
Wholesale Electricity Market Rule Change Proposal Submission Form

RC_2010_36 Acceptable Credit Criteria

Submitted by

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Submission

- 1. Please provide your views on the proposal, including any objections or suggested revisions.**

Background

Clause 2.38.1 of the current Market Rules states that if a market participant does not meet the Acceptable Credit Criteria as stipulated under clause 2.38.6 of the Market Rules, then the market participant must ensure that it provides the IMO with Credit support.

To confirm that a Credit Support Provider meets the Acceptable Credit Criteria under clause 2.38.6 of the Market Rules, a Market Participant must complete the Acceptable Credit Criteria Form. This form is required to be signed by a solicitor/partner of a reputable law firm, confirming that the credit provider meets the acceptable criteria

RC_2010_12 is currently being considered by the IMO. This rule change seeks to impose civil penalties on those market generators that fail to provide Reserve Capacity Security as currently required by clauses 4.13.3 and 4.13.4 of the Market Rules. These proposed amendments will mirror those associated with the failure to provide Credit Support (clauses 2.38.2 and 2.38.3 of the Market Rules).

Issue

A credit provider that is currently approved by the IMO for one Market Participant is still subject to a repeat process if a different market participant were to utilise that provider for credit support.

Synergy has argued in its Rule Change proposal that having the Acceptable Credit Criteria signed off by a solicitor is increasingly difficult, as solicitors are reluctant to provide this verification.

Rule Change Proposal

Rule Change proposal RC_2010_36 would amend the Market Rules such that, for the purposes of clause 2.38.6, an entity is deemed to meet the Acceptable Credit Criteria if it is on the IMO's list of Acceptable Credit Providers. Under new Market Rules clause 2.38.7, the IMO would be required to maintain this List of Acceptable Credit Providers on the Market Website. Only entities which have provided to the IMO in the previous 12 months satisfactory evidence that they meet the Acceptable Credit Criteria outline in clause 2.38.6, will be retained on the List. Therefore, an Acceptable Credit Criteria Form would not be required where a market participant uses such an entity to provide the Credit Support.

Proposed clause 2.38.8 requires that the IMO monitor the entities included in the list described in 2.38.7 against the requirements in clause 2.38.6. Clause 2.38.9 allows the IMO to remove the name of an entity from the List at any time.

While submitted as a separate rule change, RC_2010_12 seeks to impose civil penalties on those market generators that fail to provide Reserve Capacity Security as currently required by clauses 4.13.3 and 4.13.4. These proposed amendments will mirror those associated with the failure to provide Credit Support (clauses 2.38.2 and 2.38.3 of the Market Rules).

This current rule change proposal potentially impacts the outcome of RC_2010_36 because Market Participants who find their credit support provider removed from the IMO's list of Acceptable Credit Providers would be subject to these civil penalties for both Reserve Capacity Security and Credit Support.

Currently the proposed rule change as drafted requires that Market Participants provide this alternative credit support within 1 business day or they are exposed to the expanded civil penalty provisions contained within RC_2010_12.

Alinta's views

Alinta is supportive of RC_2010_36 in requiring the IMO to maintain a list of acceptable credit providers. This amendment is likely to promote more efficient outcomes in the market and reduce the potential regulatory burden upon Market Participants.

Alinta does however have reservations about how the proposed rule change might impact upon Market Participants in the event of the IMO removing a credit provider from the Acceptable Credit Criteria List without prior notice. In particular, the 1 business day requirement to source an alternative credit support provider potentially imposes requirements on market participants that cannot be reasonably met in a number of circumstances.

If RC_2010_12 proceeds, then these civil penalties would apply to both the Reserve Capacity Security and the failure to provide Credit Support. Obtaining Reserve Capacity credit support is likely to prove more problematic than credit support provided under clause 2.38.1 due to the likely absence of cash flow from the project until the Reserve Capacity payments are made. This differs to obtaining credit support because a financial institution is able to assess a market participants cash flow levels from operating in the market

Alinta notes that obtaining credit support can take between 2 and 5 business days, if the market participant has a pre-existing relationship with that financial institution. If credit support is sought from an institution with which there is no prior financial relationship, then this approval could take potentially a number of weeks, to ensure that the necessary financial information can be exchanged and the appropriate due diligence can occur.

Alinta requests that the IMO consider introducing a mechanism within the proposed Rule Change that allow for the transition of credit support should an approved credit provider currently on the List of Acceptable Credit Providers be deemed to no longer meet the Credit Criteria. As noted by Synergy in its Rule Proposal, changes to a credit provider's financial position could occur quickly. Alinta believes there needs to be available to a market participant an avenue to seek an alternative credit support provider should a credit provider be removed from the list without prior warning. This mechanism would recognise the time frames that apply to accessing alternative credit providers. It would also exclude a market participant from civil penalty liabilities for a reasonable period that would allow a market participant to access credit support from another provider.

2. Please provide an assessment whether the change will better facilitate the achievement of the Market Objectives.

Market Rule 2.4.2 states 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. The Wholesale Market Objectives are as follows.

- (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.
- (e) To encourage the taking of measures to manage the amount of electricity used and when it is used.

Alinta notes that the efficiency principle of the Market Rule objectives is likely to be better achieved under the proposed rule change.

In particular, the following outcome of the amendments to the Market Rules contemplated by RC_2010_36 is likely to be consistent with the following Market Objectives.

- Market Objectives (a) and (b) because it provides for a more efficient operation of the WEM for both current and potential future market participants should the rule change proceed with a mechanism to source an alternative credit support provider in a reasonable time period.

3. Please indicate if the proposed change will have any implications for your organisation (for example changes to your IT or business systems) and any costs involved in implementing these changes.

The changes to the Market Rules contemplated by RC_2010_36 would not require Alinta to change its IT or business systems, and hence there are no IT or business costs associated with the rule change proposal.

4. Please indicate the time required for your organisation to implement the change, should it be accepted as proposed.

The changes to the Market Rules contemplated by RC_2010_36 would not require Alinta to change its IT or business systems, and hence there is no specific period of time that would be required to implement the changes arising from the rule change proposal.
