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## Wholesale Electricity Market Rule Change Proposal Submission Form

### RC\_2011\_09 Prudential Requirements

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#### Submitted by

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#### Submission

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

#### Background

Clause 2.37.4 of the Wholesale Electricity Market Rules (Market Rules) describes the basis on which the Independent Market Operator (IMO) is to determine Credit Limits for Market Participants, a function given to it under clause 2.37.1. Specifically, clause 2.37.4 states that for each Market Participant, the Credit Limit:

*...is the dollar amount determined by the IMO as being equal to the maximum net amount that the Market Participant is **expected** to owe the IMO over any 70 day period where this amount is **not expected** to be exceeded more than once in a 48 month period...(emphasis added).*

Subclauses (a) to (j) of clause 2.37.4 then make reference to specific historical data that the IMO must take into account in determining Credit Limits. A Market Participants will generally be required to ensure it provides enough Credit Support (unconditional payment of a set level of funds to the IMO by a non-Rule Participant with a satisfactory credit rating) to cover its Credit Limit.

The IMO also determines a Trading Limit for a Market Participant by multiplying a prudential factor (0.87) by its Credit Limit. Where a Market Participant's activities in the market are getting close to its Trading Limit it may voluntarily pay a security deposit to the IMO to

guarantee against future payments. The Outstanding Amount for a Market Participant is determined under clause 2.40 of the Market Rules and is reflective of the total net amount owed to the IMO less any security deposits it has provided. The amount by which a Market Participant's Trading Limit exceeds its Outstanding Amount is the Trading Margin (clause 2.41). Where a Trading Margin drops below zero then the IMO may issue a Margin Call notice to a Market Participant (clause 2.42).

Clause 2.41.2 precludes a Market Participant from making a submission to the IMO where the transaction contemplated by the submission could result in the participant's Trading Margin being exceeded, while clause 2.41.3 allows the IMO to reject a submission where, in its opinion, the transaction could result in the Trading Margin of the Market Participant being exceeded.

Both clause 2.41.2 and 2.41.3 require the transaction contemplated by the submission to be valued according to the expected value guidelines that the IMO is required to develop under clause 2.37.9, which must be consistent with the methodology that the IMO uses to determine Credit Limits for Market Participants.

### **Rule Change Proposal**

RC\_2011\_09 proposed to amend the Market Rules as follows.

1. Amend the manner in which the IMO is required to determine Credit Limits under clause 2.37.4 to:
  - a. allow for the different treatment of new participants and existing participants; and
  - b. delete sub clauses (a) – (j) as '...they are impossible to apply in practice and the intended principles (e.g. volatility, metered consumption, bilaterals) are adequately captured by the use of historical data as the starting point for calculating Credit Limits.'
2. Amend the determination of Outstanding Amounts under clause 2.40 to provide '...greater understanding and clarity of what is incorporated into the Outstanding Amount'.
3. Delete clause 2.37.9 and amend clauses 2.41.2 and 2.41.3 to replace references to the 'expected value of a transaction' with 'reasonable assumptions about the Market Participant's Net Current Liability and Net Forecast Liability to the IMO.'

### **Draft Rule Change Report**

In its Draft Rule Change Report the IMO proposed to reject the proposed amendments put forward under RC\_2011\_09 and development a new Rule Change Proposal for the following reasons:

1. The proposed amendments to the determination of Credit Limits under clause 2.37.4 were too prescriptive and did not allow the IMO to exercise any discretion. For example it is possible that historical data may not be an appropriate representation of a Market Participant's forecast liabilities in some circumstances; and
2. Key information that the IMO would require to determine the Outstanding Amount as proposed under RC\_2011\_09 was incorrectly assumed to be available following the

implementation of the Rule Change Proposal: Competitive Balancing and Load Following Markets (RC\_2011\_10). The IMO notes in its report that restrictions in the availability of information due to delays in metering data, dispatch information and final Theoretical Energy Schedule calculations mean that the originally proposed amendments to the calculation of Outstanding Amount and removal of the expected value of transaction guidelines require further review.

### **Alinta's views**

Alinta supports the IMO's proposed decision to reject the proposed amendments as presented in its Draft Rule Change Report. In particular, Alinta notes that contrary to the stated intention of RC\_2011\_09, the proposed amendments would actually reduce the IMO's ability to determine Credit Limits that reflect participants' expected credit exposure to the Wholesale Electricity Market, and that the Market Rules as amended would therefore not better achieve the Market Objectives.

Alinta's specific comments are as follows, including a number of suggestions for consideration by the IMO when preparing its new Rule Change Proposal.

### **Determination of Credit Limits (Issue 1)**

Alinta agrees with the IMO's assessment that the proposed amended clause 2.37.4 is too prescriptive and would not provide an avenue through which the IMO can apply discretion to alter a 'starting' Credit Limit to reflect other known information (e.g. such as higher expected future Ancillary Services payments).

Alinta considers that the variables currently outlined in clause 2.37.4 (a) – (j) are intended and necessary to describe the factors that the IMO must have regard to in forming its expectation of the amount a Market Participant may owe the IMO over any 70 day period. That is, these variables recognise that historical data alone may not be adequate for determining Credit Limits for a future period. For example, if a Market Participant's level of Ancillary Service payments was expected to increase as a result of the implementation of new Amending Rules or due to facility aggregation, the IMO would be able to take this matter into account.

Given the potential impacts on the prudential requirements on both new and existing Market Participants Alinta Energy considers that it is most appropriate that clause 2.37.4 clearly prescribes the circumstances in which the IMO may rely on other information in setting the Credit Limit.

### ***Further suggestions***

Alinta also offers the following further suggested amendments to the process for determining Credit Limits for the IMO's consideration during the development of its new Rule Change Proposal.

- New Clause 2.37.2A: A new rule should be made so that in addition to the IMO being able to revise a Market Participant's Credit Limit at any time (as per clause 2.37.2), a Market Participant should also be able to apply to the IMO to review and if appropriate revise its Credit Limit outside of the situations contemplated by clause 2.37.5. This would be consistent with the discretion currently provided for the IMO to

revise a Credit Limit following a request from a Market Participant outlined in step 2.1.2 of the Market Procedure for Prudential Requirements; and

- Clause 2.37.5: It appears that this clause focuses on changes in a Market Customers position and doesn't directly consider that changes in a Market Generators position may occur. A Market Generator with increased bilateral contracts would be more likely to buy from the market and therefore it may be appropriate for the IMO to determine a revised Credit Limit. There may be value in considering whether clause 2.37.5 unnecessarily limits the situations under which a Market Participant must notify the IMO of a change in circumstances.

### **Outstanding Amount, Typical Accrual and Margin Call (Issue 2)**

While there would be value to the market in both greater clarity of the manner in which a Market Participant's Outstanding Amount is calculated and ongoing transparency via daily calculation and publishing of the Outstanding Amount, Alinta notes the issues identified by the IMO around the availability of necessary data. Alinta supports the IMO's decision to further consider the calculation of Outstanding Amount in light of this point.

### **Expected Value of Transaction Guidelines (Issue 3)**

Given the IMO's noted concerns around its ability to continue to remove the expected value of transactions guidelines due to data availability restrictions, Alinta supports the IMO in further considering whether it would have the required information to be able to appropriately form assumptions around a Market Participants Net Current Liability and Net Forecast Liability.

Should the IMO determine that the expected value of guidelines can continue to be removed from the Market Rules, any forthcoming amendments to clauses 2.41.2 and 2.41.3 need to ensure that it is clear that the obligation on a Market Participant or the IMO relates to the expected affect of the transaction that is being contemplated/submitted on the Market Participant's Net Current Liability and Net Forecast Current Liability.

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

Not applicable.

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

Not applicable.

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

Not applicable.