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## Wholesale Electricity Market Rule Change Proposal Form

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**Change Proposal No: RC\_2011\_04**  
**Received date: 13 June 2011**

**Change requested by:**

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<b>Date submitted:</b>	13 June 2011
<b>Urgency:</b>	Medium
<b>Change Proposal title:</b>	List of Entities Meeting the Acceptable Credit Criteria
<b>Market Rule affected:</b>	2.38.7

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### 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: General Manager, Market Development  
PO Box 7096  
Cloisters Square, Perth, WA 6850  
Fax: (08) 9254 4339  
Email: [market.development@imowa.com.au](mailto: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.

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## **Details of the proposed Market Rule Change**

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

#### **Rule Change Proposal Background**

Under clause 2.38.7 of the Market Rules, 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 List).

The Rule Change Proposal: Acceptable Credit Criteria (RC\_2010\_36) removed the requirement for a solicitor to sign an Acceptable Credit Criteria form for each Market Participant providing Credit Support or Reserve Capacity Security where the financial entity being used was included on the List. The IMO considered that the proposed changes provided a more cost effective and efficient process than each Market Participant's solicitor signing the form. The amendments introduced by RC\_2010\_36 commenced on 1 April 2011.

In response to a suggestion from a Market Participant, the IMO has considered opportunities to further reduce the burden on Market Participants of providing evidence of the credit-worthiness of financial entities that provide guarantees or bank undertakings as either Credit Support or Reserve Capacity Security, where provision of that evidence is considered to be of little additional value.

## Proposed Change to Existing Market Rule

It is proposed that, in addition to the provisions introduced by RC\_2010\_36, the four major Australian banks be included on the List. Entities on the List are not required to provide evidence that they meet the Acceptable Credit Criteria when a Market Participant puts forward a guarantee or bank undertaking as Credit Support or Reserve Capacity Security from one of those entities.

Other financial entities may be included on the List by either the financial entity itself or a Market Participant providing the necessary evidence as to the credit-worthiness of the financial entity. This can be done either at 12-month intervals (to maintain the exemption) or as needed when a guarantee or bank undertaking is presented as Credit Support or Reserve Capacity Security.

When a financial entity is removed from the list because the 12-month period expires, the relevant Market Participant will not necessarily be required to replace its security. The financial entity, or the Market Participant, will simply have to provide the usual evidence of creditworthiness when it next puts forward a guarantee to the IMO. The IMO maintains its monthly monitoring of the credit ratings of all financial entities providing Reserve Capacity Security or Credit Support, regardless of whether they remain on the List.

However, Credit Support or Reserve Capacity Security will cease to be valid if the entity that provided the guarantee or bank undertaking ceases to meet the Acceptable Credit Criteria. This includes if its credit rating falls below the level specified in clause 2.38.6. In that event, the Market Participant would be in default of its Prudential Obligations and be required to immediately notify the IMO and replace the guarantee or bank undertaking with one from an organisation that meets the Acceptable Credit Criteria, or with cash.

## 2. Explain the reason for the degree of urgency:

The proposed rule changes are considered to be of a moderate level of urgency given that the issues with the existing rules prompting these changes do not put at risk the safe, effective and reliable operation of the WEM. The proposed rule changes cannot reasonably be considered to be of a high level of urgency for this reason.

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

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

- (a) \_\_\_\_\_ 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; ~~or~~
- (b) \_\_\_\_\_ are one of the entities the IMO has determined are not required to provide evidence of meeting the Acceptable Credit Criteria outlined in clause 2.38.6.

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

The proposed Market Rule change would allow the Market Rules to better address Wholesale Market Objectives:

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

*(d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system;*

by providing a more simple, efficient and cheaper way of certifying that an entity meets the Acceptable Credit Criteria.

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

Engaging a solicitor to complete the Acceptable Credit Criteria Form for an entity already deemed by the IMO as meeting the Acceptable Credit Criteria is expensive and time-consuming and the additional costs incurred are ultimately passed on to end consumers. The proposed amendments will remove this requirement from the Market Rules.

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