

ELECTRICITY INDUSTRY ACT 2004

ELECTRICITY INDUSTRY (WHOLESALE ELECTRICITY
MARKET) REGULATIONS 2004

WHOLESALE ELECTRICITY MARKET RULES

Market Procedure for: Prudential Requirements

Version 2

Commencement: This Market Procedure is to have effect from 8:00am (WST) on the same date as the Wholesale Electricity Market Rule, in which this procedure is made in accordance with, commences.

Version history

12 September 2006	Market Procedure for Prudential Requirements as at Market Start
13 October 2008	IMO amended changes to the procedure resulting from Procedure Change Proposal PC_2008_08

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1. Prudential Requirements Procedure

The Prudential Requirements Procedure covers the processes by which the IMO will operate in managing liabilities that arise in the Settlement process.

This procedure is made in accordance with Market Rule 2.43.1.

1.1 Interpretation

In this procedure, unless the contrary intention is expressed:

- (a) terms used in this procedure have the same meaning as those given in the Wholesale Electricity Market Rules (made pursuant to the Electricity Industry (Wholesale Electricity Market) Regulations 2004);
- (b) to the extent that this procedure is contrary or inconsistent with the Market Rules, the Market Rules shall prevail to the extent of the inconsistency;
- (c) a reference to the Market Rules or Market Procedures includes any associated forms required or contemplated by the Market Rules or Market Procedures;
- (d) words expressed in the singular include the plural or vice versa;
- (e) the following terms have the following meanings:

“Due Date” is the due date for Credit Support notified by the IMO in accordance with Section 3.7, Step 1 of this procedure.

1.2 Purpose

The purpose of this procedure is to outline:

- how the IMO will determine Credit Limits;
- how the IMO will assess against the Acceptable Credit Criteria;
- the arrangements for Credit Support;
- how Trading Margins are to be calculated;
- guidelines for assessing the expected value of transactions;
- how Margin Calls will be issued.

1.3 Application

This procedure applies to:

- Market Participants;
- Network Operators required to fund a Network Control Service Contracts; and
- the IMO.

1.4 Overview of Prudential Requirements

The Market Rules contain various provisions governing prudential requirements (Market Rules 2.37 to 2.43).

This includes provisions outlining Acceptable Credit Criteria for Market Participants, and Network Operators in certain circumstances, to establish they are an acceptable credit risk. Where the credit criteria is not met, the IMO will require the Market Participant, or Network Operator as the case may be, to provide Credit Support in an amount not less than the Credit Limit determined by the IMO for that entity.

The IMO will monitor the financial liability of a Market Participant to the IMO, the Outstanding Amount, on a daily basis. The Outstanding Amount will be compared to the Market Participant's Trading Limit, set in accordance with the Market Rules, to arrive at the Market Participant's Trading Margin. In the event that the Market Participant's Trading Margin falls to zero or below (i.e. Outstanding Amounts exceed the Trading Limit), a Margin Call Notice is issued.

The aim of the Margin Call Notice is to reduce the Outstanding Amount to the level of Typical Accrual. The Typical Accrual represents the outstandings which would have been accrued by the Market Participant if the average price and quantity estimates used in the calculation of the Credit Limit were the Market Participant's actual price and usage over the preceding 70 days.

The Margin Call Notice compels response with either increased Credit Support or a Security Deposit of cleared funds by the next Business Day.

Market Participants are obligated not to submit to the IMO any transaction that could result in their Trading Margin being exceeded. In making this determination, the Market Participant is to value the transaction contemplated by the submission using the expected value guidelines outlined in this procedure. The IMO may reject submissions that, in its view, could result in the Trading Margin being exceeded. The IMO uses the expected value guidelines in making its determination.

A failure by a Market Participant or Network Operator to comply with an obligation under this Market Procedure constitutes a breach of clause 2.43.1 of the Market Rules and may result in the IMO proceeding with the Default process under section 9.23 of the Market Rules..

2. Credit Limit (Market Rule 2.37)

2.1 IMO Obligations

The Market Rules set out the following obligations on the IMO.

Market Participants

- 1 The IMO is required to determine a Credit Limit for each Market Participant.
- 2 The IMO is to review each Market Participant's Credit Limit at least once a year and may revise a Market Participant's Credit Limit at any time. Reasons that the IMO may review a Market Participant's Credit Limit more frequently than once a year include, but are not limited to:
 - Market Participant request;
 - issuance of a Margin Call Notice;
 - significant changes in metered consumption quantities;
 - significant changes in quantities of electricity purchased bilaterally.
- 3 The Market Rules do not prescribe the formula to determine the Credit Limit for a Market Participant, instead they outline the underlying principles and factors to be taken into account. This procedure outlines the general principles the IMO utilises in determining the Credit Limit as prescribed under clause 2.37.4 of the Market Rules. Clause 2.37.4 also outlines what the IMO must take into consideration when determining the Credit Limit.
- 4 The IMO will provide notification to each Market Participant of its Credit Limit, and any revised Credit Limit. including details of the basis for making the determination.

Network Operators

- 5 The IMO is required to determine a Credit Limit for each Network Operator that is required to fund a Network Control Service Contract.

- 6 The Credit Limit is determined as the maximum possible amount payable over a 70 day period under the Network Control Service Contract.
- 7 The IMO is required to review a Network Operator's Credit Limit at the commencement and termination of a Network Control Service Contract.
- 8 The IMO will provide any Network Operator to which this procedure relates written notification of their Credit Limit, and any revised Credit Limit, including details of the basis for making the determination.

2.2 Market Participant Obligations

- 1 The Wholesale Electricity Market System ("WEMS") provides a screen for Market Participants to enter prudential support details online as part of the Rule Participant registration process. For a description of the fields for completing prudential support details on WEMS, refer to the Market Participant Registration Software User Guide ("User Guide") available on the Market Web Site. The fields to be completed in the Prudential Support Display are described in section 3.7 of the User Manual including an illustration of the Prudential Support Display screen on the WEMS.

A Market Participant must give notice to the IMO in the event that it considers that:

- (a) its metered consumption quantities in a Trading Month will significantly exceed the amount used in the calculation of its Credit Limit; or
- (b) its quantity of electricity purchased bilaterally in a Trading Month will be significantly lower than used in the calculation of its Credit Limit.

The notification is to be made in writing, by email to imo@imowa.com.au, as soon as practicable, and no later than one Business Day after the Market Participant makes the determination.

2.3 Methodology/Calculation for Determining Credit Limits for existing Participants

- 1 The IMO is required to outline how it will determine Credit Limits. The method for setting the Credit Limit will normally be based on a Market Participant's Anticipated Maximum Exposure (AME) to the Market over 70 consecutive days. The IMO's method for determining this is as follows:

- a) For each settled Trading Month (Non-STEM) the IMO calculates the Trading Day exposure for each participant to the market. This Trading Day exposure consists of the balancing settlement for the Trading Day and each day's share of Ancillary Service payments, Market Fees, Reconciliation Settlement and Reserve Capacity payments.
 - b) Using each day's Trading Day exposure, the IMO calculates the total running 70 day exposure, for all consecutive 70-day periods up to the last day of the last settled Trading Month.
 - c) The highest running 70 day total, plus GST, determines a Participant's 70 day exposure to Non-STEM.
 - d) For Participants participating in STEM, the IMO determines the maximum consecutive 15 day exposure for the participant to STEM (with the addition of GST).
 - e) The determined maximum Non-STEM exposure over 70 consecutive days is added to the maximum 15 day exposure to the STEM. This total makes up the AME and sets the Credit Limit for the Participant.
- 2 Whilst the AME will usually be used to set Credit Limits, there are instances where it will not. These instances include, but are not limited to:
 - A new Participant without prior history in the Market;
 - dramatic changes in circumstances, such as significant increase in customer numbers, acquisition of plant or other operational changes;
 - dramatic changes in commercial behaviour, such as abrupt cessation in bilateral contracting and instead purchasing all energy on the STEM.
 - 3 The approach adopted for calculating the Credit Limit will necessitate modelling assumptions. The reasonableness of the IMO's modelling assumptions will be monitored and periodically tested to ensure the adopted methodology continues to estimate a Credit Limit that meets the requirements of the Market Rules.
 - 4 The Wholesale Electricity Market System (WEMS) contains a Report (named PRM_Indicator) in which Participants can monitor their AME, as well as their Available Exposure or Trading Margin (see section 4 of this Procedure)

2.4 Methodology/Calculation for Determining Credit Limits for a new Participant

1. Before a Market Participant has participated in the Market, the IMO will determine an initial Credit Limit based on the assumptions listed in this section 2.4. When the IMO has one full month of settled data in Non-STEM, it may use this settled data, extrapolated to 70 days, plus any consecutive 15 days of STEM exposure to determine a new Credit Limit.
2. After three Non-STEM settlements for the Market Participant, the IMO may determine a Credit Limit using the method described in section 2.3.

2.4.1 New Market Generator

1. Prior to having actual values from which to determine the Credit Limit, the IMO may set an initial Credit Limit based on the following data, to be provided by the Participant during Registration and/or upon request from the IMO:
 - The Generation capacity of its facilities
 - The certified capacity of its facilities
 - The amount of energy it has bi-laterally contracted
 - The amount of Capacity Credits bilaterally traded
2. Based on this data, the IMO may determine:
 - The maximum cost of the energy assumed to be bought in balancing over 70 days
 - The maximum amount of Market Fees and Ancillary Service Payments over 70 days
 - The maximum amount of Reserve Capacity Refunds over 70 days
3. The above forms the basis for the IMO's determination of the initial Credit Limit for the new Market Generator.
4. A Market Generator with a Facility under construction, who has not yet provided Credit Support to the IMO, will have to provide Credit Support amounting to at least the initial Credit Limit before the end of the Commissioning Trial.
5. In order to cover the Market Generator's exposure to the market for energy consumed during the Commissioning Trials, it must provide Credit Support covering at least 10% of the initial Credit Limit before commissioning commences. The Participant also needs to complete all Prudential and Financial registration requirements prior to the commencement of its Commissioning Trials (see the Market Procedure for Participant Registration).

2.4.2 New Market Customer

1. Prior to having actual values from which to determine the Credit Limit, the IMO may set an initial Credit Limit based on the following data, to be provided by the Participant upon request from the IMO:
 - The amount of energy contracted to sell
 - The amount of Capacity Credits assigned under bi-lateral contracts
 - The amount of energy to be purchased under bi-lateral contracts

2. Based on this data, the IMO may determine:
 - The maximum cost of energy to be bought in the balancing market over 70 days
 - The maximum amount of capacity credits to be bought from the IMO over 70 days

3. This determination forms the basis for the IMO's setting of the initial Credit Limit for the new Market Customer.

3. Credit Support Arrangements (Market Rule 2.38)

3.1 Requirement for Credit Support

- 1 Pursuant to clause 2.38.1 of the Market Rules, a Market Participant or Network Operator must ensure that the IMO holds the benefit of Credit Support if they do not meet the Acceptable Credit Criteria outlined in Market Rule 2.38.6.
- 2 The amount of Credit Support is to be no less than the Credit Limit determined for the Market Participant or Network Operator, by the IMO.
- 3 If a Market Participant or Network Operator has provided Credit Support which is due to expire on a given date, it must, no less than ten days prior to the expiration or termination of existing Credit Support, provide replacement Credit Support in an amount not less than their determined Credit Limit. The replacement Credit Support must become effective at the expiry of the existing Credit Support.
- 4 A Market Participant or Network Operator, must provide replacement Credit Support, or increase their current Credit Support, to an amount not less than their determined Credit Limit in the following circumstances:
 - where the IMO has increased the Credit Limit;
 - where existing Credit Support is no longer current or valid (e.g. credit support provider no longer meets Acceptable Credit Criteria);
 - where some, or all, of the Credit Support has been drawn on by the IMO;
 - when the Market Participant or Network Operator wishes to change the type of Credit Support provided, for example from a Security Deposit to a Bank Undertaking.

The Market Participant or Network Operator must ensure that the IMO holds the benefit of the replacement Credit Support within one Business Day of receiving notice from the IMO.

3.2 Procedure steps to be followed by a Market Participant or Network Operator to confirm it meets the Acceptable Credit Criteria

A Market Participant or Network Operator that meets the Acceptable Credit Criteria does not have to provide Credit Support to the IMO

- 1 The Market Participant or Network Operator must download a copy of the Acceptable Credit Criteria Form from the Market Web Site.
- 2 The Market Participant or Network Operator 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.
- 3 A completed Acceptable Credit Criteria Form is one that:
 - (a) has an affirmative response to each of the six statements; and
 - (b) has been completed with the full details of the entity to which it applies; and
 - (c) has been signed by a reputable firm of solicitors which is acceptable to the IMO.
- 4 The IMO may in its absolute discretion determine whether a firm of solicitors meets the requirements of Step 3(c).
- 5 Before submitting an Acceptable Credit Criteria Form, the Market Participant or Network Operator may submit a request to the IMO to confirm whether a particular firm of solicitors meets the requirements of Step 3(c).
- 6 If the IMO requests the Market Participant or Network Operator to provide any supporting documents to support the statements in the Acceptable Credit Criteria Form, the Market Participant or Network Operator must provide all relevant documents within one Business Day or any other time agreed with the IMO.

3.3 Procedure steps to be followed where a Market Participant or Network Operator is required to ensure that the IMO holds the benefit of Credit Support.

- 1 If a Market Participant or Network Operator is required to provide Credit Support under clause 2.38 of the Market Rules, the Market Participant or Network Operator must provide the Credit Support by the Due Date notified by the IMO.

- 2 The Market Participant or Network Operator can provide the Credit Support by way of:
 - Guarantee or Undertaking, in accordance with the procedures detailed in Section 3.4 of this Market Procedure; or
 - Security Deposit, in accordance with the procedures detailed in Section 3.5 of this Market Procedure. (Market Rule 2.38.4)

3.4 Procedure steps to be followed by the Market Participants and Network Operators for Guarantees or Undertakings

- 1 The Market Participant or Network Operator must download a copy of the following documents from the Market Web Site:
 - Proforma Guarantee or Undertaking, as applicable; and
 - Acceptable Credit Criteria Form (this is not required if the Bank or Treasury Corporation is on the list of acceptable credit providers, as published on the IMO Market Web Site).
- 2 The Market Participant or Network Operator must by the Due Date notified by the IMO, submit to the IMO:
 - (a) a completed Guarantee or Undertaking for an amount not less than the Credit Limit determined for the Market Participant or Network Operator, as the case may be; and
 - (b) a completed Acceptable Credit Criteria Form for the credit support provider (if applicable).
- 3 A completed Guarantee or Undertaking is one that:
 - (a) is in the form approved by the IMO from time to time; and
 - (b) has been executed by a Treasury Corporation, Guarantee, or a Bank ,Undertaking, that meets the Acceptable Credit Criteria.
- 4 the Guarantee or Undertaking must be consistent with the most recent proforma version available on the IMO website and only modified to the extent contemplated in the proforma version. The IMO does not allow any variations from the proforma.
- 5 The approved form of Guarantee and the approved form of Undertaking each require that the Treasury Corporation or Bank issuing the Guarantee or Undertaking must

provide funds up to the amount of the Credit Support within 90 minutes of the IMO making a call on the Credit Support.

- 6 At the time of providing a Guarantee or Undertaking to the IMO, the Market Participant or Network Operator must also provide to the IMO:
 - Contact details of no less than two individuals at the Bank or Treasury Corporation whom the IMO can contact in regard to making a call on the Credit Support.
 - Any special procedure the Bank or Treasury Corporation requires the IMO to follow when calling on the Credit Support.
- 7 The Market Participant or Network Operator must ensure that the Bank or Treasury Corporation agrees with the IMO on a process that will enable the IMO to access funds within 90 minutes. Failure by the Bank or Treasury Corporation to do so will constitute a breach of clause 2.43.1 of the Market Rules by the Market Participant or Network Operator.
- 8 When providing a Guarantee or Undertaking to the IMO, the Market Participant or Network Operator should agree on a place of delivery with the IMO and hand over the document to the IMO in person. For additional security, two people from the Market Participant or Network Operator and two people from the IMO should be present during the transaction.
- 9 If the Market Participant or Network Operator is not able to hand over the document in person, it should be provided to the IMO by Courier or Recommended Mail, requiring a signature of receipt.
- 10 The IMO will provide a written receipt to the Market Participant or Network Operator upon receipt of the Guarantee or Undertaking.
- 11 If the Market Participant or Network Operator provides a Guarantee or Undertaking to the IMO and the IMO determines that the Guarantee or Undertaking is not compliant with the Market Rules or this Market Procedure, then the Market Participant must submit Credit Support that is compliant with the Market Rules and this Market Procedure on or before the Due Date, or as agreed upon with the IMO.
- 12 If the Market Participant or Network Operator has not received notification of compliance of the Credit Support within two Business Days of submitting all documentation, it is the obligation of the Market Participant to contact the IMO directly to request and receive confirmation whether the Credit Support is compliant.

3.5 Procedure steps to be followed by the Market Participants and Network Operators for Security Deposits

- 1 The Market Participant or Network Operator must download a copy of the following documents from the Market Web Site:
 - Proforma Security Deposit Deed; and
 - Security Deposit Instructions.
- 2 By the Due Date notified by the IMO, the Market Participant or Network Operator must:
 - (a) submit 2 signed originals of a completed Security Deposit Deed to the IMO ; and
 - (b) provide, in cleared funds, the amount of Credit Support for an amount not less than the Credit Limit determined for the Market Participant or Network Operator to the IMO in accordance with the Security Deposit Instructions.

It is to be noted that a failure by the Market Participant or Network Operator to provide both the completed Deed and the cleared funds by the Due Date specified by the IMO is a non compliance with clause 2.38.1 of the Market Rules and a suspension event under clause 9.23.1 of the Market Rules.

Should the Market Participant or Network Operator require time beyond the Due Date to provide the Deed to the IMO, it must request this from the IMO in writing. The IMO is not obliged to agree to any such request.

- 3 A completed Security Deposit Deed is one that:
 - (a) is in the form approved by the IMO from time to time; and
 - (b) has been executed by or on behalf of the Market Participant or Network Operator.
- 4 If the Market Participant or Network Operator submits the Credit Support to the IMO under Step 2 and the IMO determines that the Credit Support is not compliant with the Market Rules or this Market Procedure, then the Market Participant may submit further Credit Support that is compliant with the Market Rules and this Market Procedure on or before the Due Date.
- 5 If the Market Participant or Network Operator has not received notification of compliance of the Credit Support within two Business Days of submitting all

documentation, it is the obligation of the Market Participant to contact the IMO directly to request and receive confirmation whether the Credit Support is compliant.

- 6 If the IMO notifies the Market Participant or Network Operator that the Security Deposit Deed meets the requirements of the Market Rules and this Market Procedure then the Market Participant or Network Operator must provide, in cleared funds, the amount of Credit Support to the IMO in accordance with the Security Deposit Instructions by the Due Date. The IMO will sign the two originals of the Deed and return one signed original to the Market Participant or Network Operator.
- 7 If the IMO notifies the Market Participant or Network Operator that the Security Deposit Deed does not meet the requirements of the Market Rules and this Market Procedure then the Market Participant or Network Operator must, by the Due Date:
 - (a) submit a Security Deposit Deed that meets the requirements of the Market Rules and this Market Procedure and provide, in cleared funds, the amount of Credit Support to the IMO in accordance with the Security Deposit Instructions; or
 - (b) provide another form of Credit Support under this Market Procedure.
- 8 The Security Deposit Deed contains a clause which specifies:

“The Depositor shall, within 14 days after the date of execution of this Deed, comply with section 263 of the Corporations Act 2001 (Cth) in relation to the security created by the Depositor under this Deed.”

This clause requires the Market Participant or Network Operator to register with ASIC a charge for the Security Deposit which nominates the IMO as the chargee. Further details can be found on the ASIC website; however the participant may wish to seek advice as to the process of lodgement. Please note that the IMO is not a corporation, and this should be indicated on the appropriate form.

Once the Security Deposit Deed is registered, the Market Participant or Network operator must provide evidence of registration to the IMO within 14 days of the date the Security Deposit Deed was signed by the IMO and returned back to the Market Participant or Network Operator. A failure to provide the IMO with a copy of the registered charge within 14 days constitutes a breach of clause 2.43.1 of the Market Rules.

3.7 Procedure steps to be followed by the IMO for provision of Credit Support

- 1 At the same time as the IMO notifies the Market Participant or Network Operator of the Credit Limit determined under clause 2.37.1 or 2.37.6 of the Market Rules, the IMO must notify the Market Participant or Network Operator whether it is required to provide Credit Support and the due date (“Due Date”) for any Credit Support required.
- 2 On receiving a submission from a Market Participant or Network Operator for Credit Support, the IMO must review the Credit Support arrangement and determine whether it is compliant with the Market Rules and this Market Procedure (including but not limited to whether it meets the Acceptable Credit Criteria requirements).
- 3 Within five Business Days of receiving all documentation for Credit Support arrangements, IMO must notify the Market Participant or Network Operator that the Credit Support is either:
 - compliant with the Market Rules and this Market Procedure; or
 - not compliant with the Market Rules or this Market Procedure, in which case the IMO must provide reasons as to why the Credit Support is not compliant.
- 4 If the Market Participant or Network Operator submits its Credit Support documentation to the IMO and the IMO determines that the Credit Support is not compliant with the Market Rules or this Market Procedure, then the IMO must notify the Market Participant or Network Operator on the first Business Day following the Business Day on which the Market Participant submitted the Credit Support documentation and must provide reasons as to why the Credit Support is not compliant.
- 5 In the case of a Guarantee or Undertaking, at the same time as the IMO issues confirmation to the Market Participant or Network Operator that the Guarantee or Undertaking meets the requirements of the Market Rules, the IMO must notify the entity that executed the Guarantee or Undertaking that Credit Support has been provided in accordance with clause 2.38 of the Market Rules.
- 6 In the case of a Security Deposit Deed, at the same time as the IMO issues confirmation to the Market Participant or Network Operator that the Security Deposit Deed meets the requirements of the Market Rules and this Market Procedure, the IMO must execute the completed Security Deposit Deed.

3.8 Procedure steps to be followed by the IMO to assess compliance under the Acceptable Credit Criteria Rules

- 1 Within one Business Day of receiving an Acceptable Credit Criteria Form from a Market Participant or Network Operator, the IMO must assess the compliance and completeness of the Acceptable Credit Criteria Form in accordance with this Market Procedure.
- 2 A completed Acceptable Credit Criteria Form is one that:
 - (a) has an affirmative response to each of the statements; and
 - (b) has been completed with the full details of the entity to which it applies; and
 - (c) has been signed by a reputable firm of solicitors which is acceptable to the IMO.
- 3 The IMO may, in its absolute discretion, determine whether a firm of solicitors meets the requirements of Step 2(c).
- 4 If the IMO receives a request to confirm whether a particular firm of solicitors meets the reputable firm of solicitors requirements under the Acceptable Credit Criteria, the IMO must notify the Market Participant on the Business Day following the Business Day on which the IMO received the request, whether that firm of solicitors meets the requirements of Step 2(c).
- 5 If the IMO is satisfied that the Acceptable Credit Criteria Form has been submitted and completed in accordance with these Market Procedures, then the IMO must deem that the entity to which the Acceptable Credit Criteria Form applies meets the Acceptable Credit Criteria under clause 2.38.6 of the Market Rules.
- 6 At any time after the IMO receives a completed Acceptable Credit Criteria Form, the IMO may request the Market Participant or Network Operator to provide documents to support the responses to the statements in the Acceptable Credit Criteria Form, and the Market Participant or Network Operator must provide all relevant documents within one Business Day or any other time agreed with the IMO.

3.9 Holding of Security Deposits and Associated Costs

- 1 The IMO invests any security deposit payments on behalf of the relevant Market Participant or Network Operator. The IMO maintains individual trust accounts for security deposits separate from IMO operating funds.
- 2 Interest earned on the balance of the security deposit is credited to the relevant Market Participant or Network Operator on a monthly basis.
- 3 Any costs and fees associated with holding a security deposit is deducted from the balance of the security deposit as such costs and fees accrue on a pro rata basis.

3.10 Application of Monies Drawn Down

- 1 The IMO may draw upon the Credit Support it holds the benefit of:
 - (a) in relation to a Security Deposit, to apply it to satisfy amounts owing by the relevant Market Participant or Network Operator; or
 - (b) in relation to Guarantees and Bank Undertakings, to exercise the IMO's rights under the Credit Support, including by drawing or claiming an amount under it to satisfy amounts owing by the relevant Market Participant or Network Operator.
- 2 Monies drawn from Credit Support may be applied in respect of the following:
 - (a) in the event of a suspension event, as provided in clause 9.23.1 of the Market Rules, for the amount which the IMO determines is actually or contingently owing by the Market Participant or Network Operator to the IMO under the Market Rules (Market Rule 9.23.4);
 - (b) in the event that a Market Participant or Network Operator fails to make a payment under the Market Rules to the IMO before it is due, for an amount to meet the payment (Market Rule 9.24.1); and
 - (c) in the event that insolvency laws requires the IMO to pay or repay an amount paid by a Market Participant, for the amount of the required payment. (Market Rule 9.24.2)

4. Trading Margin (Market Rule 2.41)

- 1 A Market Participant's Trading Margin is the amount that its Trading Limit exceeds its Outstanding Amount.
- 2 The Trading Limit is 87 percent of the total amount of the Market Participant's Credit Support that can be drawn, claimed or applied. (Market Rule 2.39)
- 3 The Outstanding Amount at any given time is the greater of zero or:
 - (a) all amounts payable by the Market Participant under the Market Rules to the IMO; less
 - (b) all amounts payable by the IMO under the Market Rules to the Market Participant. (Market Rule 2.40)

In making this calculation, the IMO is to use actual amounts for which Settlement Statements have been issued and a reasonable estimation of any other amounts.

- 4 A daily Prudential Risk Indicator Report (titled PRM_Indicator) is published to Rule Participants in the WEMS.
- 5 A Market Participant may make voluntary payments to the IMO in consideration for reducing the Market Participant's outstandings below trading limits.

Submissions to the IMO in relation to contemplated transactions

- 6 A Market Participant must not make a submission to the IMO in relation to any transaction that could result in the Market Participant's Trading Margin being exceeded.
- 7 The IMO has the discretion to reject any submission from a Market Participant if, in the IMO's opinion, the transaction could result in the Market Participant's Trading Margin being exceeded.
- 8 For the purpose of determining if a transaction could result in the Market Participant's Trading Margin being exceeded, the transaction is to be valued according to the expected value guidelines outlined in Section 5 of this procedure and contemplated by clause 2.37.9 of the Market Rules.

5. Margin Call (Market Rule 2.42)

5.1 IMO Obligations

- 1 Any time a Market Participant's Trading Margin falls to zero or below, the IMO may, but is not required to, issue a Margin Call Notice. The Trading Margin falls below zero when a Market Participant's Outstanding Amounts exceeds the Market Participant's Trading Limit.
- 2 The Margin Call Notice is to specify a Margin Call amount and provide a deadline of one Business Day for the Market Participant to provide the Margin Call amount.
- 3 The Margin Call amount is a Market Participant's Outstanding Amount (see Section 4, Step 3 above) less the Market Participant's Typical Accrual.
- 4 The Typical Accrual, at any time, is what the IMO determines would have been a Market Participant's Outstanding Amount, at that time, if the following were to apply:
 - The prices and quantities applying to amounts payable by the Market Participant equalled the average prices and quantities as applied to the Market Participant's current Credit Limit.
- 5 The IMO may, but is not required to, cancel a Margin Call Notice at any time. The IMO reserves the right to issue a further Margin Call Notice for the same reasons that gave rise to the cancelled Notice.
- 6 The IMO is required to review the Credit Limit of a Market Participant in the event the IMO issues a Margin Call Notice. The Credit Limit must be adjusted in line with the amount of the Margin Call.

5.2 Market Participant Obligations

- 1 A Market Participant is required to respond to a Margin Call Notice by 11.00 am the following Business Day.
- 2 In accordance with Market Rule 2.42.4, a Market Participant must respond to a Margin Call Notice by either:

- (a) providing a Security Deposit, in cleared funds, to the IMO in the amount of the Margin Call. The security deposit can be made by, or on behalf of, the Market Participant; or
- (b) providing additional Credit Support in the amount of the Margin Call.

6. Default

- 1 Failure to comply with a Margin Call Notice within the specified timeline gives rise to a suspension event for the Market Participant, in accordance with the default provisions in clause 9.23 of the Market Rules. Other events that will trigger the issue of a Cure Notice are listed in clause 9.23.1 of the Market Rules.
- 2 The IMO, as soon as practicable, may issue a Cure Notice requiring rectification within a 24 hours of the Cure Notice being issued. In addition, if applicable to the event causing the default situation, the IMO will draw on the Market Participant's Credit Support, if it has not already done so already. (Market Rule 9.23.4)
- 3 The IMO may extend the deadline for rectification, but this is restricted to a maximum of five days for breaching a Prudential Requirement. To provide an extension, the IMO must consider that:
 - (a) the Market Participant is able to fully comply with the Cure Notice before the end of the extended deadline; and
 - (b) the Market Participant was not capable of doing so within the 24 hour timeframe following the issuance of the Cure Notice.
- 4 In the event that a Market Participant fails to comply with a Cure Notice, whether within the original or extended deadline, the IMO has the power to issue a Suspension Order. (Market Rule 9.23.7) Clause 2.32 of the Market Rules, in relation to Suspension and Deregistration, begins to apply. It provides that:
 - the IMO must issue a Suspension Notice to the Market Participant, and provide copies to all Rule Participants;
 - the Suspension Notice may contain directions to be complied with by the Market Participant to give effect to the Suspension Notice;
 - the Market Participant is required to comply with the Suspension Notice, including:
 - only trading to the extent specified in the Suspension Notice, including ceasing trade if so provided; and
 - continue meeting any existing Reserve Capacity Obligations specified in the Suspension Notice;
 - the IMO has the power to do any, or all, of the following:

- cancel or reject any Submissions from, or on behalf of, the Market Participant;
 - withhold payments owed to the Market Participant.
- 5 In addition, the IMO is able to require a Network Operator to disconnect one or more Facilities to give effect to the Suspension Notice.

It should be noted, however, that this does not take into account the Retailer of Last Resort scheme, which will operate separately.

- 6 If the Market Participant remedies its breach the IMO will withdraw a Suspension Notice and inform all Rule Participants of the withdrawal.
- 7 Where a Market Participant has been suspended for 90 days the IMO may apply to the Energy Review Board for de-registration.

7. Amendments to proforma documents

- 1 The IMO may, in its absolute discretion, from time to time approve and make available on the Market Web Site:
 - updates and amendments to the any forms set out in this procedure to be made available on the IMO website; or
 - additional documents in connection with this Market Procedure; or
 - both of the above.
- 2 If the IMO updates and amends a document or approves an additional document prior to a Market Participant's provision of Credit Support under this procedure, the updated or amended document or additional document will apply to the IMO's consideration of the compliance of the Credit Support.
- 3 An update or amendment to a document does not affect the status or terms of existing Credit Support arrangements.
- 4 The IMO must notify relevant Market Participants when it approves updates or amendments to documents or approves an additional document under this Procedure.