- (b) ~~c~~ become effective when ~~before the termination of~~ the existing Reserve Capacity Security expires or otherwise ceases to have effect.

4.13.4. Where a Market Participant's Reserve Capacity Security is affected by any of the circumstances specified in the Market Procedure referred to in clause 4.13.8 for the purposes of this clause ~~no longer current or valid (for example, because the Reserve Capacity Security provider ceases to meet the Acceptable Credit Criteria)~~, then that

Market Participant must ensure that the IMO holds the benefit of a replacement Reserve Capacity Security that is:

(a) in the form specified in clause 4.13.5;

(b) in an amount not less than the level required under clause 4.13.2; and

(c) effective ~~within one~~ before the end of the next Business Day or within any longer period approved in writing by the IMO after the Market Participant first becomes aware of the relevant change in circumstance (whether by reason of the Market Participant's own knowledge or a notification by the IMO).

4.13.5. The Reserve Capacity Security for a Market Participant must be:

(a) an obligation in writing that:

- i. is from a Reserve Capacity Security provider, who must be an entity which meets the Acceptable Credit Criteria and which itself is not a Market Participant;
- ii. is a guarantee or bank undertaking in a form prescribed by the IMO;
- iii. is duly executed by the Reserve Capacity Security provider and delivered unconditionally to the IMO;
- iv. constitutes valid and binding unsubordinated obligations to the Reserve Capacity Security provider to pay to the IMO amounts in accordance with its terms which relate to ~~the obligations of the~~ relevant Market Participant's obligations under the Market Rules to pay compensation under clause 4.13.11; and
- v. permits drawings or claims by the IMO up to a stated amount; or

(b) if the IMO in its discretion considers it an acceptable alternative in the circumstances to the obligation under clause 4.13.5(a), a cash deposit ("**Security Deposit**") made with the IMO (on terms acceptable to the IMO in its discretion) by or on behalf of the Market Participant.

## 11 Glossary

**Margin Call Notice:** A notification by the IMO to a Market Participant that the Market Participant's Trading Margin ~~has dropped below~~ is less than zero, and requiring the payment of a Margin Call.

...

**Reserve Capacity Security:** The reserve capacity security to be provided for a Facility that:

(a) has the meaning given in clause 4.13.5; and

(b) is as calculated and re-calculated under clause 4.13 and clause 4.28C.

...

~~**Typical Accrual:** The amount determined in accordance with clause 2.42.2.~~

## Appendix 1. Further Amendments to the Proposed Amending Rules

The IMO has made some amendments to the Amending Rules presented in the Draft Rule Change Report following the second submission period. These changes are as follows (~~deleted text~~, added text):

- 2.38.3. Where a Market Participant's Credit Support is affected by any of the circumstances specified in the Market Procedure referred to in clause 2.43.1 for the purposes of this clause, then that Market Participant must ensure that the IMO holds the benefit of replacement Credit Support that is:
- (a) ~~is~~ in the form specified in clause 2.38.4;
  - (b) ~~is in~~ an amount not less than the level required under clause 2.38.1(b); and
  - (c) ~~becomes effective within 24 hours~~ before the end of the next Business Day or within any longer period approved in writing by the IMO, after the Market Participant first becomes aware of the relevant change in circumstance (whether by reason of the Market Participant's own knowledge or a notification by the IMO).
- 2.42.4. A Market Participant must respond ~~within 24 hours after receiving to~~ a Margin Call Notice within the time specified in the Market Procedure referred to in clause 2.43.1 for the purposes of this clause, by either:
- ...
- 4.13.4. Where a Market Participant's Reserve Capacity Security is affected by any of the circumstances specified in the Market Procedure referred to in clause 4.13.8 for the purposes of this clause, then that Market Participant must ensure that the IMO holds the benefit of ~~a~~ replacement Reserve Capacity Security that is:
- (a) ~~is~~ in the form specified in clause 4.13.5;
  - (b) ~~is in~~ an amount not less than the level required under clause 4.13.2; and
  - (c) ~~becomes effective within 24 hours~~ before the end of the next Business Day or within any longer period approved in writing by the IMO, after the Market Participant first becomes aware of the relevant change in circumstance (whether by reason of the Market Participant's own knowledge or a notification by the IMO).