



INDEPENDENT
MARKET
OPERATOR



Market Procedure: Prudential Requirements

VERSION 3



ELECTRICITY INDUSTRY ACT 2004
ELECTRICITY INDUSTRY
(WHOLESALE ELECTRICITY MARKET)

REGULATIONS 2004

WHOLESALE ELECTRICITY MARKET RULES

COMMENCEMENT:

This Market Procedure took effect from 8:00am (WST) on the
same date as the Wholesale Electricity Market Rules.

VERSION HISTORY

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2	15 October 2008	Amendments to Market Procedure resulting from PC_2008_08
3	DD MMM YYYY	Amendments to Market Procedure resulting from PC_2013_04

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1 PROCEDURE OVERVIEW

1.1 Relationship with the Market Rules

1.1.1 This *Market Procedure: Prudential Requirements* (Procedure) is made in accordance with clause 2.43.1 of the Wholesale Electricity Market (WEM) Rules (Market Rules).

1.1.2 Reference to particular Market Rules within the Procedure in bold and square brackets **[Clause XX]** are current as of DD MMM YYYY[date after commencement of RC_2012_23]. These references are included for convenience only and are not part of this Procedure.

1.2 Purpose of this Procedure

1.2.1 This Procedure outlines:

- (a) how the IMO will determine Credit Limits;
- (b) the arrangements for Credit Support, including:
 - i. the form of acceptable guarantees and bank undertakings;
 - ii. where and how the IMO will hold cash deposits and how the costs and fees of holding cash deposits will be met; and
 - iii. the application of monies drawn upon from Credit Support in respect of amounts owed by the relevant Market Participant to the IMO;
- (c) how the IMO will assess entities against the Acceptable Credit Criteria;
- (d) how the IMO will calculate Trading Margins;
- (e) how the IMO will issue Margin Calls;
- (f) the factors to be taken into account to determine the expected value of transactions; and
- (g) other matters relating to clauses 2.37 to 2.42 of the Market Rules.

1.3 Application of this Procedure

1.3.1 In this Procedure, where obligations are conferred on a Rule Participant, that Rule Participant must comply with the relevant obligations in accordance with clauses 2.9.6, 2.9.7 and 2.9.8 of the Market Rules, as applicable.

1.4 Associated Market Procedures and market documents

1.4.1 The following Market Procedures are associated with this Procedure:

- (a) Rule Participant Registration and Deregistration;
- (b) Settlement; and
- (c) Reserve Capacity Security.

1.4.2 The following market documents available on the Market Web Site, are associated with this Procedure:

- (a) Proforma deeds for:
 - i. Bank undertaking for Credit Support;
 - ii. Guarantee for Credit Support;
 - iii. Security Deposit for Credit Support;

- iv. Security Deposit for Credit Support (provided by Third Party);
 - v. Voluntary prepayments;
 - (b) Change of contact details form;
 - (c) Contact details of guarantee/bank undertakings form;
 - (d) Security Deposit instructions;
 - (e) Acceptable Credit Criteria form; and
 - (f) List of entities meeting the Acceptable Credit Criteria.
- 1.4.3 The following user guides available on the Market Web Site, are associated with this Procedure:
- (a) Market Participant Registration User Guide.
- 1.5 Conventions used**
- 1.5.1 In this Procedure the conventions specified in clauses 1.3 to 1.5 of the Market Rules apply.
- 1.5.2 The appendices contained within this Procedure form part of the Procedure and are legally enforceable.
- 1.6 Terminologies and definitions**
- 1.6.1 A word or phrase defined in the Electricity Industry Act, the Electricity Industry (Wholesale Electricity Market) Regulations or the Market Rules has the same meaning when used in this Procedure. In addition the following defined terms have the meaning given.

Table 1 – Defined terms

Term	Definition
Ancillary Service Settlement	The process of calculating a Rule Participant's transactions pertaining to their Ancillary Service segment in accordance with clause 9.9 of the Market Rules and reflected in the Non-STEM Settlement Statement for the Trading Month.
Balancing Settlement	The process of calculating a Rule Participant's transactions pertaining to their Balancing segment in accordance with clause 9.8 of the Market Rules and reflected in the Non-STEM Settlement Statement for the Trading Month.
Credit Support Effective Date	For a Market Participant, the date determined by the IMO by which the Market Participant's Credit Support must become duly effective.
Due Date	The date specified by the IMO in respect of a step in this Market Procedure.
Market Participant Fee Settlement	The process of calculating a Rule Participant's transactions pertaining to its fees associated with the services provided by the IMO, System Management, and the Economic Regulation Authority as described in clause 2.24 of the Market Rules, in accordance with clause 9.13 of the Market Rules and reflected in the Non-STEM Settlement Statement for the Trading Month.
Non-STEM Settlement	The process of calculating a Rule Participant's net

Term	Definition
	settlement amount for all transactions and amounts other than those pertaining to the STEM, in accordance with clause 9.14 of the Market Rules.
Outage Compensation Settlement	The process of calculating a Rule Participant's transactions pertaining to its Outage compensation segment in accordance with clause 9.10 of the Market Rules and reflected in the Non-STEM Settlement Statement for the Trading Month.
Reconciliation Settlement	The process of calculating a Rule Participant's transactions pertaining to their reconciliation segment as reflected in the Non-STEM Settlement Statement for the Trading Month.
Reserve Capacity Settlement	The process of calculating a Rule Participant's transactions pertaining to their Reserve Capacity segment as reflected in the Non-STEM Settlement Statement for the Trading Month.
Treasury Corporation	A central borrowing authority of an Australian State or Territory, which authority has been established by an Act of Parliament of that State or Territory.
Wholesale Electricity Market System (WEMS)	The IMO's IT interface used to administer, operate and settle the Wholesale Electricity Market.

1.7 Amendments to proforma documents

- 1.7.1 The IMO may, in its absolute discretion, amend and publish on the Market Web Site any market documents listed in steps 1.4.2 and 1.4.3.
- 1.7.2 A Market Participant wishing to use any market document listed in step 1.4.2 must ensure that it downloads the current version from the Market Web Site.
- 1.7.3 If the IMO amends and publishes a market document prior to a Market Participant's provision of Credit Support under this Procedure, the IMO must apply the amended and published version of that market document to assess compliance of the Credit Support.

2 CREDIT LIMITS - APPLICATION OF CLAUSE 2.37.4

2.1 Credit Limit determination

2.1.1 When determining, reviewing and revising a Market Participant's Credit Limit in accordance with clauses 2.37.2 and 2.37.3 of the Market Rules, the IMO must take into account the principles laid out in clause 2.37.4 [**Clause 2.37.1**].

2.1.2 The IMO must apply clause 2.37.4 as follows:

- (a) For a Market Participant for which at least three full months of data from the Non-Short Term Energy Market (Non-STEM) Settlement process are available, the IMO must determine a Credit Limit in accordance with step 2.2 of this Procedure.
- (b) For a Market Participant for which less than three full months of data from the Non-STEM Settlement process are available, the IMO must determine an initial Credit Limit in accordance with step 2.3 of this Procedure.

2.2 Credit Limit determination for a Market Participant for which at least three full months of Non-STEM Settlement data are available

2.2.1 When reviewing or revising a Market Participant's Credit Limit in accordance with clauses 2.37.2 and 2.37.3 of the Market Rules, the IMO must determine the Credit Limit as the sum of the anticipated maximum exposure (AME) determined in step 2.2.2 and any amount determined in step 2.2.3.

2.2.2 The IMO must determine a Market Participant's AME using up to 24 months of available STEM and Non-STEM Settlement data from the period preceding the date on which the Credit Limit is determined, in the order of steps listed below:

- (a) For each invoiced Trading Month for Non-STEM Settlement Statements, the IMO must calculate the Trading Day Non-STEM Settlement exposure for each Trading Day of the Trading Month for the Market Participant. This Trading Day Non-STEM Settlement exposure is calculated as:

$$\left\{ \frac{[RCSA(p, m) + ASSA(p, m) + COCSA(p, m) + RSA(p, m) + MPFSA(p, m) + \sum_{i=1}^n BSA(p, d, t)]}{n} \right\}$$

where:

$RCSA(p, m)$ is the Reserve Capacity Settlement amount for Market Participant p for Trading Month m calculated in accordance with clause 9.7.1 of the Market Rules and the *Market Procedure: Settlement*;

$ASSA(p, m)$ is the Ancillary Service Settlement amount for Market Participant p for Trading Month m calculated in accordance with clause 9.9.1 of the Market Rules and the *Market Procedure: Settlement*;

$COCSA(p, m)$ is the Outage Compensation Settlement amount for Market Participant p for Trading Month m calculated in accordance with clause 9.10.1 of the Market Rules and the *Market Procedure: Settlement*;

$RSA(p, m)$ is the Reconciliation Settlement amount for Market Participant p for Trading Month m calculated in accordance with clause 9.11.1 of the Market Rules and the *Market Procedure: Settlement*;

$MPFSA(p, m)$ is the applicable Market Participant Fee Settlement amount for Market Participant p for Trading Month m calculated in accordance

with clause 9.13.1 of the Market Rules and the *Market Procedure: Settlement*;

$\sum_{i=1}^n BSA(p, d, t)$ is the sum over n days, of the Balancing Settlement amounts for Market Participant p for all Trading Intervals t of Trading Day d calculated in accordance with clause 9.8.1 of the Market Rules and the *Market Procedure: Settlement*; and

n is the number of Trading Days in Trading Month m .

- (b) Using the Trading Day Non-STEM Settlement exposure, the IMO must calculate the total running 70-day exposure, for all consecutive 70-day periods from the last day of the most recently settled Trading Month up to a maximum of 24 months prior to the time of calculation.
- (c) The IMO must determine the highest running 70-day exposure as the Market Participant's maximum exposure in the Non-STEM Settlement process.
- (d) If the Market Participant participated in STEM over that period, the IMO must also calculate the Trading Day STEM exposure for the Market Participant. This is calculated as:

$$\left\{ \frac{STEMSA(p, w)}{m} \right\}$$

where:

$STEMSA(p, w)$ is the STEM settlement amount for Market Participant p for Trading Week w calculated in accordance with clause 9.6.1 of the Market Rules and the *Market Procedure: Settlement*; and

m is the number of Trading Days in Trading Week w .

- (e) Using the Trading Day STEM exposure, the IMO must calculate the total running 15-day exposure, for all consecutive 15-day periods from the last day of the most recently settled Trading Week up to a maximum of 24 months prior to the time of calculation.
- (f) The IMO must determine the highest running 15-day exposure as the Market Participant's maximum exposure in the STEM Settlement process.
- (g) The AME is the sum of the 70-day maximum Non-STEM exposure and 15-day maximum STEM exposure.

2.2.3 In addition to the amount determined in step 2.2.2, the IMO may, in its absolute discretion, decide to apply an amount determined in accordance with:

- (a) clause 2.37.5(k) of the Market Rules which outlines that the IMO may take into account any factor (other than those listed in clause 2.37.5(a) to (j)), if it considers the factor relevant in determining the Market Participant's Credit Limit; or
- (b) clause 2.37.6 of the Market Rules which outlines that the IMO may take into account a minimum amount if it reasonably considers that its inclusion will adequately protect the market if a Suspension Event were to occur in relation to that Market Participant.

2.3 Credit Limit determination for a Market Participant for which less than three months of Non-STEM Settlement data are available

2.3.1 For a Market Participant for which less than three full months of Non-STEM Settlement data or no data¹ are available, the IMO must determine an initial Credit Limit for that Market Participant in accordance with step 2.3.2.

2.3.2 The IMO must determine the type of Market Participant in accordance with Table 2 and set the Market Participant's initial Credit Limit as the sum of:

- (a) The amount determined under steps 2.4, 2.5 or 2.6 as applicable; and
- (b) Any amount that the IMO may in its absolute discretion, decide to apply in accordance with:
 - i. clause 2.37.5(k) of the Market Rules which outlines that the IMO may take into account any factor (other than those listed in clause 2.37.5(a) to (j)), if it considers the factor relevant in determining the Market Participant's Credit Limit; or
 - ii. clause 2.37.6 of the Market Rules which outlines that the IMO may take into account a minimum amount if it reasonably considers that its inclusion will adequately protect the market if a Suspension Event were to occur in relation to that Market Participant.

Table 2 – Credit Limit determination steps by type of Market Participant

No.	Type of Market Participant	Procedure Step
(a)	Market Generator adding one or more new Facilities	2.4
(b)	Market Customer adding one or more new end-consumers or Loads	2.5
(c)	Market Participant that is both a Market Generator and a Market Customer and is adding one or more new Facilities, end-consumers or Loads	Sum of the amounts determined at (a) and (b) in this table (after offsetting positive and negative amounts)
(d)	Market Participant with a Demand Side Programme (DSP) ² adding one or more new DSPs	Sum of the amounts determined at (a), (b) and (c) if applicable and 2.6 (after offsetting positive and negative amounts)

2.3.3 For a new Market Participant or an existing Market Participant adding one or more new Facilities, Loads or DSPs, if the IMO determines that at least three full months of Non-STEM Settlement data have become available and a Credit Limit review or revision is required, the IMO must determine the Market Participant's Credit Limit using the methodology described in step 2.2.

¹ All new Market Participants will fall into this category and will have an initial Credit Limit determined for them in accordance with step 2.3.2.

² Note that under the Market Rules, a Market Participant electing to register a Demand Side Programme must register itself as a Market Customer.

2.4 Credit Limit determination for a Market Generator adding one or more new Facilities

2.4.1 If not already submitted at the time of Facility registration, a new or existing Market Generator adding one or more new Facilities must, by the agreed Due Date, provide the following data to the IMO:

- (a) The minimum stable generation and the maximum output (for a Non-Scheduled Generator, the estimated maximum output) for each Facility;
- (b) The Certified Reserve Capacity for each Facility;
- (c) The actual or estimated quantity of energy to be sold under Bilateral Contracts;
- (d) The actual or estimated quantity of Capacity Credits it intends to trade bilaterally; and
- (e) The actual or estimated quantity of energy to be provided for the purposes of Ancillary Services.

2.4.2 The IMO must reasonably estimate the following:

- (a) Average Balancing Price over the 70 Trading Days prior to the Credit Limit determination;
- (b) Ancillary Services cost;
- (c) Percentage of time that each Facility is expected to run;
- (d) Monthly Reserve Capacity Price;
- (e) Percentage of Forced Outages that each Facility is likely to experience; and
- (f) The applicable refund factor in clause 4.26.1 of the Market Rules.

2.4.3 Based on the data provided in step 2.4.1 and estimates determined in step 2.4.2, the IMO must reasonably assume:

- (a) The maximum quantity of the energy to be bought in the Balancing Market over 70 days;
- (b) The maximum amount of Market Participant Fees and Ancillary Service payments over 70 days; and
- (c) The maximum quantity of capacity potentially on an Outage over 70 days.

2.4.4 Using the assumptions in step 2.4.3, the IMO must determine an initial amount for the new or existing Market Generator adding one or more new Facilities.

2.5 Credit Limit determination for a Market Customer adding one or more new end-consumers or Loads

2.5.1 If not already submitted at the time of Participant registration, a Market Customer must, by the agreed Due Date, provide the following data to the IMO:

- (a) The actual or forecast quantity of energy contracted to sell to Load(s);
- (b) The actual or estimated quantity of energy to be purchased under Bilateral Contracts; and
- (c) The actual or estimated quantity of Capacity Credits it intends to trade bilaterally.

2.5.2 The IMO must reasonably estimate the following:

- (a) Average Balancing Price over the 70 Trading Days prior to the Credit Limit determination;
 - (b) Ancillary Services cost;
 - (c) Monthly Reserve Capacity Price; and
 - (d) Individual Reserve Capacity Requirement.
- 2.5.3 Based on the data provided in step 2.5.1 and estimates determined in step 2.5.2, the IMO must reasonably assume:
- (a) The maximum quantity of energy to be bought in the Balancing Market over 70 days;
 - (b) The maximum amount of Market Participant Fees and Ancillary Service payments over 70 days; and
 - (c) The maximum quantity of Capacity Credits to be bought from the IMO over 70 days.
- 2.5.4 Using the assumptions in step 2.5.3, the IMO must determine an initial amount for the new or existing Market Customer adding one or more new end-consumers or Loads.
- 2.6 Credit Limit determination for a Market Participant adding one or more new DSPs**
- 2.6.1 A Market Participant adding one or more new DSPs must, by the agreed Due Date, provide the following data to the IMO:
- (a) The sum of the expected minimum consumption of all Associated Loads for the DSP in MW and the meter identification number of each Load to be associated;
 - (b) The Certified Reserve Capacity for the DSP that the IMO reasonably expects is likely to be available during its nominated availability periods after netting off capacity required to serve minimum consumption;
 - (c) The nominated availability periods of the DSP; and
 - (d) The actual or estimated quantity of Capacity Credits it intends to trade bilaterally.
- 2.6.2 The IMO must reasonably estimate the following:
- (a) The total Capacity Credits assigned to all of the Market Participant's DSPs;
 - (b) The total Reserve Capacity Deficit of all of the Market Participant's DSPs;
 - (c) Monthly Reserve Capacity Price; and
 - (d) The applicable refund factor in clause 4.26.1 of the Market Rules.
- 2.6.3 Based on the data provided in step 2.6.1 and estimates determined in step 2.6.2 the IMO must reasonably assume the expected quantity of potential unavailable capacity over 70 days.
- 2.6.4 Using the assumption in step 2.6.3, the IMO must determine an initial amount for a Market Participant adding one or more new DSPs.
- 2.7 Notifying a Market Participant of its Credit Limit**
- 2.7.1 As soon as practicable after determining a Market Participant's Credit Limit, the IMO must notify the Market Participant in writing:

- (a) of the amount of the Credit Limit;
- (b) the basis for the determination with specific references to the factors that the IMO must take into account when determining the Market Participant's Credit Limit as listed in clauses 2.37.5 and 2.37.6 of the Market Rules **[Clause 2.37.7]**; and
- (c) whether it is required to submit Credit Support and a Due Date by which Credit Support documentation must be submitted; and
- (d) the Credit Support Effective Date determined by the IMO under step 3.3.1 by which the Market Participant's Credit Support must become duly effective.

2.8 Changes in circumstances affecting a Market Participant's Credit Limit

2.8.1 In accordance with clause 2.37.8(a) of the Market Rules, a Market Participant must notify the IMO as soon as practicable, in writing, where it becomes aware that any change in its circumstances may justify an increase in its Credit Limit. Such circumstances include, but are not limited to:

- (a) For a Market Customer:
 - i. Expected increases in metered consumption quantities;
 - ii. Acquisition of new Loads or DSPs; or
 - iii. Expected decreases in the quantity of electricity purchased bilaterally;
- (b) For a Market Generator:
 - i. Expected decreases in metered generation quantities;
 - ii. Acquisition of new Facilities;
 - iii. Expected decreases in the quantity of electricity sold bilaterally; or
 - iv. Material fuel supply disruptions; or
- (c) Any other event that may affect a Market Participant's commercial position in the market.

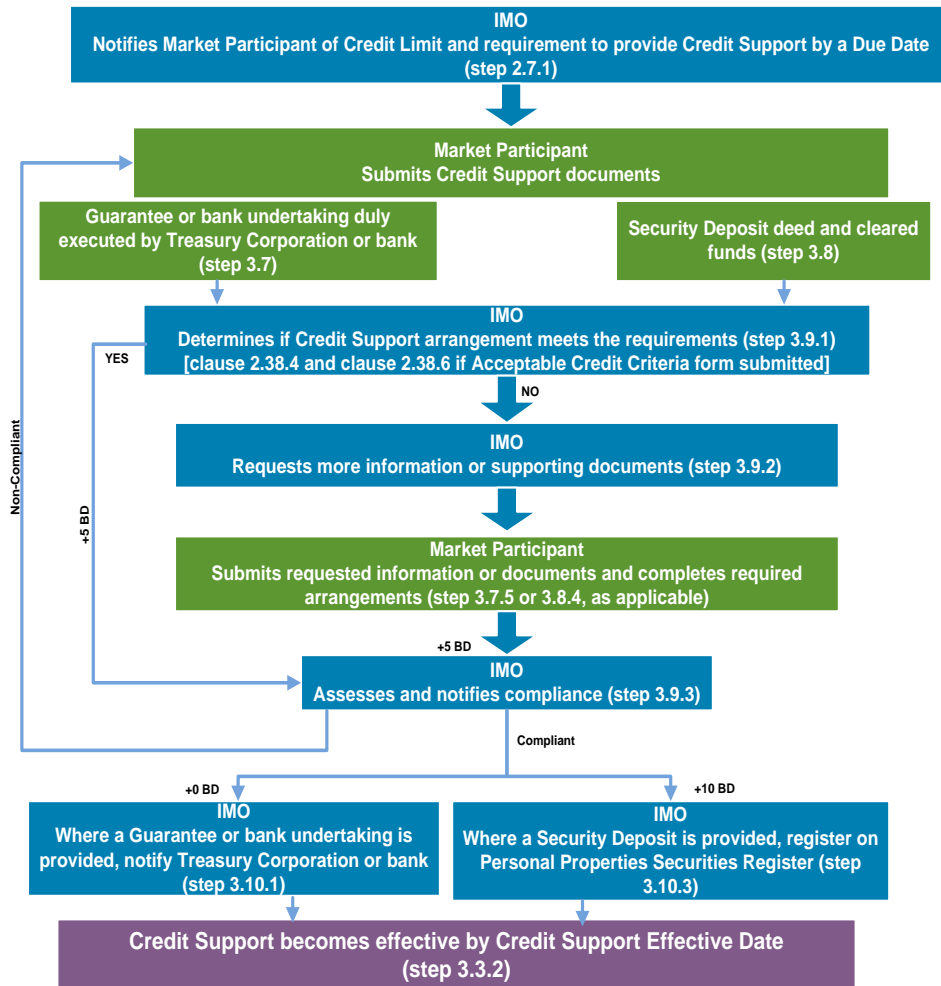
2.8.2 In accordance with clause 2.37.8(b) of the Market Rules, a Market Participant may notify the IMO in writing, of any change in its circumstances that may justify a decrease in its Credit Limit. The Market Participant must provide reasons and evidence for requesting a decrease in its Credit Limit.

2.8.3 If the IMO decides to revise the Credit Limit for a Market Participant in response to a notification received in step 2.8.1 or a request received in step 2.8.2, then the IMO must determine the revised Credit Limit in accordance with step 2.2 or step 2.3, as applicable.

2.8.4 If the IMO decides not to revise the Credit Limit for a Market Participant in response to a notification received in step 2.8.1 or request received in step 2.8.2, then the IMO must notify the Market Participant of its reasons for not doing so in writing, as soon as practicable.

3 CREDIT SUPPORT

3.1 Credit Support delivery process



3.2 Amount of Credit Support

3.2.1 Where a Market Participant receives a notification in step 2.7.1 requesting the submission of Credit Support, the Market Participant must ensure that the amount of Credit Support provided is no less than the most recent Credit Limit determined and notified by the IMO **[Clause 2.38.1]**.

3.3 Credit Support Effective Date

3.3.1 Before a Market Participant transacts in the market, it must meet its obligations under the Market Rules and this Procedure such that its Credit Support becomes effective by the Credit Support Effective Date.

3.3.2 In accordance with Table 3, the IMO must determine the Credit Support Effective Date by which a Market Participant's Credit Support must become duly effective.

Table 3 –Credit Support Effective Date determination

Id.	Type of Market Participant	Credit Support Effective Date
(a)	New Market Generator	Before the Facility undertakes a Commissioning Test
(b)	Existing Market Generator adding one or more new Facilities	Before the new Facilities undertake Commissioning Test
(c)	New Market Customer	After evidence of an approved Electricity Transfer Access Contract is provided to the IMO and before the Market Customer participates in the market
(d)	Existing Market Customer adding one or more new end-consumers or Loads	Before the date notified by the IMO (which the IMO determines based on the Market Participant's notification of an expected increase in consumption in step 2.8.1(a))
(e)	New or existing Market Customer adding one or more DSPs	Before the DSP's Reserve Capacity Obligation Quantity becomes applicable as per clause 4.1.26 of the Market Rules

3.4 Maintaining Credit Support

3.4.1 Where a Market Participant's Credit Support is due to expire or cease to have effect for any reason, the Market Participant must provide replacement Credit Support that becomes effective at or prior to the expiry of the existing Credit Support **[Clause 2.38.2]**.

3.4.2 Where a Market Participant becomes aware that its Credit Support is affected by any of the circumstances as laid out in step 3.4.4, it must:

- (a) notify the IMO in writing immediately; and
- (b) provide duly effective replacement Credit Support in an amount not less than its most recently determined Credit Limit, within one Business Day of the notification or another time advised by the IMO **[Clause 2.38.3]**.

3.4.3 Where the IMO becomes aware of any circumstance (as specified in step 3.4.4) in relation to a Market Participant, it must:

- (a) notify the Market Participant in writing immediately; and
- (b) require the Market Participant to provide duly effective replacement Credit Support in an amount not less than its most recently determined Credit Limit,

within one Business Day of the notification or another time advised by the IMO [**Clause 2.38.3**].

3.4.4 For the purposes of clause 2.38.3 of the Market Rules, circumstances that may require replacement Credit Support in step 3.4.2 or 3.4.3 include, but are not limited to where:

- (a) Existing Credit Support is no longer current or valid;
- (b) The Credit Support provider no longer meets any one of the Acceptable Credit Criteria;
- (c) Some or all of the existing Credit Support has been drawn upon by the IMO;
- (d) The Credit Support provider ceases to or threatens to cease to carry on providing Credit Support in relation to the Market Participant; or
- (e) The Credit Support provider in relation to the Market Participant becomes insolvent or is dissolved.

3.5 Withdrawing Credit Support

3.5.1 If the IMO's review of a Market Participant's Credit Limit under step 2.1.1 results in the IMO notifying the Market Participant that the required Credit Support is lower than its existing Credit Support held with the IMO, the Market Participant may elect to withdraw an amount to decrease its Credit Support held with the IMO to not less than its most recently determined Credit Limit amount.

3.5.2 A Market Participant must request the IMO in writing for withdrawal of its Credit Support. The processes to be followed by the IMO and the Market Participant will be agreed upon following the Market Participant's request for withdrawal.

3.6 Credit Support arrangements

3.6.1 A Market Participant must ensure that its Credit Support arrangement meets the requirements of clause 2.38.4 of the Market Rules.

3.6.2 A Market Participant must provide Credit Support in the form of either a:

- (a) guarantee or bank undertaking, in accordance with the process detailed in the steps in section 3.7 of this Procedure and in accordance with clause 2.38.4(a) of the Market Rules; or
- (b) Security Deposit, in accordance with the process detailed in the steps in section 3.8 of this Procedure and in accordance with clause 2.38.4(b) of the Market Rules.

3.6.3 A Market Participant must ensure that the contact details it submits for its Credit Support arrangements are current at all times. This includes contact details for persons at the Treasury Corporation or the bank to be provided in the Contact details of guarantee/bank undertakings form. The Market Participant must update these contact details by emailing the Change of contact details form to accounts@imowa.com.au.

3.7 Submitting guarantees or bank undertakings

3.7.1 On receiving the IMO's notification to provide Credit Support in step 2.7.1, a Market Participant must download a copy of the following documents from the Market Web Site:

- (a) Proforma deed for a guarantee or bank undertaking, as applicable; and
 - (b) Acceptable Credit Criteria form (this is required if the Treasury Corporation or bank is not on the list of entities meeting the Acceptable Credit Criteria, as published on the Market Web Site).
- 3.7.2 A Market Participant must then submit to the IMO a signed original hard copy of:
- (a) the proforma deed for guarantee or bank undertaking which:
 - i. is for an amount not less than the most recently determined Credit Limit for the Market Participant;
 - ii. is in the form approved by the IMO and published on the Market Web Site; and
 - iii. has been executed by a Treasury Corporation (in the case of a guarantee) or a bank (in the case of a bank undertaking), that meets the Acceptable Credit Criteria; and
 - (b) the Acceptable Credit Criteria form for the Credit Support provider (where applicable), completed in accordance with step 4.1.
- 3.7.3 The IMO must not accept a proforma deed that does not meet the criteria in step 3.7.2(a).
- 3.7.4 At the same time as providing the guarantee or bank undertaking to the IMO, a Market Participant must also provide to the IMO:
- (a) A completed Contact details of guarantee/bank undertakings form which provides the contact details of at least two individuals representing the Market Participant and two individuals representing Treasury Corporation or bank for the IMO to contact when making a call on its Credit Support; and
 - (b) any procedure that the Treasury Corporation or bank requires the IMO to follow when calling on the Credit Support.
- 3.7.5 The IMO requires that the Treasury Corporation issuing the guarantee or the bank issuing the bank undertaking must be able to provide cleared funds up to the amount of the Credit Support within 90 minutes of the IMO making a call on the Credit Support. The Market Participant must ensure that processes are in place for the Treasury Corporation or bank to release funds within 90 minutes of the IMO making a call on the Credit Support. Failure by the Treasury Corporation or bank to release funds within 90 minutes of the IMO making a call on the Credit Support constitutes a breach of clause 2.38.4(a) of the Market Rules and triggers a Suspension Event under clause 9.23.1 of the Market Rules.
- 3.7.6 The Market Participant must provide a hard copy of the guarantee or bank undertaking to the IMO either in person or by courier or registered mail, requiring a signature on receipt.
- 3.8 Submitting Security Deposits**
- 3.8.1 On receiving the IMO's notification to provide Credit Support in step 2.7.1, a Market Participant must download a copy of the following documents from the Market Web Site:
- (a) Proforma deed for Security Deposit or Proforma deed for Security Deposit (provided by Third Party) as applicable; and
 - (b) Security Deposit instructions.

- 3.8.2 A Market Participant must then submit a signed original hard copy of the completed Security Deposit deed to the IMO which:
- (a) is in the form approved by the IMO and published on the Market Web Site; and
 - (b) has been executed by or on behalf of the Market Participant.
- 3.8.3 The IMO must not accept a proforma deed that does not meet the criteria in step 3.8.2.
- 3.8.4 The Market Participant must provide the amount of Credit Support in cleared funds by 5:00 PM on the date on which the accompanying Security Deposit deed is made, in accordance with the Security Deposit instructions. Failure by a Market Participant to provide both the completed Security Deposit deed and cleared funds constitutes a breach of clause 2.38.4 of the Market Rules and triggers a Suspension Event under clause 9.23.1 of the Market Rules.
- 3.8.5 The Market Participant must provide a hard copy of the Security Deposit deed to the IMO either in person or by courier or registered mail, requiring a signature on receipt.
- 3.8.6 The IMO must sign the original of the Security Deposit deed and return a copy of the signed original to the Market Participant.

3.9 The IMO's process of reviewing Credit Support arrangements

- 3.9.1 On receiving completed documentation for Credit Support from a Market Participant, the IMO must review the Credit Support arrangement to:
- (a) determine whether it is compliant with clause 2.38.4(a) of the Market Rules and the steps in section 3.7 of this Procedure, if the Credit Support is in the form of a guarantee or bank undertaking; or
 - (b) determine whether it is compliant with clause 2.38.4(b) of the Market Rules and the steps in section 3.8 of this Procedure, if the Credit Support is in the form of a Security Deposit.
- 3.9.2 The IMO may at its discretion, request more information from the Market Participant to support its Credit Support arrangement, by a Due Date determined by the IMO. The Market Participant must provide the relevant information by the Due Date.
- 3.9.3 Within five Business Days of the later of the dates on which the IMO receives completed documents under steps 3.9.1 and 3.9.2, the IMO must, subject to step 3.9.4, notify the Market Participant in writing that the Credit Support is either:
- (a) compliant with the Market Rules and this Procedure; or
 - (b) not compliant with the Market Rules and this Procedure and provide reasons as to why the Credit Support is not compliant.
- 3.9.4 The IMO must only notify compliance of the Credit Support in step 3.9.3(a) after the following arrangements have been completed by the Market Participant:
- (a) For a guarantee or bank undertaking, the Market Participant must have issued instructions to the Treasury Corporation or the bank to release funds within 90 minutes of the IMO making a call on the Credit Support; and
 - (b) For a Security Deposit, the Market Participant must have provided cleared funds by the date on which the accompanying Security Deposit deed is made.

3.9.5 If a Market Participant receives a notification of non-compliance under step 3.9.3(b), the Market Participant must re-submit a Credit Support arrangement in accordance with clause 2.38.4 of the Market Rules and step 3.6 of this Procedure.

3.10 Further steps by the IMO with respect to Credit Support arrangements

3.10.1 Where the Credit Support is a guarantee or bank undertaking, then at the same time as the IMO issues notice of compliance to the Market Participant in step 3.9.3(a), the IMO must also notify the Treasury Corporation or the bank in writing, that the Credit Support has been provided in accordance with clause 2.38.4(a) of the Market Rules and this Procedure.

3.10.2 After the IMO notifies the Market Participant and the Treasury Corporation or the bank, as applicable, in step 3.10.1, the IMO must place the completed guarantee or bank undertaking in a bank safe box, as soon as practicable.

3.10.3 Where the Credit Support is provided as a Security Deposit, then within 10 Business Days of cleared funds having been received by the IMO, the IMO must complete the process for registration of the security interest on the Personal Property Securities Register in accordance with the *Personal Property Securities Act 2009 (Cth)*³. As part of this process the IMO must deduct any fees incurred in registering the security interests from the balance of the Security Deposit and send a notice of the verification statement containing the details of the registration to the Credit Support provider and the Market Participant, as soon as practicable.

3.10.4 Upon completion of step 3.10.3, the IMO must place the completed Security Deposit deed in a bank safe box, as soon as practicable.

3.10.5 The IMO must update the Credit Support information for the Market Participant in the WEMS as soon as practicable after the Credit Support has become effective.

3.11 Replacing a Credit Support arrangement

3.11.1 A Market Participant may replace the Credit Support arrangement provided (for example from a Security Deposit to a bank undertaking) by notifying the IMO in writing prior to the replacement.

3.11.2 A Market Participant must include in its notification provided in step 3.11.1:

- (a) The form of replacement Credit Support arrangement to be provided;
- (b) Evidence that the replacement Credit Support will meet the requirements of clause 2.38.4 of the Market Rules; and
- (c) The date on which documents regarding the replacement Credit Support arrangement will be provided to the IMO, where the date must be at least 10 Business Days before the expiry date of the existing Credit Support held by the IMO, where applicable.

³The Personal Property Securities Act 2009 (Cth) enables any person to register its security interests on the Personal Property Securities Register (Register). The Register is a real-time electronic notice board which allows individuals and organisations to search and register security interests in personal property (see www.ppsr.gov.au for more information). For the purposes of the Act, any cash in a bank account (Security Deposit) under the control of the IMO pursuant to a Security Deposit deed that is provided to the IMO for the purposes of Credit Support (Clause 2.38.4(b)) or Reserve Capacity Security (Clause 4.13), is a form of "personal property". The IMO's interest in the Security Deposit is a "security interest", and the Security Deposit deed secures payment and performance obligations of a Market Participant.

3.11.3 The IMO must assess the replacement Credit Support arrangement in accordance with step 3.9.

3.12 Holding Security Deposits and associated costs

3.12.1 Where the IMO receives Credit Support in the form of a Security Deposit, it must:

- (a) invest any Security Deposit payments on behalf of the relevant Market Participant; and
- (b) maintain individual accounts for Security Deposits separate from any IMO operating funds accounts.

3.12.2 The IMO must credit the interest earned daily at the Bank Bill Rate on the balance of the Security Deposit to the relevant Market Participant's bank account on a monthly basis and deduct any costs and fees associated with holding the Security Deposit from the balance of the Security Deposit, including bank fees and charges **[Clause 2.38.5]**.

3.12.3 The IMO may provide written advice to a Market Participant on a monthly basis regarding the interest earned at the Bank Bill Rate and the deduction of any accrued costs and fees.

4 ACCEPTABLE CREDIT CRITERIA

4.1 Completing the Acceptable Credit Criteria form

4.1.1 Where a Market Participant elects to provide a Credit Support other than a Security Deposit and the Credit Support provider is not included on the current list of entities meeting the Acceptable Credit Criteria, the Market Participant must arrange for the completion of an Acceptable Credit Criteria form, providing evidence that the entity providing the Credit Support meets the Acceptable Credit Criteria outlined in clause 2.38.6 of the Market Rules, from either:

- (a) the Market Participant's external solicitors; or
- (b) the entity's external solicitors.

4.1.2 In completing the Acceptable Credit Criteria form under step 4.1.1, a Market Participant is responsible for arranging a firm of solicitors to undertake all necessary investigations to enable a partner of the firm to sign the Acceptable Credit Criteria form.

4.1.3 Before submitting an Acceptable Credit Criteria form, a Market Participant may submit a request to the IMO to confirm whether its particular firm of solicitors is acceptable to the IMO.

4.1.4 The IMO must respond in writing to a request received under step 4.1.3 within one Business Day of receiving the request.

4.1.5 A completed Acceptable Credit Criteria form is one that adheres to clause 2.38.6 of the Market Rules, in that the form:

- (a) has an affirmative response to each of the six statements;
- (b) has been completed with the full details of the entity to which it applies; and
- (c) has been signed by a partner from a reputable commercial law firm which is acceptable to the IMO.

4.1.6 A Market Participant submitting a completed Acceptable Credit Criteria form must submit it together with its Credit Support arrangement.

4.2 Maintaining the list of entities meeting the Acceptable Credit Criteria

- 4.2.1 In accordance with clause 2.38.7 of the Market Rules, the IMO must publish and maintain on the Market Web Site, a list of entities meeting the Acceptable Credit Criteria **[Clause 2.38.7]**.
- 4.2.2 To determine whether the entities mentioned on the list meet the Acceptable Credit Criteria, the IMO may assess any evidence provided by any Market Participants in the previous 12 months or may make its own judgment at any time **[Clause 2.38.7 (a) or (b)]**.
- 4.2.3 Where the IMO assesses an Acceptable Credit Criteria form received from a Market Participant in the previous 12 months and deems the entity to meet the Acceptable Credit Criteria, then the IMO must include that entity in the list of entities meeting the Acceptable Credit Criteria.
- 4.2.4 Every quarter, the IMO will review whether the entities included on the list continue to have acceptable credit ratings as specified in clause 2.38.6(f). The IMO must update the date and make any required changes in the list as soon as practicable after it is satisfied that the list contains the most current information **[Clause 2.38.8]**.
- 4.2.5 Where the IMO assesses that an entity no longer meets the Acceptable Credit Criteria, it may at any time remove the entity from the list of entities meeting the Acceptable Credit Criteria **[Clause 2.38.9]**.
- 4.2.6 Where the IMO removes an entity from the list of entities meeting the Acceptable Credit Criteria, it must notify affected Market Participants in writing, within one Business Day of its removal. If a Market Participant's Credit Support is affected by the notification, it must provide valid replacement Credit Support in accordance with step 3.4.2(b).

5 PRUDENTIAL SECURITY

5.1 Outstanding Amount

- 5.1.1 In accordance with clause 2.40.1 of the Market Rules, the IMO must calculate the Outstanding Amount for a Market Participant as the total of:
- (a) Unpaid Invoices representing the sum of all Invoices that have been issued to the Market Participant but remain unpaid on the current date, after subtracting any cleared voluntary prepayments; and
 - (b) Estimated accrued exposure representing all transactions in relation to STEM and Non-STEM Settlement that have occurred but have not yet been invoiced to the Market Participant. This is calculated as the sum of:
 - i. the average daily value of the most recently invoiced STEM Settlement amount multiplied by the number of days until the next Invoicing Date for STEM Settlement Statement; and
 - ii. the average daily value of the most recently invoiced Non-STEM Settlement amount multiplied by the number of days until the next Invoicing Date for Non-STEM Settlement Statement.
- 5.1.2 The IMO may also determine a Market Participant's forecast exposure (not included in the Outstanding Amount) to represent the maximum liability that may be reached until the next Invoicing Date for Non-STEM Settlement. This is calculated as a projection of the Market Participant's maximum Outstanding

Amount between the date when the Outstanding Amount is calculated and the next Invoicing Date for Non-STEM Settlement.

- 5.1.3 In determining amounts under steps 5.1.1 and 5.1.2, the IMO must use actual amounts or a reasonable estimate where actual amounts are not available **[Clause 2.40.2]**.

5.2 Voluntary prepayment

- 5.2.1 A Market Participant may make a voluntary prepayment to the IMO, at any time, to reduce its Outstanding Amount and thereby increase its Trading Margin. The Market Participant must provide a completed profoma deed for voluntary prepayments and cleared funds to the IMO **[Clause 2.40.1(c)]**.
- 5.2.2 The IMO must apply the amount of the voluntary prepayment as a reduction to a Market Participant's Outstanding Amount in the next Invoices until the prepayment is exhausted or until the IMO's reconciliation of accounts, whichever occurs first.
- 5.2.3 Once the amount has been received as cleared funds by the IMO in step 5.2.1, the Market Participant is unable to withdraw the prepaid amount.
- 5.2.4 The IMO may, in its absolute discretion, apply a fee to cover its administrative costs in facilitating voluntary prepayments.

5.3 Trading Margin

- 5.3.1 The IMO must calculate the Trading Margin for a Market Participant as the amount by which its Trading Limit exceeds its Outstanding Amount **[Clause 2.41.1]**.
- 5.3.2 Notwithstanding any other factors and analyses, a Market Participant electing to make a submission in the market should take into account the factors set out in Appendix 1 of this Procedure to determine whether that transaction could result in the Market Participant's Trading Margin being exceeded.
- 5.3.3 If a Market Participant determines that the assessment conducted in step 5.3.2 could result in its Trading Margin being exceeded, the Market Participant must not make such a submission in the market **[Clause 2.41.2]**.
- 5.3.4 The IMO may reject a submission from a Market Participant if the IMO's assessment, taking into account the factors listed in Appendix 1 of this Procedure, indicates that the transaction could result in the Market Participant's Trading Margin being exceeded **[Clause 2.41.3]**.

5.4 Margin Call

- 5.4.1 On any day that a Market Participant's Trading Margin is zero or below, the IMO may decide to make a Margin Call by issuing a Margin Call Notice **[Clause 2.42.1]**.
- 5.4.2 The IMO must issue a Margin Call Notice in writing, in which the IMO must specify the Margin Call amount and include a deadline of one Business Day for the Market Participant to provide the Margin Call amount.
- 5.4.3 The IMO must determine the Margin Call amount as that amount which will increase the Market Participant's Trading Margin to zero, at the time the Margin Call Notice is issued **[Clause 2.42.3]**.
- 5.4.4 A Market Participant must, within one Business Day from the date of issue of the Margin Call Notice, respond to the Margin Call by either:

- (a) providing a Security Deposit in cleared funds to the IMO, equivalent to the amount of the Margin Call. The Security Deposit must be made in accordance with step 3.8 of this Procedure and clause 2.38.4(b) of the Market Rules; or
 - (b) providing additional Credit Support in the form of a guarantee or bank undertaking equivalent to the amount of the Margin Call. The guarantee or bank undertaking must be made in accordance with step 3.7 of this Procedure and clause 2.38.4(a) of the Market Rules **[Clause 2.42.4]**.
- 5.4.5 If a Market Participant fails to comply with clause 2.42.4, then a Suspension Event is triggered in accordance with clause 9.23.1 of the Market Rules **[Clause 2.42.6]**.
- 5.4.6 The IMO may cancel a Margin Call Notice at any time, by notifying the Market Participant in writing. The IMO reserves the right to issue a further Margin Call Notice for the same reasons that gave rise to the cancelled Margin Call Notice **[Clause 2.42.5]**.
- 5.4.7 Where the IMO issues a Margin Call Notice, it must review the Credit Limit of the Market Participant within 30 Business Days from the date on which the Margin Call Notice was issued **[Clause 2.42.7]**. The IMO must review the Credit Limit in accordance with steps 2.2 or 2.3, as applicable.

5.5 Prudential security report

- 5.5.1 The IMO must ensure that the prudential security report for a Market Participant is updated daily on the 'Market Participant Interface' in WEMS. The prudential security report must have updated values for:
- (a) Unpaid Invoices, after offsetting cleared voluntary prepayments;
 - (b) Outstanding Amount; and
 - (c) Trading Margin.
- 5.5.2 Where applicable, the IMO may provide updated values for the Margin Call amount (calculated in step 5.4.3) and forecast exposure (calculated in step 5.1.2) on the 'Market Participant Interface' in WEMS.

6 APPLICATION OF MONIES DRAWN DOWN

6.1 Drawing upon Credit Support

- 6.1.1 Where a Suspension Event is triggered under clause 9.23.1 of the Market Rules in relation to a Market Participant, the IMO must act in accordance with clauses 9.23.4, 9.23.5 and 9.23.6 of the Market Rules with respect to issuing Cure Notices and drawing upon Credit Support.
- 6.1.2 Where a Market Participant is unable to remedy a Suspension Event under clause 9.23.7 of the Market Rules, the IMO must issue a Suspension Notice to that Market Participant and proceed in accordance with clause 2.32 of the Market Rules.
- 6.1.3 Where a Market Participant remains suspended for 90 days, the IMO may initiate the de-registration of that Market Participant in accordance with clause 2.32.6 of the Market Rules and the processes described in the *Market Procedure: Rule Participant Registration and De-registration*.
- 6.1.4 The IMO may Draw Upon the Credit Support it holds, for the benefit of:

- (a) applying it to satisfy amounts owing by the relevant Market Participant, in relation to a Security Deposit; or
 - (b) exercising the IMO's rights under the Market Rules, which include drawing or claiming an amount to satisfy amounts owing by the relevant Market Participant, in relation to guarantees and bank undertakings.
- 6.1.5 Where the IMO Draws Upon Credit Support, it may apply the monies under clause 9.24.2(a) of the Market Rules in relation to the amounts that the Market Participant is required to disgorge, pay or repay in accordance with clauses 9.24.3A to 9.24.10 of the Market Rules and the processes described in the *Market Procedure: Settlement*.
- 6.1.6 Where the IMO is unable to recover all or part of the Repaid Amount under clause 9.24.2(b) of the Market Rules, then the IMO must account for this Repaid Amount in the Reconciliation Settlement calculation under clause 9.11.1.

APPENDIX 1: FACTORS TO BE TAKEN INTO ACCOUNT IN DETERMINING THE EXPECTED VALUE OF A TRANSACTION [CLAUSE 2.41.5]

These factors are intended to provide guidance to enable a Market Participant or the IMO to determine the expected value of a transaction that would, were the transaction to be assessed taking into account the expected value factors:

- (a) enable a Market Participant to ascertain that a contemplated transaction could result in the Market Participant's Trading Margin being exceeded and therefore that the submission must not be made **[Clause 2.41.2]**; or
- (b) enable the IMO to ascertain that a contemplated transaction could result in the Market Participant's Trading Margin being exceeded and therefore that the submission may be rejected **[Clause 2.41.3]**.

Where a Market Participant or the IMO is assessing whether a transaction contemplated by a submission could result in a Market Participant's Trading Margin being exceeded, Market Participants and the IMO must:

- (a) Take into account all information that is readily available, making reasonable assumptions and estimates where necessary, based on the Market Participant's normal commercial position and trading activities and any unusual circumstances that may exist at the time; and
- (b) Arrive at a value using reasonable estimates of the Market Participant's current and forecast STEM and Non-STEM Settlement exposure, taking into account relevant prevailing, recent and/or anticipated:
 - i. Outstanding Amounts as calculated in clause 2.40.1 of the Market Rules and step 5.1 of this Procedure;
 - ii. transactions in relation to STEM and Non-STEM Settlement;
 - iii. STEM, Balancing and Reserve Capacity Prices;
 - iv. Ancillary Service charges;
 - v. Reconciliation charges;
 - vi. Forced Outages and the applicable refund factor determined in clause 4.26.1 of the Market Rules; and
 - vii. Material changes in market conditions.

In terms of assessing whether a proposed transaction contemplated by a submission could result in a Market Participant's Trading Margin being exceeded, the IMO would consider it reasonable if, for example:

- (a) A Market Participant used actual Outstanding Amounts and unpaid Invoices when considering the contemplated submission to assess current and expected liabilities arising from transactions in relation to STEM and Non-STEM Settlement;
- (b) A Market Participant used recent actual or average daily, weekly or monthly prices over the preceding three month period when considering the contemplated submission to assess current and expected liabilities arising from STEM, Balancing Market and Reserve Capacity Prices;

- (c) A Market Participant used recent actual or average Ancillary Service and reconciliation charges over the preceding three month period when considering the contemplated submission to assess current and expected Ancillary Service and reconciliation charges;
- (d) A Market Participant used prevailing refund factor and actual time on Forced Outage when considering the contemplated submission to assess current and expected Capacity Cost Refunds; or
- (e) A Market Participant took reasonable account of changes in market conditions, including but not limited to fuel availability, system demand, market prices, or any circumstance that was having or could reasonably be expected to have a material effect on market conditions.