



**Draft Rule Change Report**  
**Title: Acceptable Credit Criteria**

Ref: RC\_2010\_36  
Standard Rule Change Process

Date: 20 January 2010

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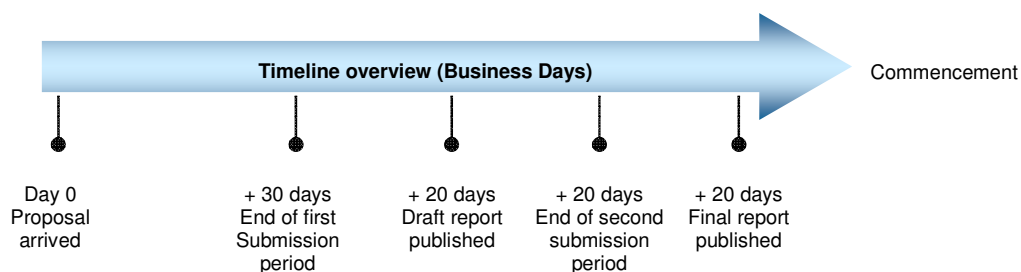
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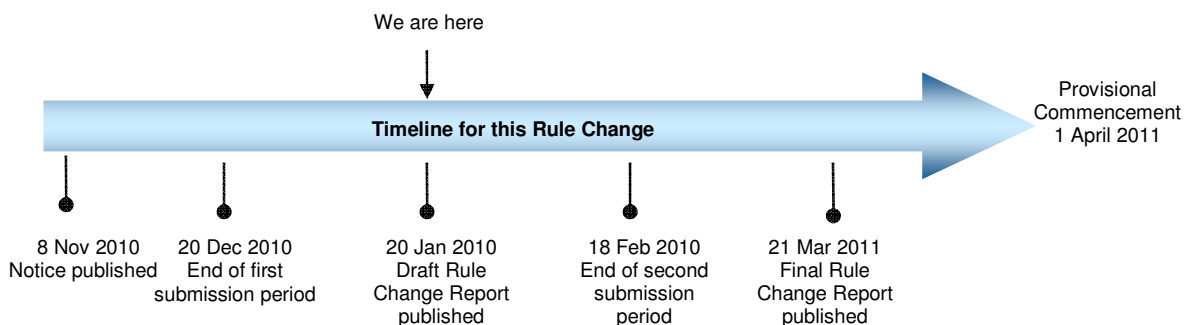
## 1. INTRODUCTION

On 29 October 2010 Synergy submitted a Rule Change Proposal regarding amendments to clauses 2.38.6, 4.13.7, the Glossary and new clauses 2.38.6A, 2.38.6B and 4.13.7A of the Wholesale Electricity Market Rules (Market Rules).

This proposal is being processed using the Standard Rule Change Process, described in section 2.7 of the Market Rules. The standard process adheres to the following timelines:



The key dates in processing this Rule Change Proposal are:



Please note the commencement date is provisional and may be subject to change in the Final Rule Change Report.

The draft decision of the IMO CEO is to accept the Rule Change Proposal as proposed and modified following the first submission period. The detailed reasons for the decision are set out in section 5 of this report.

In making its draft decision on the Rule Change Proposal, the IMO has taken into account:

- the Wholesale Market Objectives;
- the practicality and cost of implementing the proposal;
- the views of the Market Advisory Committee (MAC); and
- the submissions received.

All documents related to this Rule Change Proposal can be found on the IMO website: [http://www.imowa.com.au/RC\\_2010\\_36](http://www.imowa.com.au/RC_2010_36).

## 2 CALL FOR SECOND ROUND SUBMISSIONS

The IMO invites interested stakeholders to make submissions on this Draft Rule Change Report. The submission period is 20 Business Days from the publication date of this report. Submissions must be delivered to the IMO by 5.00pm, **Friday 18 February 2010**.

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

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

**Independent Market Operator**  
 Attn: General Manager, Development  
 PO Box 7096  
 Cloisters Square, PERTH, WA 6850  
 Fax: (08) 9254 4399

## 3. THE RULE CHANGE PROPOSAL

### 3.1 Submission Details

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<b>Date submitted:</b>	29 October 2010
<b>Urgency:</b>	1 – low
<b>Change Proposal title:</b>	Acceptable Credit Criteria
<b>Market Rule affected:</b>	2.38.6, 4.13.7, the Glossary and new clauses 2.38.6A, 2.38.6B and 4.13.7A

### 3.2 Summary details of the Proposal

Synergy's Rule Change Proposal seeks to 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 (published on the IMO website). Therefore, a solicitor signed Form would not be required for such an entity providing the Credit Support.

The full details of the Rule Change Proposal are contained in Appendix 1.

### 3.3 The Proposal and the Wholesale Market Objectives

Synergy submitted that the proposed amendments to the Market Rules would better address both Wholesale Market Objectives (b) and (d) by ensuring a more simple, efficient and cheaper way of certifying that an entity meets the Acceptable Credit Criteria.

### 3.4 Amending Rules proposed by Synergy

The amendments to the Market Rules originally proposed by Synergy are available in the Rule Change Notice and presented in Appendix 2 of this report.

### **3.5 The IMO's Initial Assessment of the Proposal**

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

## **4. FIRST SUBMISSION PERIOD**

The first submission period for this Rule Change Proposal was between 9 November 2010 and 20 December 2010.

### **4.1 Submissions received**

The IMO received submissions from Landfill Gas & Power (LGP), Perth Energy, and Verve Energy during the first submission period. The main points raised in the submissions are summarised below; additional detail along with the IMO's response is contained in section 4.2 of this paper. A copy of the full text of all submissions is available on the IMO website.

In summary, all of the submissions received support the proposed amendments. In particular, LGP notes that the proposed changes will remove a potentially obstructive bureaucracy while preserving the underlying substance. Perth Energy states that it appears nonsensical and contrary to the efficiency objectives embodied in Market Objective (a) that a credit provider that is already pre-approved by the IMO should be subject to a reconfirmation process.

The assessment by submitting parties as to whether the proposal would better the Wholesale Market Objectives is summarised below:

<b>Submitter</b>	<b>Wholesale Market Objective Assessment</b>
LGP	supports (b) and (d)
Perth Energy	better facilitates (a)
Verve Energy	satisfies (b) and (d)

### **4.2 The IMO's response to submissions received during the First Submission Period**

The IMO's response to each of the issues identified during the first submission period is presented in the table over the page:

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Clause/Issue	Submitter	Comment/Change Requested	IMO's response
Consistency between Credit Support and Reserve Capacity Security provisions	Verve Energy	Although it is not explicitly stated in the Rule Change Proposal, it is assumed that the Acceptable Credit Criteria covers both Credit Support and Reserve Capacity Security. If this is not the case then the proposal should be expanded so that both are captured.	The proposed amendments will apply for both the provision of Credit Support and Reserve Capacity Security. The IMO considers that the proposed process as presented in section 5.5 will ensure consistent treatment between these two types of "security" provided to the market.
Removal of institutions from the IMO's list of acceptable credit providers	LGP	It is feasible that a substantive institution with good credit ratings could be downgraded relatively quickly. In the case of the WEM this could lead to institutions suddenly being removed from the IMO's list, thereby stranding solvent institutions depending on them for credit support. LGP suggest that the impact of this potentially should be more thoroughly contemplated and provided for.	<p>The risk of sudden removal from the list will be partially mitigated by the IMO's proposed monthly monitoring process (outlined in section 5.5.) of the credit ratings of all entities on the list of acceptable credit providers. The IMO however considers that to not remove a substantive institution from the list where it no longer meets the Acceptable Credit Criteria would expose the market to additional risk if the IMO were to allow such an institution to provide an undertaking as security to the market.</p> <p>At any time an entity providing Reserve Capacity Security or Credit Support for a Market Participant is removed from the list, the Market Participant will be able to arrange Credit Support through another financial institution either on the list or alternatively provide an Acceptable Credit Criteria form for an entity not on the list. The IMO acknowledges that there may be time delays and costs associated with arranging this alternative "security".</p>
Reserve Capacity Security Market Procedure	Verve Energy	The IMO may wish to review the Reserve Capacity Security Market Procedure to ensure it is consistent with the proposed amendments.	The IMO will be undertaking a substantive review of the Market Procedure for Reserve Capacity Security in light of the proposed changes under the Rule Change Proposal: Required Level and Reserve Capacity Security (RC_2010_12). Any changes to the Amending Rules resulting from RC_2010_36 will also be incorporated into any revised Market Procedure which will be developed in conjunction with the IMO Procedure Change and Development Working Group prior to the commencement of any resultant Amending Rules.
Consistency between Credit Support and Reserve Capacity Security provisions	LGP	The elegance of clause 4.13.7 could be improved by citing clause 2.38.6 and removing the duplication	The IMO agrees and has amended the proposed Amending Rules accordingly. For further details refer to Appendix 3.

### 4.3 Public Forums and Workshops

No public forums or workshops were held in relation to this Rule Change Proposal.

## 5. THE IMO'S ASSESSMENT

In preparing its Draft 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 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 or any technical studies commissioned in respect of this Rule Change Proposal.

The IMO's assessment is outlined in the following sections.

### 5.1 Wholesale Market Objectives

The IMO considers that the Market Rules as a whole, if amended, will be consistent with the Wholesale Market Objectives.

Wholesale Market Objective	Consistent 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	Yes
(b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors	Yes
(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	Yes
(d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system	Yes
(e) to encourage the taking of measures to manage the amount of electricity used and when it is used	Yes

Further, the IMO considers that the Market Rules if amended would not only be consistent with the Wholesale Market Objectives but also allow the Market Rules to better address Wholesale Market Objective (a):

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

The proposed amendments will remove the requirements for a solicitor to sign an Acceptable Credit Criteria form for each Market Participant where an entity has been included on the list of acceptable credit providers published by the IMO. This will provide a degree of flexibility for a Market Participant who uses a financial institution who was on the IMO's pre-approved list while removing some of the risk that the credit rating of an entity changes during the year. For example if Bank A is included on the list of acceptable credit providers then if Market Participant X's Reserve Capacity Security is provided by Bank A the Market Participant will not need to provide an additional Acceptable Credit Criteria form to the IMO. The IMO considers that the proposed changes will provide a cheaper, more effective and more efficient process than each Market Participant's solicitor signing the form (status quo). The proposed changes will therefore promote market objective (a) by improving economic efficiency.

## 5.2 Practicality and Cost of Implementation

### Cost:

The proposed amendments will not require any changes to the Wholesale Electricity Market Systems operated by the IMO.

The IMO will incur operating costs in annually updating the list of entities which meet the Acceptable Credit Criteria and in undertaking monthly monitoring of whether entities on the list continue to have an acceptable credit rating in accordance with the requirements of clause 2.38.6(f). Given that this task is within the day to day operation of the IMO, the IMO considers that there will be no additional personnel costs associated with the implementation of the proposed changes. There will however be potentially costs associated with obtaining regular access to Standard and Poor's (Australia) and Moodys Investor Services Pty. Limited to confirm the credit rating of entities on the list of acceptable credit providers. The IMO is currently investigating the costs of a subscription to these services.

The IMO notes that there will be updates required to the following Market Procedures required for consistency with the new process for determining whether an entity meets the Acceptable Credit Criteria:

- Prudential Requirements; and
- Reserve Capacity Security; and

The IMO also considers that these costs fall within the day to day operation of the IMO and therefore will no incur additional personnel costs.

### Practicality:

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

## 5.3 Views Expressed in Submissions



The IMO received three submissions during the first submission period in support of Synergy's proposed amendments. The IMO's response to each of the issues raised in submissions is presented in section 4.2 of this report.

#### **5.4 Market Advisory Committee**

The proposal was discussed at the 10 November 2010 MAC meeting.

During the meeting, it was noted that the IMO has received a great deal of feedback around issues relating to the Acceptable Credit Criteria requirements. The IMO noted that it had engaged an external consultant to undertake a review of these issues. The IMO noted that it expected the results of this review to be available to the IMO by the end of November 2010. It was noted that Synergy had formally submitted RC\_2010\_36 into the rule change process. The scope of Synergy's proposal overlapped with the IMO's review of the Acceptable Credit Criteria requirements.

The following additional points were raised during the meeting:

- Mr Stephen MacLean noted that RC\_2010\_36 sought to remove the requirement in the Market Rules for a participant to provide a solicitor signed Acceptable Credit Criteria form in relation to a Credit Support Provider on the IMO's list of acceptable credit providers.
- Mr MacLean questioned why the Queensland Treasury Corporation was on the IMO's list but not the Western Australian Treasury. Mr Peter Huxtable responded that he understood that the Western Australian Treasury Corporation was not permitted to provide this type of support and that the Queensland Treasury Corporation was probably a provider of Credit Support for a current Market Participant.
- The Chair proposed that the IMO process the Rule Change Proposal but delay its progress until the results of the IMO review can be considered. Mrs Jacinda Papps noted that the IMO would publish the relevant outcomes of its review in an addendum to the Rule Change Notice, so that participants could consider this information when preparing their first period submissions. The MAC supported this proposal.

#### **5.5 The IMO's review of Acceptable Credit Criteria requirements**

Prior to the formal submission of RC\_2010\_36 into the Rule Change Process, the IMO sought advice from an external consultant on:

- Avoiding the existing difficulties associated with Market Participant's solicitors reluctance to provide a certificate that an entity meets the Acceptable Credit Criteria in the form require by the IMO;
- Simplifies the process for Market Participants and the IMO;
- Ensures adequate protection for the Market; and
- Ensures a consistent approach to the requirements for both Credit Support and Reserve Capacity Security.

During the first submission period the IMO received formal advice from its external consultant on the preferable approach to the process for Market Participants providing Credit Support and Reserve Capacity Security. The IMO notes that the advice received was generally consistent with the approach proposed by Synergy, albeit with a number of minor process related refinements which have been incorporated into the proposed Amending Rules presented in Appendix 3. As such the IMO did not consider there was a need to publish an addendum to Synergy's proposal during the first submission period. The IMO however seeks the views of interested parties during the second submission period on the proposed revised process outlined below:

- Annual certification through an acceptable means, such as completion of an Acceptable Credit Criteria form that the financial institution meets the Acceptable Credit Criteria from either:
  - the Market Participant's external solicitors (status quo); or
  - the financial institution's external solicitors.

Each certification would be valid for a period of 12 months, after which a further certification would be required;

- The IMO comprises a list of acceptable credit providers based on the certifications received and publishes the list on the Market Web Site. The IMO may at any time remove an entity from the list at any time;
- The IMO will monitor monthly whether the entities on the list maintain appropriate credit ratings in accordance with clause 2.38.6(f). If an entity does not maintain an appropriate credit rating, then the IMO will remove that entity from the list of acceptable credit providers published on its website;
- In the case where an entity is on the list of acceptable credit providers, the Market Participant will not need to provide the IMO with any further certification that the entity meets the Acceptable Credit Criteria; and
- In the case where an entity is not on the list of acceptable credit providers the IMO must be provided with a certification through the usual means by completion of an Acceptable Credit Criteria form that the entity meets the Acceptable Credit Criteria. The entity will then be included on the list of acceptable credit providers for a period of 12 months.

The IMO also notes that ensuring that an external party signs off annually on the credit criteria of the financial institution provides an assurance to the market that the financial institution will be able to satisfy the obligations under the security. The IMO acknowledges that the annual certification requirements for entities to be included on the list of acceptable credit providers is an additional obligation to that originally put forward by Synergy (that the IMO would annually review the list). The IMO however considers that this increased rigour around the process will partially mitigate any risk that an entity no longer meets the Acceptable Credit Criteria but is still included on the list of entities.

The IMO notes that further details of the process will be specified in the Market Procedure: Prudential Requirements which will be developed by the IMO in conjunction with the IMO Procedure Change and Development Working Group prior to the commencement of any Amending Rules.

## **5.6 Additional Amendments to the Amending Rules**

In preparing the Draft Rule Change Report the IMO has made some additional changes to the proposed Amending Rules to better clarify the process for certifying that a bank meets the Acceptable Credit Criteria. The further changes are in line with the external advice the IMO received on the issues previously identified regarding the current Acceptable Credit Criteria requirements, as presented in section 5.5 of this report.

The amendments made by the IMO are presented in Appendix 3 of this report

## 6. THE IMO'S DRAFT DECISION

The IMO's draft decision is to accept the amendments to clause 4.13.7, and new clauses 2.38.7, 2.38.8 and 2.38.9 of the Market Rules as proposed in the Rule Change Proposal and modified following the first submission period.

### 6.1 *Reasons for the decision*

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

- will allow the Market Rules to better address Wholesale Market Objective (a);
- are consistent with the remaining Wholesale Market Objectives;
- had the support of the MAC; and
- have the general support of submissions received during the first submission period.

The process as currently outlined in the Market Rules provides for an entity to provide certification that it meets the Acceptable Credit Criteria on each occasion that it provides an undertaking to the IMO. The IMO acknowledges that in simplifying the process around proving an entity meets the Acceptable Credit Criteria there may be enhanced risks that an entity included on the list of acceptable credit providers has a change in circumstance during the 12 month period which is not identified. While the IMO notes that this will be partially mitigated by the IMO's proposed monthly credit rating monitoring process there is still a risk that a change in circumstance for an entity may not be reflected in its credit rating being revised and therefore not be identified by the IMO.

The IMO therefore seeks the views of Market Participants during the second submission period on:

- the proposed process as outlined in section 5.5; and
- whether additional process steps should be incorporated to mitigate against any potential increased risks that an entity no longer meets the Acceptable Credit Criteria.

Additional detail outlining the analysis behind the IMO's reasons is outlined in section 5 of this Draft Rule Change Report.

## 7. PROPOSED AMENDING RULES

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

2.38.7 The IMO must maintain on the Market Web Site a list of entities which have provided the IMO, in the previous twelve months, with evidence satisfactory to the IMO that they 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.

4.13.7. An entity meets the Acceptable Credit Criteria if it meets the criteria defined in clause 2.38.6. ~~is:~~

- ~~(a) either:~~
  - ~~i. a bank 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; or~~
- ~~(g) if it is named on the List of Acceptable Credit Providers posted on the Market Web Site.~~

## APPENDIX 1: SYNERGY'S RULE CHANGE PROPOSAL

Synergy notes in its Rule Change Proposal that under clause 2.38.1 of the Market Rules, any time a Market Participant or a Network Operator does not meet the Acceptable Credit Criteria set out in clause 2.38.6, then the Market Participant or Network Operator must ensure that it provides the IMO with Credit Support.

To confirm whether the Credit Support meets the Acceptable Credit Criteria listed in clause 2.38.6 a Market Participant or Network Operator must, under the Market Procedure for Prudential Requirements, complete the Acceptable Credit Criteria Form (**Form**) available on the IMO's website. This includes ensuring that the Form has been signed by a solicitor of reputable commercial law firm that is acceptable to the IMO.

Synergy notes that it has found a growing reluctance by solicitors to sign the Form as it requires responses to statements concerning the credit provider. Solicitors can only base their responses on information in the public domain and, as such, are reluctant to be held accountable for failings of the credit provider.

Synergy notes that the IMO provides, on its website, a List of Acceptable Credit Providers (**List**). This List (refer to Appendix B) includes financial institutions that the IMO has deemed as meeting the Acceptable Credit Criteria. Synergy notes that the List preamble indicates that the financial institution inventory will be reviewed and updated annually.

Synergy proposes a change to 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. A solicitor signed Form would not be required for such an entity providing the Credit Support.

## APPENDIX 2: PROPOSED AMENDING RULES IN THE RULE CHANGE PROPOSAL

Synergy proposed the following amendments to the Market Rules (~~deleted text~~, added text):

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; ~~;~~ or
- (g) if it is named on the List of Acceptable Credit Providers posted on the Market Web Site.

2.38.6A If an entity is named on the List of Acceptable Credit Providers then the Market Participant or Network Operator is not required to submit an Acceptable Credit Criteria Form to the IMO.

2.38.6B The IMO must maintain a list of Acceptable Credit Criteria providers on the Market Website (**List of Acceptable Credit Providers**), and must update this list at least once a year before 1 April.

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

- (a) either:
  - i. a bank 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;

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- (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; or
- (g) if it is named on the List of Acceptable Credit Providers posted on the Market Web Site.

4.13.7A If an entity is named on the List of Acceptable Credit Providers then the Market Participant is not required to submit an Acceptable Credit Criteria Form to the IMO.

**List of Acceptable Credit Providers:** Listing of acceptable financial institutions posted on the Market Web Site and updated annually in accordance with clause 2.38.6B.

### APPENDIX 3: ADDITIONAL AMENDMENTS MADE BY THE IMO FOLLOWING THE FIRST SUBMISSION PERIOD

The IMO has made some revisions to the Amending Rules following its assessment of the first submission period responses. These changes are as follows (~~deleted text~~, added text):

The proposed amendment will remove the reference to an entity meeting the Acceptable Credit Criteria if it is named on the list on acceptable credit providers. The IMO considers that stating an entity meets the criteria if it is included on the list of acceptable credit providers is unnecessary and creates circularity with regard to the specifications surrounding the requirements for an entity to meet the Acceptable Credit Criteria. Further, the correct test of whether an entity meets the Acceptable Credit Criteria is set out in the rules. The list will act as a record of those entities that have met the test in the rules, but entry on the list should not by itself provide evidence that the test have been met.

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~~ 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. ~~or~~
- (g) ~~if it is named on the List of Acceptable Credit Providers post on the Market Web Site.~~

The IMO proposes to remove clauses 2.38.6A and 2.38.6B to better reflect the process order and to update the numbering of the new proposed clauses. The specifications surrounding the list of acceptable credit providers will be provided in new clauses 2.38.7 and 2.38.8.



~~2.38.6A If an entity is named on the List of Acceptable Credit Providers then the Market Participant or Network Operator is not required to submit an Acceptable Credit Criteria Form to the IMO.~~

~~2.38.6B The IMO must maintain a list of Acceptable Credit Criteria providers on the Market Website (**List of Acceptable Credit Providers**), and must update this list at least once a year before 1 April.~~

The proposed new clause 2.38.7 will clarify that the IMO will maintain a list of acceptable credit providers where it has received an appropriate certification that a financial institution meets the Acceptable Credit Criteria (from either the Market Participant's or the entity's external solicitors). Entities for which an appropriate certification is received by the IMO will be incorporated on the list for a period of 12 months.

The IMO notes that the proposed amendments surrounding the provision of a certification that an entity meets the Acceptable Credit Criteria every 12 months will mean that a Market Participant which provides a Reserve Capacity Security from an entity not currently on the list will be required to provide the IMO with a complete certification potentially every 12 months. While this is an additional obligation on the Market Participant the IMO considers that this will improve the certainty to the market that the Reserve Capacity Security can be drawn on if required and thereby reduce risk to the market.

The IMO notes that in the case where it does not receive certifications for any financial institutions then there will be no list and so Market Participants must submit a complete Acceptable Credit Criteria form to the IMO

The requirements to provide an appropriate certification that the entity meets the Acceptable Credit Criteria is generally consistent with the IMO's current process as outlined in the Market Procedure: Prudential Requirements. A copy of the form is currently available on the on the following webpage:  
[http://www.imowa.com.au/f158,595498/acceptable\\_credit\\_criteria.doc](http://www.imowa.com.au/f158,595498/acceptable_credit_criteria.doc)

Further details of the form for complete certification and the process for providing the IMO with the certification will be outlined in the Market Procedure: Prudential Requirements and the Market Procedure for Reserve Capacity Security, along with a process for applying to be listed as an acceptable credit provider. Further clarification that the certification can be from either the Market Participant or the financial institution's external solicitor will also be provided in both of the Market Procedures.

The IMO will develop the amendments to the Market Procedures in conjunction with the IMO Procedure Change and Development Working Group prior to the commencement of any Amending Rules.

2.38.7 The IMO must maintain on the Market Web Site a list of entities which have provided the IMO, in the previous twelve months, with evidence satisfactory to the IMO that they meet the Acceptable Credit Criteria outlined in clause 2.38.6.

The proposed new clause will outline the requirements for the IMO to monitor whether entities on the list continue to have an acceptable credit rating. The IMO will undertake this monitoring on a monthly basis.

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).

The proposed new clauses will allow the IMO to remove an entity from the list of acceptable credit providers at any time. This will allow for extraordinary circumstances where credit ratings are suddenly downgraded with the effect that the financial institution no longer meets the Acceptable Credit Criteria.

2.38.9 The IMO may remove the name of an entity from the list described in clause 2.38.7 at any time.

The proposed amendment will remove the duplication between clauses 2.38.6 and 4.13.7 of the Market Rules. The IMO considers that this will improve the integrity of the Market Rules and ensure that no inconsistencies between the requirements for an entity to meet the Acceptable Credit Criteria for the purposes of Credit Support and Reserve Capacity Security.

4.13.7. An entity meets the Acceptable Credit Criteria if it meets the criteria defined in clause 2.38.6. is:

- (a) either:
  - i. a bank 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; or
- (g) if it is named on the List of Acceptable Credit Providers posted on the Market Web Site.

4.13.7A If an entity is named on the List of Acceptable Credit Providers then the Market Participant is not required to submit an Acceptable Credit Criteria Form to the IMO.

The proposed amendment will remove the "List of Acceptable Credit Providers" as being a defined term in the Glossary of the Market Rules. The IMO does not consider that there is any need to specifically define the meaning of the list and incorporate this into the glossary.

~~**List of Acceptable Credit Providers:** Listing of acceptable financial institutions posted on the Market Web Site and updated annually in accordance with clause 2.38.6B.~~