

Rule Change Notice

Prudential Requirements (RC_2012_23)

This notice is given under clause 2.5.7 of the Market Rules.

Submitter: Allan Dawson, IMO

Date Submitted: 14 August 2013

The Proposal

The IMO manages the prudential requirements of Market Participants as set out in Chapter 2 of the Market Rules and the related *Market Procedure: Prudential Requirements*.

Prudential security for each Market Participant is held by the IMO to reduce the credit risk and consequential financial impact of default by a Market Participant on the Wholesale Electricity Market (WEM). The prudential process is principally designed to ensure that, if a Market Participant defaults by failing to settle its Short Term Electricity Market (STEM) or Non-STEM invoice amounts on a due date, the IMO will hold sufficient prudential security from that Market Participant so as to cover that Market Participant's exposure without short paying the market.

In accordance with the Market Rules, the IMO must determine each Market Participant's Credit Limit and Trading Margin. The IMO must also monitor these values to ensure that a Market Participant's exposure risk is not greater than the Credit Support provided. If at any time, the Market Participant's market exposure becomes greater than its Trading Limit as determined by the Credit Support provided by the Market Participant, the IMO may make a Margin Call or increase a Market Participant's Credit Limit, and therefore the required level of Credit Support to reduce the credit risk to the market.

The IMO has identified a number of areas in the Market Rules where clarification is required to ensure that there is no ambiguity around the prudential obligations of either Market Participants or the IMO. These areas include:

- (a) Credit Limit determination: The IMO seeks to amend relevant clauses to contain the principles that form the basis of determining a Market Participant's Credit Limit and move the prescriptive detail to the Market Procedure. The IMO also proposes to clarify the clauses to better align with current practice.
- (b) Determining the expected value of transactions: The IMO proposes to amend clause 2.37.9 to specify that instead of a guideline, a list of factors is provided in the Market Procedure to

assess the expected value of transactions.

- (c) Inclusion of voluntary prepayments in the calculation of Outstanding Amount: The IMO seeks to amend clause 2.40.1 to account for prepayments that a Market Participant may make to increase its Trading Margin to be able to securely transact in the market. Cleared funds submitted as prepayments would be reflected in the forthcoming Invoice for that Market Participant.
- (d) Typical Accrual and the amount of the Margin Call: The IMO proposes to remove the concept of Typical Accrual and link the determination of the Margin Call amount to the Trading Margin at the time the Margin Call is made.
- (e) Credit Support arrangements: The IMO seeks to amend the clauses related to the provision of Credit Support to improve the integrity of the drafting and provide additional clarity to Market Participants around their obligations. These issues will also be addressed for clauses related to the provision of Reserve Capacity Security under clause 4.13 and the Market Procedure: Reserve Capacity Security.

Appendix 1 contains the Rule Change Proposal and gives complete information about:

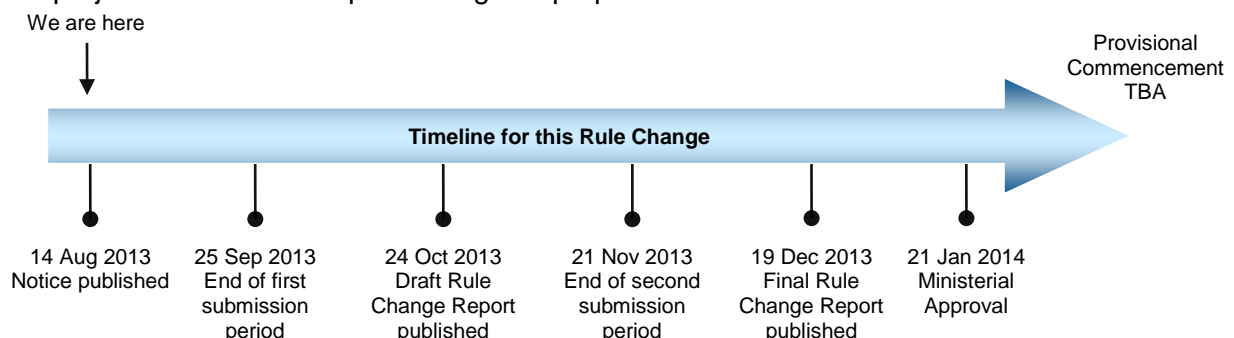
- the proposed amendments to the Market Rules;
- relevant references to clauses of the Market Rules and any proposed specific amendments to those clauses; and
- the submitter's description of how the proposed amendments would allow the Market Rules to better address the Wholesale Market Objectives.

Decision to Progress the Rule Change

The IMO has decided to progress the Rule Change Proposal on the basis that Rule Participants should be given an opportunity to provide submissions as part of the rule change process.

Timeline

The projected timelines for processing this proposal are:



Call for Submissions

The IMO invites interested stakeholders to make submissions on this Rule Change Proposal. The submission period is 30 Business Days from the Rule Change Notice publication date. Submissions

must be delivered to the IMO by **5.00pm** on **Wednesday, 25 September 2013**.

The IMO prefers to receive submissions by email (using the submission form available on the Market Web Site: <http://www.imowa.com.au/rule-changes>) to: market.development@imowa.com.au

Submissions may also be sent to the IMO by fax or post, addressed to:

Independent Market Operator

Attn: Group Manager, Development & Capacity

PO Box 7096

Cloisters Square, PERTH, WA 6850

Fax: (08) 9254 4399

Wholesale Electricity Market Rule Change Proposal Form

Change Proposal No: *RC_2012_23*
Received date: *14 Aug 2013*

Change requested by:

Name:	Allan Dawson
Phone:	9254 4333
Fax:	9254 4399
Email:	allan.dawson@imowa.com.au
Organisation:	IMO
Address:	Level 17, Governor Stirling Tower, 197 St. Georges Terrace, Perth
Date submitted:	<i>TBA</i>
Urgency:	<i>2-medium</i>
Change Proposal title:	Prudential Requirements
Market Rule(s) affected:	Numerous

Introduction

Market Rule 2.5.1 of the Wholesale Electricity Market Rules provides that any person (including the IMO) may make a Rule Change Proposal by completing a Rule Change Proposal form that must be submitted to the Independent Market Operator.

This Change Proposal can be posted, faxed or emailed to:

Independent Market Operator
Attn: Group Manager, Development & Capacity
PO Box 7096
Cloisters Square, Perth, WA 6850
Fax: (08) 9254 4339
Email: market.development@imowa.com.au

The Independent Market Operator will assess the proposal and, within 5 Business Days of receiving this Rule Change Proposal form, will notify you whether the Rule Change Proposal will be further progressed.

In order for the proposal to be progressed, all fields below must be completed and the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the wholesale electricity market objectives. The objectives of the market are:

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
- (c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions;
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

Details of the proposed Market Rule Change

1. Describe the concern with the existing Market Rules that is to be addressed by the proposed Market Rule change:

Background

The IMO manages the prudential requirements of Market Participants as set out in Chapter 2 of the Market Rules and the related *Market Procedure: Prudential Requirements*. The prudential requirements included in the Market Rules include concepts such as:

- **Credit Limit** – The maximum amount expected to be owed by a Market Participant to the IMO as determined in accordance with clause 2.37.4.
- **Credit Support** – The benefit of an obligation in writing or a cash deposit (as required under clause 2.38.4) in an amount not less than the Credit Limit, which is held by the IMO on behalf of the Market Participant, and which may be drawn on in the event of that Market Participant failing to settle an Invoice or other specified circumstances as specified in clause 9.23.1.
- **Trading Limit** – The ceiling amount determined as 0.87 of the Market Participant's total Credit Support below which the Market Participant is able to trade freely in the market (clause 2.39.1).
- **Outstanding Amount** – The aggregate of the amounts payable by the Market Participant to the IMO, less the aggregate amounts payable by the IMO to the Market Participant (clause 2.40.1).

- **Trading Margin** – The amount by which a Market Participant’s Trading Limit exceeds its Outstanding Amount (clause 2.41.1) which triggers a Margin Call.
- **Margin Call** – The requirement for a Market Participant to provide a Security Deposit or additional Credit Support to cover possible losses in accordance with clause 2.42.4.

Prudential security for each Market Participant is held by the IMO to reduce the credit risk and consequential financial impact of default by a Market Participant on the Wholesale Electricity Market (WEM). The prudential process is principally designed to ensure that, if a Market Participant defaults by failing to settle its Short Term Electricity Market (STEM) or Non-STEM invoice amounts on a due date, the IMO will hold sufficient prudential security from that Market Participant so as to cover that Market Participant’s exposure without short paying the market.

In accordance with the Market Rules, the IMO must determine each Market Participant’s Credit Limit and Trading Margin. The IMO must also monitor these values to ensure that a Market Participant’s exposure risk is not greater than the Credit Support provided. If at any time, the Market Participant’s market exposure becomes greater than its Trading Limit as determined by the Credit Support provided by the Market Participant, the IMO may make a Margin Call or increase a Market Participant’s Credit Limit, and therefore the required level of Credit Support to reduce the credit risk to the market.

Issues Description and Proposed Amendments

The IMO has identified a number of areas in the Market Rules where clarification is required to ensure that there is no ambiguity around the prudential obligations of either Market Participants or the IMO.

In addition, the IMO has taken the opportunity to improve the integrity of the Market Rules to ensure that they are principles-based, in line with good regulatory practice. This has resulted in the prescriptive detail being moved to the *Market Procedure: Prudential Requirements*¹.

The rationales for the proposed amendments are discussed in the sections below.

A. Credit Limit determination

The IMO considers that there are three aspects of the Credit Limit determination that should be clarified:

- (a) Clauses 2.37.1, 2.37.2 and 2.37.3 require the IMO to determine, review and revise a Credit Limit for each Market Participant. The IMO proposes that these clauses are amended to strengthen the linkages between the obligations and the processes to be undertaken. It should be noted that these clauses are Reviewable Decisions under the Electricity Industry (Wholesale Electricity Market) Regulations 2004 (Regulations).
- (b) Clause 2.37.4 currently states that the Credit Limit is a predicted amount, not expected to be exceeded more than once in a 48 month period.

¹ Amendments to the Market Procedure are discussed in the draft Procedure Change Proposal, which has been developed in parallel to this pre Rule Change Proposal and attached for further information.

In practice, the IMO uses historical data to predict future behaviour for Credit Limit determinations. The IMO uses up to 48 months of historical Settlement data, or a reasonable estimate if data is unavailable, as an estimation of a Market Participant's future exposure in the market by calculating the anticipated maximum exposure over 70 days. This represents the highest 15-day STEM exposure and the highest 70-day Non-STEM exposure, and therefore represents the theoretical maximum amount that the Market Participant has already reached. The IMO then uses its discretion to consider other factors such as previous defaults in payments or other Suspension Events to increase the Credit Limit determination appropriately.

Using the anticipated maximum exposure to benchmark a Market Participant's Credit Limit as an amount that will not be exceeded over a 70-day period has proved to be a robust, predictable and repeatable tool for both Market Participants and the IMO. Therefore, the IMO proposes amendments to the expectation of owed amounts in this clause to clarify that the Credit Limit is the amount owed over any 70-day period and increase transparency of the IMO's calculation of a Market Participant's Credit Limit.

(c) Currently, the IMO determines the Credit Limit for a Market Participant by taking into account various factors specified in clause 2.37.4(a) to (j). A number of these factors have been less practical in application than the use of actual data or objective and reasonable estimations, including:

- Clauses 2.37.4(a), (c) and (h), which require complex statistical calculations which are resource intensive and unlikely to result in a corresponding improvement in the determined amount.
- Clause 2.37.4(d), which requires the IMO to take into account the processes set out in clauses 2.32 (Rule Participant Suspension and Deregistration), 9.23 (Default) and 9.24 (Settlement in Default situations) implying that the IMO is required to adjust Credit Limits to include financial cover to allow for the period from Market Participant default to deregistration. However in practice, such an adjustment would result in a significant increase to prudential security.
- Clause 2.37.4(j), which requires the IMO to take into account any past breaches of the Market Rules. However, it is not clear how the IMO would translate a Market Participant's prior breaches into a financial value to be used to adjust a Credit Limit.

The proposed Amending Rules for clause 2.37.4 (read together with the draft revised Market Procedure) will increase transparency of the IMO's calculation of Market Participants' Credit Limits by reflecting the current practice² in the Market Rules.

In addition, the IMO proposes to move the more prescriptive detail currently included in the Market Rules to the Market Procedure and renumber the clauses to improve accessibility and the integrity of the Market Rules. The IMO also proposes to amend clause 2.37.8 (proposed to be renumbered to 2.37.7) to strengthen its linkage to the Market Procedure.

² The IMO's current calculation of a Market Participant's Credit Limit considers all relevant factors that can be quantified using actual data or reasonable estimations.

Proposed Amendments

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 payments based on its Bilateral Contract sale and purchase quantities as reflected in historical bilateral contract submissions, or an estimate of the Market Participant's future level of payments based on its expected 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).

2.37.8. 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. [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.~~

B. **Notification of any change in circumstances affecting a Market Participant's Credit Limit**

Clause 2.37.5 of the Market Rules (proposed to be renumbered as clause 2.37.8) requires a Market Participant to notify the IMO of any changes in its circumstances that would affect its Credit Limit. Currently, the Market Rules only contemplate situations that affect a Market Customer's risk in the WEM (sub-clauses 2.37.5 (a) and (b)). They do not consider situations where Market Generators may also need to vary their bilateral position in the market. Furthermore, clause 2.37.5 only considers circumstances in which a Market Participant's Credit Limit would be increased, such as increases in metered consumption quantities and bilateral purchases. However, it ignores circumstances that may justify a decrease in a Market Participant's Credit Limit.

The IMO has received requests from Market Participants to amend the Market Rules to allow for both increases and decreases of a Market Participant's Credit Limit. The IMO considers that the intent of this clause was to limit the risk of exposure to the financial impact of a Market Participant defaulting. The reverse was not included, in the understanding that, where circumstances had changed with the potential to result in a decrease in a Market Participant's Credit Limit, the Market Participant would have an incentive to inform the IMO.

The IMO proposes that clause 2.37.5 should be clarified to ensure that Market Participants are aware that the IMO should be notified of information that may result in either an increase or decrease of its Credit Limit. The detail considering different circumstances that warrant a Market Participant's notification to the IMO are proposed to be moved to the Market Procedure.

It should be noted that clause 2.37.5 has an associated civil penalty under the Regulations.

Proposed Amendment

~~2.37.58.~~ A Market Participant must notify the IMO as soon as practicable where ~~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) 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.~~

C. **Guidelines for determining the expected value of a transaction**

Clause 2.37.9 requires the IMO to provide guidelines, consistent with the methodology for determining Credit Limits, for determining the expected value of a transaction in the Market Procedure. These guidelines were intended to be used by the IMO and Market Participants to assess whether a Market Participant's Trading Margin will be exceeded following a submission. Under clause 2.41.2, a Market Participant must use the guidelines to determine if a submission can be made. Under clause 2.41.3 the IMO has the right to reject a submission where, using the guidelines, the submission could result in the Market Participant's Trading Margin being exceeded.

The Market Procedure does not currently include any guidelines to calculate the expected value of a transaction.

Assessment of an appropriate guideline to calculate the expected value of a transaction has led the IMO to conclude that a definitive and prescriptive guideline is not practicable given the way in which submissions are made and liabilities arise in the WEM. This consideration, together with the requirement for the guideline to be consistent with the methodology for determining Credit Limits, has led the IMO to propose amendments to clause 2.37.9 to include a set of factors to be taken into account when determining the expected value of a transaction, rather than guidelines. These factors should then be included in the Market Procedure.

The IMO also proposes that clause 2.37.9 is more appropriately positioned with clauses 2.41.2 and 2.41.3, which are directly related to the use of the expected value of a transaction calculation (proposed to be renumbered as clause 2.41.5).

These proposed amendments should also be reflected in clause 2.43.1 which provides the head of power for the *Market Procedure: Prudential Requirements*.

Proposed Amendments

~~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.~~

2.41.2. 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.

2.43.1. 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,

...

D. **Accounting for voluntary prepayments in the calculation of the Outstanding Amount**

The IMO calculates a Market Participant's Outstanding Amount at any point in time to assess its current liability and therefore, the level of financial risk to the market.

In accordance with clause 2.40.1, the IMO calculates the Outstanding Amount as the net aggregate of all amounts payable, including unpaid invoices and amounts for which a Settlement Statement has not yet been issued.

Under clause 2.41.1, the IMO calculates a Market Participant's Trading Margin as the amount by which its Trading Limit exceeds its Outstanding Amount at that time. The Market Participant must maintain a sufficiently high Trading Margin in order to participate in the WEM. This ensures that the IMO holds sufficient Credit Support to cover a Market Participant's liabilities. In order to increase its Trading Margin, a Market Participant may make a voluntary prepayment to reduce its Outstanding Amount. The value of this prepayment is reflected in the Outstanding Amount by way of a reduction in the forthcoming Invoice.

The current process followed for receiving voluntary prepayments is not well defined and therefore, has the potential to expose the WEM to any financial risk arising out of Suspension Events such as a payment default or insolvency of a Market Participant. Assessment of the current process has indicated that, to remove this risk, the IMO is required to ensure that any amount held as a prepayment must be applied for the specific purpose of reducing the Market Participant's Outstanding Amount.

Therefore, the IMO proposes to expand clause 2.40.1 to include voluntarily prepaid amounts in the calculation of Outstanding Amount. In addition, the process for handling these monies has been detailed in the draft revised Market Procedure. The proposed amendments will reduce the financial risk associated with Suspension Events and provide assurance to Market Participants on the application of any prepayments.

Proposed Amendments

- 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:~~
 - 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.

E. Typical Accrual and the amount of Margin Call

A Margin Call represents a requirement for a Market Participant to provide a Security Deposit or additional Credit Support to cover possible losses in the event that a Market Participant's Trading Margin falls below zero. The IMO must determine the amount of the Margin Call as the Outstanding Amount less the Typical Accrual under clause 2.42.3.

The Typical Accrual is defined in clause 2.42.2 as the amount that the IMO determines would have been the Outstanding Amount at that time, resulting from the application of average prices and quantities, as applied to the most recent determination of the Market Participant's Credit Limit. In other words, to determine the Typical Accrual, the IMO must calculate what the Outstanding Amount for the Market Participant would have been, at the time of the determination, if it was calculated using average prices and quantities rather than as described in clause 2.40.1.

In practice, the IMO has found that the concept of the Typical Accrual is complex and may not produce a more reliable estimate compared to the Outstanding Amount determined under clause 2.40.1. In instances where a Market Participant's Trading Margin reaches zero, the IMO has sought to increase the Market Participant's Credit Limit, which requires additional Credit Support to be provided and therefore reduces the exposure to the market.

The IMO proposes to remove the concept of the Typical Accrual and amend clause 2.42.3 to indicate that the amount of the Margin Call is the amount that will raise the Trading Margin to zero. This is in line with the proposed amendments to the determination of a Market

Participant's Credit Limit. The result of the IMO's proposed amendments is that the amount of the Margin Call would be determined based on the Market Participant's most recent Trading Margin and the available Credit Support held by the IMO.

Clause 2.42.7 also stipulates that following a Margin Call, the IMO must review and increase the Credit Limit 'in line with the amount of the Margin Call'. In some circumstances, the Margin Call amount (as calculated above) may not constitute an adequate increase to protect the WEM from financial risk. The IMO therefore proposes to amend clause 2.42.7 to remove the specified amount of increase and provide for a Credit Limit review to be undertaken after a Margin Call is made. The Credit Limit review should be performed in accordance with the methodology specified in clause 2.37.4.

Finally, the IMO also notes that clause 2.42.4 obligates a Market Participant to take certain actions within *one Business Day* from the issuance of a Margin Call Notice. The IMO considers that this time period should be changed to 24 hours to ensure that the time lag and the associated financial risk to the market is minimised.

Proposed Amendments

- 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 respond within 24 hours after receiving a ~~one Business Day from the Margin Call Notice being issued~~ respond to the Margin Call 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.

11 Glossary

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

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.

F. Credit Support arrangements

Credit Support is required under clause 2.38.4 of the Market Rules to be held by the IMO on behalf of the Market Participant, to be drawn down in the event of that Market Participant failing to settle an Invoice or another circumstance specified in clause 9.23.4(b). Clauses 2.38.1, 2.38.2 and 2.38.3 outline a Market Participant's obligations related to providing Credit Support and clause 2.38.4 specifies the form of a Credit Support arrangement.

The IMO considers that each of these clauses should be amended to improve the integrity of the drafting and provide additional clarity to Market Participants around their obligations. The issues proposed to be addressed include:

- (a) Clause 2.38.1 currently specifies that where a Market Participant does not meet the Acceptable Credit Criteria, it must provide Credit Support in an amount not less than its Credit Limit. This clause has combined two separate obligations: first, that the Credit Support must always be an amount not less than the Credit Limit; and second, that some other form of Credit Support must be arranged when at any time Acceptable Credit Criteria are not met. It is proposed that this clause is amended to clarify that the obligation to provide Credit Support is necessary irrespective of whether the Acceptable Credit Criteria are met.
- (b) Clause 2.38.2 currently obligates a Market Participant to renew its Credit Support at least 10 Business Days before the existing Credit Support expires. While it is important to retain the obligation of renewing Credit Support before the expiry of existing Credit Support, the IMO proposes to move the more administrative and prescriptive processes and timelines to the Market Procedure.
- (c) Clause 2.38.3 currently specifies situations which necessitate the provision of replacement Credit Support. The IMO proposes that the prescriptive detail included in the clause should be moved to the Market Procedure. Further, the time limit for providing replacement Credit Support should be changed from one Business Day to 24 hours to ensure that the time lag and the associated financial risk to the market is minimised.

The IMO proposes to amend the drafting of each of these clauses to clearly specify a Market Participant's obligations and to move prescriptive detail to the Market Procedure.

The IMO also notes that clauses 2.38.1, 2.38.2 and 2.38.3 have associated civil penalties under the Regulations.

Proposed Amendments

- 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:~~
- ~~(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) 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 SupportLimit 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:~~
- ~~(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 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) one Business Day.~~
- 2.38.4. The Credit Support for a Market Participant must be:
- (a) an obligation in writing that:

- i. is from a €Credit €Support 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 €Credit €Support provider and delivered unconditionally to the IMO;
 - iv. constitutes valid and binding unsubordinated obligations to the €Credit €Support 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.

G. **List of entities meeting Acceptable Credit Criteria**

In accordance with clause 2.38.7, the IMO maintains a list of entities (Credit Support providers) meeting Acceptable Credit Criteria on the Market Web Site. The IMO determines that a Credit Support provider meets the Acceptable Credit Criteria based on documents provided by a Market Participant when submitting Credit Support to the IMO.

Clause 2.38.7(a) obligates entities to provide evidence of meeting the Acceptable Credit Criteria every 12 months. The IMO proposes to improve the drafting of this clause to clarify that the obligation of providing the IMO with evidence that the Credit Support provider continues to meet the Acceptable Credit Criteria should be placed appropriately on the Market Participant, rather than the provider. Additionally, the details around the process for a Market Participant to provide such evidence and the IMO's monitoring of the list of entities that meet the Acceptable Credit Criteria should be moved to the Market Procedure.

Proposed Amendments

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.

H. **Corresponding changes to relevant Market Rules for Reserve Capacity Security**

The Market Rules that relate to a Market Participant providing Reserve Capacity Security under clause 4.13 are similar to those that relate to Credit Support. Specifically:

- the Credit Support or Reserve Capacity Security must be provided either as a Security Deposit or as an obligation underwritten by entities meeting the Acceptable Credit Criteria;
- the replacement Credit Support or Reserve Capacity Security must be provided without any time lag; and
- the amount of the Credit Support or Reserve Capacity Security should be at least equal to the most recently determined Credit Limit or Reserve Capacity Security.

The IMO proposes to replicate the proposed amendments related to prudential obligations in the relevant clauses in section 4.13, as they apply to Reserve Capacity Security. The IMO also proposes to make appropriate amendments to the Market Procedure: Reserve Capacity Security³.

Further, the IMO notes that clauses 4.13.3 and 4.13.4 have associated civil penalties under the Regulations.

Proposed Amendments

- 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

³ The proposed amended Market Procedure: Reserve Capacity Security will be presented at a later date during the rule change process.

4.13.1, then that Market Participant must ensure that the IMO holds the benefit of a replacement Reserve Capacity Security ~~that. The replacement Reserve Capacity Security must:~~

- (a) is in the form specified in clause 4.13.5;
- (b) ~~be~~ is an amount not less than the amount required under clause 4.13.2; and
- (~~b~~c) becomes 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:

- (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 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) on Business Day.

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

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.
-

2. Explain the reason for the degree of urgency:

The IMO has determined that this Rule Change Proposal is of medium urgency and proposes it is progressed through the Standard Rule Change Process.

3. Provide any proposed specific changes to particular Rules: (for clarity, please use the current wording of the Rules and place a ~~strickthrough~~ where words are deleted and underline words added)

The IMO has reproduced the Prudential Requirements section of the Market Rules in Appendix 1 to facilitate a holistic view and better understanding of the proposed amendments.

4. Describe how the proposed Market Rule change would allow the Market Rules to better address the Wholesale Market Objectives:

The Rule Change Proposal would allow the Market Rules to impact the Wholesale Market Objectives, as described below.

Impact	Market Objectives
Allow the Market Rules to better address the objective	a
Consistent with objective	b, c, d, e
Inconsistent with objective	

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

(b) to encourage competition among generators and retailers in the South West

interconnected system, including by facilitating efficient entry of new competitors;

- (c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions;
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

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:

- increase transparency in the WEM and reduce barriers to entry by providing more information on a Market Participant's Credit Limit determination, thereby promoting economic efficiency;
- provide clarity on 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 WEM; and
- allow better timelines and handling processes around Credit Support arrangements which will reduce overall risk created in the WEM due to Suspension Events, thereby promoting overall prudential security.

The IMO considers that the proposal is consistent with the remaining Wholesale Market Objectives.

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. It will also improve the linkages between the Market Rules and the Market Procedure.

5. Provide any identifiable costs and benefits of the change:

Costs

The move to dynamic monitoring of prudential liabilities will require some changes within the Settlement system and its integration with the Wholesale Electricity Market System (WEMS). A formal costing for these IT changes has not yet been obtained by the IMO. However, it is expected that any costs will be outweighed by the benefits to the market.

It is not anticipated this change will result in any additional IT expenses to Market Participants.

Benefits

The proposed amendments allow for more transparency with respect to Credit Limit determinations, improved monitoring of prudential liabilities and better processes around handling Credit Support. This will reduce the potential financial risk to the WEM and may lead to lower Credit Support requirements for some Market Participants. The proposed changes will also allow a more responsive and robust Margin Call process.

Appendix 1: Proposed Amending Rules: Prudential Requirements

Prudential Requirements

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 payments based on its Bilateral Contract sale and purchase quantities as reflected in historical bilateral contract submissions, or an estimate of the Market Participant's future level of payments based on its expected 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).

~~2.37.8. 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. [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:~~

- ~~(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) that will becomes 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:~~

~~(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 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) one Business Day.~~

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

(a) an obligation in writing that:

- i. is from a ~~€~~Credit ~~s~~Support 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 ~~€~~Credit ~~s~~Support provider and delivered unconditionally to the IMO;
- iv. constitutes valid and binding unsubordinated obligations to the ~~€~~Credit ~~s~~Support 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.

2.38.5. Where Credit Support is provided as a Security Deposit in accordance with clause 2.38.4(b), it will accrue interest daily at the Bank Bill Rate, and the IMO must pay the Market Participant the interest accumulated at the end of each calendar month less any liabilities and expenses incurred by the IMO, including bank fees and charges.

2.38.6. An entity meets the Acceptable Credit Criteria if it is:

(a) either:

- i. under the prudential supervision of the Australian Prudential Regulation Authority; or

- ii. a central borrowing authority of an Australian State or Territory which has been established by an Act of Parliament of that State or Territory;
- (b) resident in, or has a permanent establishment in, Australia;
- (c) not an externally-administered body corporate (within the meaning of the Corporations Act), or under a similar form of administration under any laws applicable to it in any jurisdiction;
- (d) not immune from suit;
- (e) capable of being sued in its own name in a court of Australia; and
- (f) has an acceptable credit rating, being either:
 - i. a rating of A-1 or higher for short term unsecured counterparty obligations of the entity, as rated by Standard and Poor's (Australia) Pty. Limited; or
 - ii. a rating of P-1 or higher for short term unsecured counterparty obligations of the entity, as rated by Moodys Investor Services Pty. Limited.

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~~ is satisfied, based on evidence provided by Market Participants in the previous 12 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.

2.38.8 The IMO must monitor the entities included on the list described in clause 2.38.7 against the requirements in clause 2.38.6 (f).

2.38.9 The IMO may remove the name of an entity from the list described in clause 2.38.7 at any time if the IMO considers that the entity no longer meets the Acceptable Credit Criteria defined in clause 2.38.6.

2.39. Trading Limit

2.39.1. The Trading Limit for a Market Participant is to equal the prudential factor specified in clause 2.39.2 multiplied by the total amount which can be drawn or claimed under, or applied from, its Credit Support.

2.39.2. The prudential factor is 0.87.

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~~:
 - 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.
- 2.40.2. The amounts to be used for the purposes of making the calculation under clause 2.40.1(b)(i) and (ii) will be the actual amounts for which Settlement Statements have been issued by the IMO and the IMO's reasonable estimate of other amounts.

2.41. Trading Margin

- 2.41.1. The Trading Margin for a Market Participant at any time equals the amount by which its Trading Limit exceeds its Outstanding Amount at that time.
- 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.~~

- 2.41.4. The IMO may notify a Market Participant at any time of the level of their Trading Margin.
- 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 respond within 24 hours after receiving a one Business Day ~~from the Margin Call Notice being issued~~ respond to the Margin Call 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.
- 2.42.5. The IMO may cancel a Margin Call Notice at any time. The cancellation of a Margin Call Notice does not affect the IMO's rights to issue a further Margin Call Notice on the same grounds that gave rise to the original Margin Call Notice.
- 2.42.6. Where a Market Participant fails to comply with clause 2.42.4 the provisions of clause 9.23 apply.
- 2.42.7. ~~Where t~~ 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,

...

11 Glossary

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

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.