

# MARKET PROCEDURE: RESERVE CAPACITY SECURITY

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## VERSION RELEASE HISTORY

Version	Effective Date	Summary of Changes
1.0	24 July 2009	Market Procedure for Reserve Capacity Security
2.0	2 April 2012	Amendments to Market Procedure resulting from PC_2012_01
3.0	19 January 2015	Amendments to Market Procedure resulting from PC_2013_05
4.0	30 November 2015	Changes resulting from the transfer of functions from the IMO to AEMO

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## CHAPTER 1. PROCEDURE OVERVIEW

### 1.1. Relationship with the Market Rules

- 1.1.1. This Market Procedure: Reserve Capacity Security (Procedure) is made in accordance with clause 4.13.8 of the Wholesale Electricity Market (WEM) Rules (Market Rules).
- 1.1.2. Reference to particular Market Rules within the Procedure, which are in bold and square brackets [**Clause XX**] are current as of 1 November 2014. These references are included for convenience only and are not part of this Procedure.
- 1.1.3. AEMO may modify or extend a date or time set under section 4.1 of the Market Rules (except the dates and times set by clauses 4.1.18, 4.1.26, 4.1.29 and 4.1.30) in accordance with the requirements outlined in clause 4.1.32 of the Market Rules.

### 1.2. Purpose of this Procedure

- 1.2.1. This Procedure outlines the processes for dealing with:
- (a) determining the initial and ongoing requirement for and the value of Reserve Capacity Security for a Facility;
  - (b) assessing persons against the Acceptable Credit Criteria;
  - (c) Reserve Capacity Security arrangements, including:
    - (i) the form of acceptable guarantees and bank undertakings;
    - (ii) where and how AEMO will hold cash deposits and how the costs and fees for holding cash deposits will be met; and
    - (iii) the application of monies drawn upon from Reserve Capacity Security in respect to amounts payable by the relevant Market Participant to AEMO under clause 4.13.11A of the Market Rules; and
  - (d) other matters relating to section 4.13 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) Certification of Reserve Capacity;
  - (b) Declaration of Bilateral Trades and the Reserve Capacity Auction;
  - (c) Reserve Capacity Testing;
  - (d) Reserve Capacity Performance Monitoring; and
  - (e) Prudential Requirements.

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 Reserve Capacity Security;
  - (ii) guarantee for Reserve Capacity Security;
  - (iii) Security Deposit for Reserve Capacity Security; and
  - (iv) Security Deposit for Reserve Capacity Security (provided by third party);
- (b) change of contact details form;
- (c) contact details of guarantee/bank undertakings form;
- (d) Security Deposit instructions;
- (e) Acceptable Credit Criteria form;
- (f) list of entities meeting the Acceptable Credit Criteria; and
- (g) progress report required under clause 4.27.10 of the Market Rules.

## 1.5. Conventions Used

1.5.1. In this Procedure the conventions specified in sections 1.3 to 1.5 of the Market Rules apply.

1.5.2. The appendices, if any, 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 Act), the Electricity Industry (Wholesale Electricity Market) Regulations (Regulations) or the Market Rules has the same meaning when used in this Procedure. In addition, the following defined terms have the meanings detailed below.

**Table 1 Defined Terms**

Term	Definition
<b>Compliance Date</b>	The date by which the Market Participant must comply with its obligations under clause 4.13.11 of the Market Rules, being 30 November of Year 4 of the relevant Reserve Capacity Cycle.
<b>Commercial Operation</b>	The status determined by AEMO for a Facility under clause 4.13.10B of the Market Rules that a Facility is operating in the WEM.
<b>Due Date</b>	The date specified by AEMO in respect of a step in this Procedure.
<b>Ninety Percent Test</b>	A set of conditions that a Market Participant must meet to be eligible for the return of its Reserve Capacity Security, as defined in step 0 of this Procedure.
<b>NMI</b>	Means the unique identifier assigned to a connection point, as defined in section 1.3 of the Electricity Industry (Metering) Code 2012.
<b>Nominated Exchange Date</b>	The date agreed upon by a Market Participant and AEMO on which AEMO will return any excess Reserve Capacity Security in exchange for a duly effective replacement Reserve Capacity Security provided by the Market Participant.
<b>One Hundred Percent Test</b>	A set of conditions that a Market Participant must meet to be eligible for the return of its Reserve Capacity Security, as defined in step 8.2 of this Procedure.

Term	Definition
<b>Reserve Capacity Security Due Date</b>	The date and time specified in clause 4.1.13 of the Market Rules for Certified Reserve Capacity and clause 4.28C.8 for Early Certified Reserve Capacity and reproduced in Table 2 of this Procedure.
<b>Temperature Dependence Curve</b>	The information provided by a Market Participant under clause 4.10.1(e)(i) of the Market Rules, as detailed in the manufacturer's technical specifications or as determined by an independent engineering firm.
<b>Treasury Corporation</b>	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.

## 1.7. Amendments to Proforma Documents

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

## CHAPTER 2. REQUIREMENT FOR RESERVE CAPACITY SECURITY

### 2.1. Conditions under which a Market Participant is Required to Provide Reserve Capacity Security

- 2.1.1. Where AEMO assigns Certified Reserve Capacity to a Facility in a Reserve Capacity Cycle, the relevant Market Participant for that Facility must provide Reserve Capacity Security if any of the following apply:
  - (a) the Facility is yet to enter service;
  - (b) subject to step 2.1.2 of this Procedure, the Facility is an existing Facility that has undergone significant maintenance or has been upgraded **[Clause 4.13.1]**; or
  - (c) AEMO cancelled the Capacity Credits assigned to the Facility for the previous Reserve Capacity Cycle in accordance with clause 4.20.14 of the Market Rules **[Clause 4.13.1B(b)]**.

- 2.1.2. For the purpose of step 2.1.1(b) of this Procedure, where the Facility is an existing Facility that has undergone significant maintenance or has been upgraded, the requirement to provide Reserve Capacity Security applies only to the part of the Facility that was significantly maintained or upgraded **[Clause 4.13.1A]**.
- 2.1.3. For the purpose of clause 4.13.1 of the Market Rules and step 2.1.2 of this Procedure, AEMO will deem a Facility to be undergoing ‘significant maintenance’ if, in AEMO’s opinion, the scope and duration of works represent a risk for the late or failed return to service of the Facility, similar to that for a new Facility.
- 2.1.4. For the purpose of clause 4.13.1 of the Market Rules and step 2.1.2 of this Procedure, AEMO will deem a Facility to be undergoing an ‘upgrade’ if it has been assigned a higher level of Certified Reserve Capacity than during the previous Reserve Capacity Cycle as a direct result of works to be undertaken or already undertaken on the Facility, where the higher level of Certified Reserve Capacity has not been demonstrated by the Facility in the current Capacity Year.

## 2.2. Conditions under which a Market Participant is Not Required to Provide Reserve Capacity Security

- 2.2.1. Where a Market Participant has provided Reserve Capacity Security for the same Facility in a previous Reserve Capacity Cycle and the following conditions are met:
  - (a) the Facility has not yet undergone or is not scheduled to undergo significant maintenance or upgrade; and
  - (b) AEMO has not cancelled the Facility’s Capacity Credits in the previous Reserve Capacity Cycle,

then the Market Participant is not required to provide Reserve Capacity Security for that Facility **[Clause 4.13.1B]**.

**Table 2 Summary of the Requirement for Reserve Capacity Security**

Scenarios under which Market Participant is required to provide Reserve Capacity Security	The amount of Reserve Capacity Security to be provided	Reserve Capacity Security Due Date	How to provide Reserve Capacity Security
The Facility was assigned Certified Reserve Capacity under section 4.11 of the Market Rules and the conditions under step 2.1 of this Procedure are met	As calculated under clause 4.13.2(a) of the Market Rules	As specified in clause 4.1.13(b) of the Market Rules and outlined in step 3.1.1(c) of this Procedure	As outlined in section 5 of this Procedure
The Facility was assigned Conditional Certified Reserve Capacity under clause 4.9.5 of the Market Rules and the conditions under step 2.1 of this Procedure are met	As calculated under clause 4.13.2(a) followed by confirmation under clause 4.9.5(c) of the Market Rules	As specified in clause 4.1.13(b) of the Market Rules and outlined in step 3.2.1(c) of this Procedure	

Scenarios under which Market Participant is required to provide Reserve Capacity Security	The amount of Reserve Capacity Security to be provided	Reserve Capacity Security Due Date	How to provide Reserve Capacity Security
The Facility was assigned Early Certified Reserve Capacity under clause 4.28C of the Market Rules and the conditions under step 2.1 of this Procedure are met	As calculated under clause 4.28C.9 of the Market Rules	In accordance with clause 4.28C.8 of the Market Rules, 30 Business Days from the date the Market Participant receives AEMO's notification under step 3.3.1 of this Procedure	

## CHAPTER 3. AEMO'S NOTIFICATION OF THE REQUIREMENT FOR RESERVE CAPACITY SECURITY

### 3.1. Certified Reserve Capacity

3.1.1. Where AEMO assigns Certified Reserve Capacity to a Facility under section 4.11 of the Market Rules for a Reserve Capacity Cycle, AEMO must notify the relevant Market Participant in writing by 5:00 PM on the last Business Day on or before 19 August of Year 1 of the Reserve Capacity Cycle **[Clause 4.1.12(b)]**, of:

- (a) whether any Reserve Capacity Security is required as a condition of the Market Participant holding the Certified Reserve Capacity, as determined under section 2 of this Procedure;
- (b) the amount of Reserve Capacity Security calculated in accordance with clause 4.13.2(a) of the Market Rules, if applicable **[Clause 4.9.9(c)]**; and
- (c) the Reserve Capacity Security Due Date by which the Market Participant must provide duly effective Reserve Capacity Security. The Reserve Capacity Security Due Date is no later than 5:00 PM of the last Business Day which falls on or before **[Clause 4.1.13(b)]**:
  - (i) 2 September of Year 1 of the relevant Reserve Capacity Cycle, if any of the Facility's Certified Reserve Capacity is to be traded bilaterally in accordance with clause 4.14.1(c) of the Market Rules or if the Facility is subject to a Network Control Service Contract; or
  - (ii) 14 September of Year 1 of the relevant Reserve Capacity Cycle, if any of the Facility's Certified Reserve Capacity is specified to be offered into the Reserve Capacity Auction in accordance with clause 4.14.1(a) of the Market Rules and where none of the Facility's Certified Reserve Capacity is specified to be traded bilaterally in accordance with clause 4.14.1(c) of the Market Rules.

### 3.2. Conditional Certified Reserve Capacity

3.2.1. Where AEMO assigns Conditional Certified Reserve Capacity to a Facility under clause 4.9.5 of the Market Rules for a future Reserve Capacity Cycle, AEMO must notify the relevant Market Participant in writing within 90 days of receiving the application **[Clause 4.9.8(b)]**, of:

- (a) whether any Reserve Capacity Security is required as a condition of the Market Participant holding the Conditional Certified Reserve Capacity, as determined under section 2 of this Procedure;



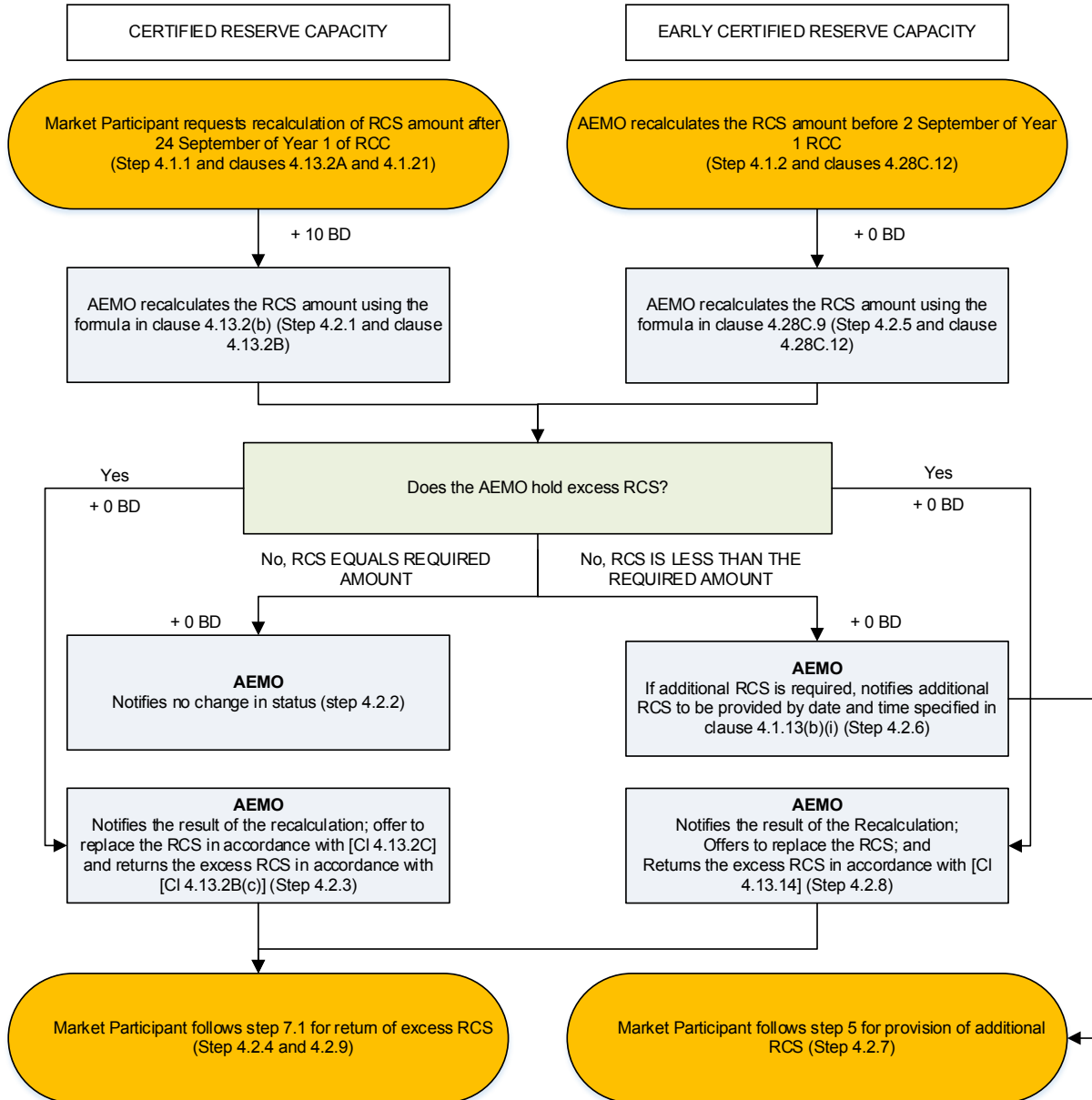
- (b) the amount of Reserve Capacity Security determined in accordance with clause 4.13.2(a) and confirmed in accordance with clause 4.9.5(c) of the Market Rules, if applicable **[Clause 4.9.9(c)]**; and
- (c) the Reserve Capacity Security Due Date by which the Market Participant must provide duly effective Reserve Capacity Security. The Reserve Capacity Security Due Date is no later than 5:00 PM of the last Business Day which falls on or before **[Clause 4.1.13(b)]**:
  - (i) 2 September of Year 1 of the relevant Reserve Capacity Cycle, if any of the Facility's Certified Reserve Capacity is to be traded bilaterally in accordance with clause 4.14.1(c) of the Market Rules or if the Facility is subject to a Network Control Service Contract; or
  - (ii) 14 September of Year 1 of the relevant Reserve Capacity Cycle, if any of the Facility's Certified Reserve Capacity is specified to be offered into the Reserve Capacity Auction in accordance with clause 4.14.1(a) of the Market Rules and where none of the Facility's Certified Reserve Capacity is specified to be traded bilaterally in accordance with clause 4.14.1(c) of the Market Rules.

### 3.3. Early Certified Reserve Capacity

- 3.3.1. Where AEMO assigns Early Certified Reserve Capacity to a Facility under clause 4.28C of the Market Rules for a future Reserve Capacity Cycle, AEMO must notify the relevant Market Participant in writing within 90 days of receiving the application **[Clause 4.28C.7]**, of:
- (a) whether any Reserve Capacity Security is required as a condition of the Market Participant holding the Early Certified Reserve Capacity, as determined under section 2 of this Procedure;
  - (b) the amount of Reserve Capacity Security determined in accordance with clause 4.28C.9 of the Market Rules, if applicable; and
  - (c) the Reserve Capacity Security Due Date by which the Market Participant must provide duly effective Reserve Capacity Security. The Reserve Capacity Security Due Date is 30 Business Days from the date the Market Participant receives AEMO's notification under this step 3.3.1 **[Clause 4.28C.8]**.

## CHAPTER 4. RECALCULATION OF THE AMOUNT OF RESERVE CAPACITY SECURITY TO BE PROVIDED

**Figure 1 The Process for Recalculation of Reserve Capacity Security**



## 4.1. Timeline for the Recalculation of the Amount of Reserve Capacity Security to be Provided

- 4.1.1. A Market Participant may apply to AEMO for the recalculation<sup>1</sup> of the amount of Reserve Capacity Security required to be held by AEMO for a Facility **[Clause 4.13.2A]** after 5:00 PM on the last Business Day falling on or before 24 September of Year 1 of the Reserve Capacity Cycle **[Clause 4.1.21]**.
- 4.1.2. Where a Market Participant applied for Early Certified Reserve Capacity, AEMO must recalculate the amount of Reserve Capacity Security to be provided for its Facility **[Clause 4.28C.12]** before 5:00 PM on the last Business Day falling on or before:
- (a) 2 September of Year 1 of the Reserve Capacity Cycle in which the Facility will enter service (as advised under clause 4.10.1(b) of the Market Rules), if any of the Facility's Early Certified Reserve Capacity is specified to be traded bilaterally in accordance with clause 4.14.1(c) or if the Facility is subject to a Network Control Service Contract; or
  - (b) 14 September of Year 1 of the Reserve Capacity Cycle in which the Facility will enter service (as advised under clause 4.10.1(b) of the Market Rules), if any of the Facility's Early Certified Reserve Capacity is specified to be offered into the Reserve Capacity Auction in accordance with clause 4.14.1(a) and none of its Early Certified Reserve Capacity will be traded bilaterally **[Clause 4.1.13(b)(i)]**.

## 4.2. AEMO's Process for Recalculation of the Amount of Reserve Capacity Security

- 4.2.1. Within 10 Business Days of receiving a request from a Market Participant under step 4.1.1 of this Procedure, AEMO must recalculate the amount of the Reserve Capacity Security required to be held for a Facility using the formula in clause 4.13.2(b) of the Market Rules **[Clause 4.13.2B]**.
- 4.2.2. If the recalculated amount under step 4.2.1 of this Procedure is the same as the original amount of Reserve Capacity Security determined using the formula in clause 4.13.2(a) of the Market Rules, then AEMO must notify the Market Participant in writing of no change in status within 10 Business Days of receiving the request under step 4.1.1 of this Procedure.
- 4.2.3. If the recalculated amount under step 4.2.1 of this Procedure is less than the original amount of Reserve Capacity Security determined using the formula in clause 4.13.2(a) of the Market Rules, then AEMO must, within 10 Business Days of receiving the request under step 4.1.1 of this Procedure:
- (a) notify the Market Participant in writing of the result of the recalculation **[Clause 4.13.2B(a)]**;
  - (b) offer the Market Participant in writing the opportunity to replace the Reserve Capacity Security arrangement in accordance with clause 4.13.2C of the Market Rules and step 7.1 of this Procedure **[Clause 4.13.2B(b)]**; and
  - (c) return the excess Reserve Capacity Security if the Market Participant provides a replacement Reserve Capacity Security arrangement under step 4.2.3(b) of this Procedure **[Clause 4.13.2B(c)]**.

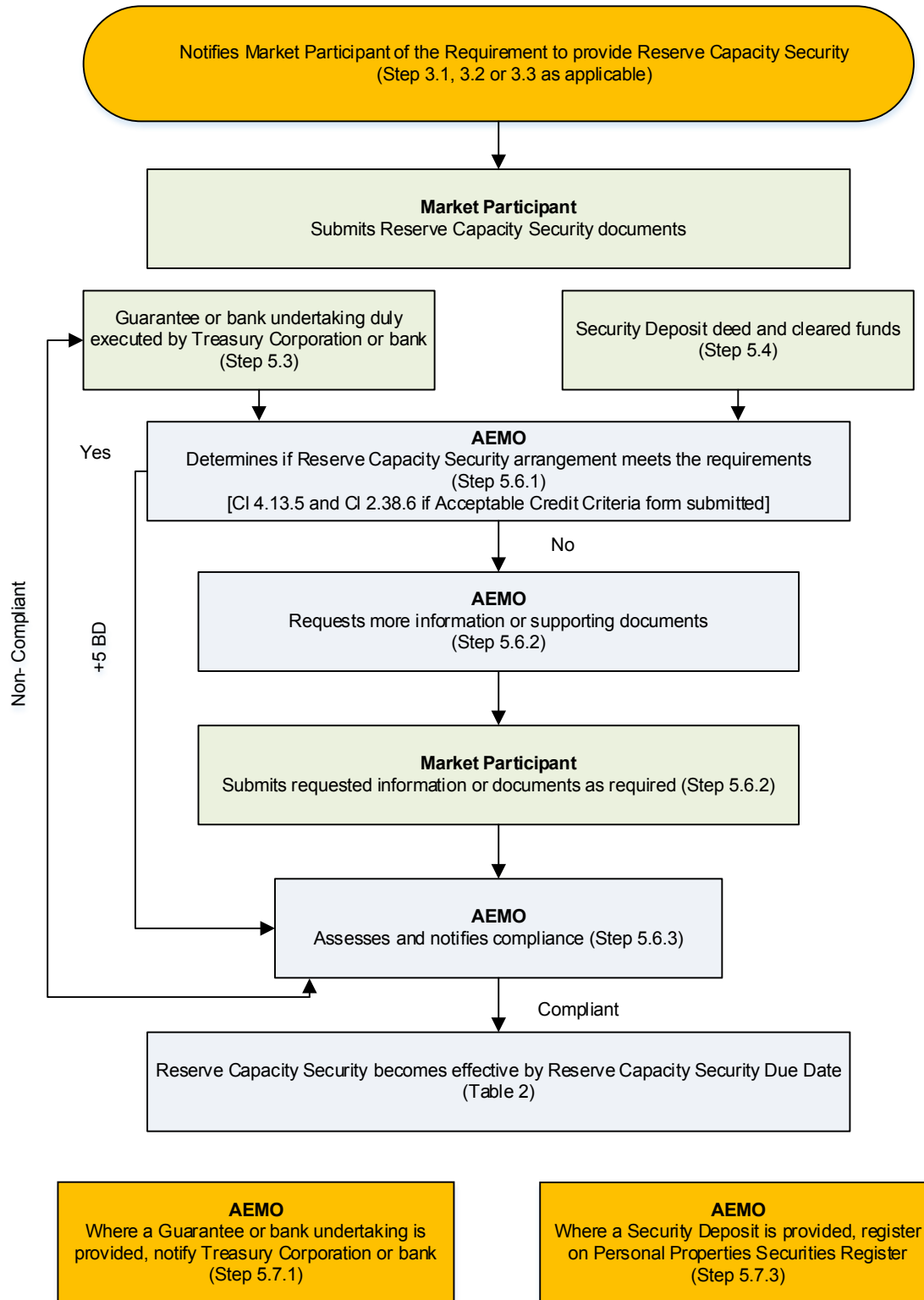
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<sup>1</sup> For example, in situations where the number of Capacity Credits is less than the quantity of Certified Reserve Capacity.

- 4.2.4. Where a Market Participant receives AEMO's notification under step 4.2.3 of this Procedure that excess Reserve Capacity Security is held by AEMO and elects to replace its Reserve Capacity Security, the Market Participant must do so in accordance with step 7.1 of this Procedure.
- 4.2.5. Where under step 4.1.2 of this Procedure, AEMO is recalculating the Reserve Capacity Security for a Facility that holds Early Certified Reserve Capacity, AEMO must recalculate the amount of Reserve Capacity Security required to be held for that Facility using the formula in clause 4.28C.9 of the Market Rules **[Clause 4.28C.12]**.
- 4.2.6. If the recalculated amount determined under step 4.2.5 of this Procedure is more than the original amount of Reserve Capacity Security determined using the formula in clause 4.28C.9 of the Market Rules, then AEMO must notify the Market Participant in writing that additional Reserve Capacity Security is required to be provided by the date and time specified in clause 4.1.13(b)(i) of the Market Rules **[Clause 4.28C.12(a)]**.
- 4.2.7. Where a Market Participant receives AEMO's notification under step 4.2.6 of this Procedure that additional Reserve Capacity Security is required, the Market Participant must provide the additional Reserve Capacity Security in accordance with section 5 of this Procedure.
- 4.2.8. If the recalculated amount determined under step 4.2.5 of this Procedure is less than the original amount of Reserve Capacity Security determined using the formula in clause 4.28C.9 of the Market Rules, then AEMO must, by the date and time outlined in step 4.1.2 of this Procedure:
- (a) notify the Market Participant in writing of the result of the recalculation; and
  - (b) offer to return the excess Reserve Capacity Security in accordance with clause 4.13.14 of the Market Rules **[Clause 4.28C.12(b)]**.
- 4.2.9. Where a Market Participant receives AEMO's notification under step 4.2.8 of this Procedure that excess Reserve Capacity Security is held by AEMO and elects to replace its Reserve Capacity Security, the Market Participant must do so in accordance with step 7.1 of this Procedure **[Clause 4.28C.12(b)]**.

## CHAPTER 5. PROVISION OF RESERVE CAPACITY SECURITY

**Figure 2 Reserve Capacity Security Delivery Process**



## 5.1. Reserve Capacity Security Arrangements

- 5.1.1. A Market Participant that is required to provide Reserve Capacity Security must ensure that its Reserve Capacity Security arrangement meets the requirements of clause 4.13.5 of the Market Rules **[Clause 4.13.1(a)]**.
- 5.1.2. A Market Participant must provide Reserve Capacity Security in the form of either a:
- (a) guarantee or bank undertaking, in accordance with the process detailed in step 5.3 of this Procedure and in accordance with clause 4.13.5(a) of the Market Rules; or
  - (b) Security Deposit in accordance with the process detailed in step 5.4 of this Procedure and clause 4.13.5(b) of the Market Rules, if AEMO in its discretion has agreed to accept a Security Deposit and the Security Deposit is made on terms acceptable to AEMO.
- 5.1.3. A Market Participant must ensure that the contact details it submits for its Reserve Capacity Security 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 completing the change of contact details form and emailing it to [wa.accounts@aemo.com.au](mailto:wa.accounts@aemo.com.au).
- 5.1.4. A Market Participant must ensure that the Reserve Capacity Security arrangement provided under step 5.1.2 of this Procedure does not have a specified end date which is prior to the Compliance Date.

## 5.2. Failure to Provide Reserve Capacity Security

- 5.2.1. For a Facility that was assigned Certified Reserve Capacity (conditional or otherwise) under clauses 4.11 or 4.9.5 of the Market Rules and the conditions to provide Reserve Capacity Security under step 2.1 of this Procedure were met, if the Market Participant in respect of that Facility fails to provide the required amount of Reserve Capacity Security by the Reserve Capacity Security Due Date (as applicable), the Certified Reserve Capacity assigned to that Facility will lapse **[Clause 4.13.9]**.
- 5.2.2. For a Facility that was assigned Early Certified Reserve Capacity under clause 4.28C of the Market Rules and the conditions to provide Reserve Capacity Security under step 2.1 of this Procedure were met, if the Market Participant in respect of that Facility fails to provide the required amount of Reserve Capacity Security by the Reserve Capacity Security Due Date, the Early Certified Reserve Capacity assigned to that Facility will lapse **[Clause 4.28C.8A]**.
- 5.2.3. Where under steps 5.2.1 or 5.2.2, the Certified Reserve Capacity assigned to a Facility lapses due to the failure to provide Reserve Capacity Security, AEMO must notify the Market Participant in relation to that Facility, in writing as soon as practicable, that for the relevant Reserve Capacity Cycle:
- (a) the Certified Reserve Capacity has lapsed; and
  - (b) the Facility will not be assigned any Capacity Credits.

## 5.3. Submitting Guarantees or Bank Undertakings

- 5.3.1. On receiving AEMO's notification that Reserve Capacity Security must be provided in steps 3.1.1, 3.2.1 or 3.3.1 of this Procedure as applicable, 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).
- 5.3.2. A Market Participant must then submit to AEMO a signed original hard copy of:
- (a) the guarantee or bank undertaking, as applicable, which:
    - (i) is for the most recently calculated Reserve Capacity Security amount under clauses 4.13.2(a), 4.13.2(b) or 4.28C.9 (for Early Certified Reserve Capacity) as applicable;
    - (ii) is in the form approved by AEMO 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 Reserve Capacity Security provider (if applicable), completed in accordance with step 5.5 of this Procedure.
- 5.3.3. AEMO must not accept a proforma deed that does not meet the criteria in step 5.3.2(a) of this Procedure.
- 5.3.4. At the same time as providing the guarantee or bank undertaking to AEMO, a Market Participant must also provide to AEMO:
- (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 the Treasury Corporation or bank for AEMO to contact when drawing upon its Reserve Capacity Security; and
  - (b) any procedure that the Treasury Corporation or bank requires AEMO to follow when drawing upon the Reserve Capacity Security.

5.3.5. The Market Participant must provide a hard copy of the guarantee or bank undertaking to AEMO either in person or by courier or registered mail, requiring a signature on receipt.

## **5.4. Submitting Security Deposits**

- 5.4.1. On receiving AEMO's notification to provide Reserve Capacity Security in steps 3.1.1, 3.2.1 or 3.3.1 of this Procedure, a Market Participant providing a Security Deposit as a Reserve Capacity Security arrangement must request AEMO's agreement to accept the Security Deposit in writing.
- 5.4.2. Upon receiving the request under step 5.4.1 of this Procedure, AEMO must notify the Market Participant in writing whether a Security Deposit is an acceptable alternative and the terms under which the Security Deposit deed will be acceptable to AEMO.
- 5.4.3. If AEMO has notified the Market Participant under step 5.4.2 that a Security Deposit is not acceptable, then the Market Participant must provide Reserve Capacity Security in the form of a guarantee or bank undertaking, in accordance with step 5.3 of this Procedure.
- 5.4.4. If AEMO has notified the Market Participant under step 5.4.2 that a Security Deposit is acceptable, then the Market Participant must download a copy of the following documents from the Market Web Site:
- (a) proforma deed for Security Deposit for Reserve Capacity Security or proforma deed for Security Deposit for Reserve Capacity Security (provided by third party) as applicable; and
  - (b) Security Deposit instructions.
- 5.4.5. A Market Participant must then submit a signed original hard copy of the completed Security Deposit deed to AEMO which:
- (a) is in the form approved by AEMO and published on the Market Web Site; and
  - (b) has been executed by or on behalf of the Market Participant.
- 5.4.6. AEMO must not accept a proforma deed that does not meet the criteria in step 5.4.5 of this Procedure.
- 5.4.7. A Market Participant providing Reserve Capacity Security in the form of a Security Deposit must provide the amount of the Reserve Capacity Security 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.
- 5.4.8. The Market Participant must provide a hard copy of the Security Deposit deed to AEMO either in person or by courier or registered mail, requiring a signature on receipt.
- 5.4.9. AEMO must sign the original of the Security Deposit deed and return a copy of the signed original to the Market Participant.



## 5.5. Completing the Acceptable Credit Criteria Form

- 5.5.1. Where a Market Participant provides a Reserve Capacity Security in the form of a guarantee or bank undertaking and the Reserve Capacity Security 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 Reserve Capacity Security meets the Acceptable Credit Criteria outlined in clause 2.38.6 of the Market Rules.
- 5.5.2. A Market Participant required to complete the Acceptable Credit Criteria form under step 5.5.1 of this Procedure must do so in accordance with step 4.1 of the Market Procedure: Prudential Requirements.
- 5.5.3. For the purposes of this Procedure, all occurrences of Credit Support in step 4.1 of the Market Procedure: Prudential Requirements must be read as Reserve Capacity Security.
- 5.5.4. In accordance with clause 2.38.7 of the Market Rules, AEMO must publish and maintain on the Market Web Site, a list of entities meeting the Acceptable Credit Criteria.
- 5.5.5. AEMO must fulfil its obligations under step 5.5.4 by following step 4.2 of the Market Procedure: Prudential Requirements.

## 5.6. AEMO's Process of Reviewing Reserve Capacity Security Arrangements

- 5.6.1. On receiving completed documentation for Reserve Capacity Security from a Market Participant, AEMO must review the Reserve Capacity Security arrangement to:
  - (a) determine whether it is compliant with clause 4.13.5(a) of the Market Rules and step 5.3 of this Procedure, if the arrangement is in the form of a guarantee or bank undertaking; or
  - (b) determine whether it is compliant with the terms determined by AEMO under clause 4.13.5(b) of the Market Rules and step 5.4 of this Procedure, if the arrangement is in the form of a Security Deposit.
- 5.6.2. AEMO may at its discretion, request more information from the Market Participant to support its Reserve Capacity Security arrangement, by a Due Date determined and notified by AEMO. The Market Participant must provide the relevant information by that Due Date.
- 5.6.3. Within five Business Days of the later of the dates on which AEMO receives completed documents under steps 5.6.1 and 5.6.2 of this Procedure, AEMO must notify the Market Participant in writing that the Reserve Capacity Security arrangement is either:
  - (a) compliant with the Market Rules and this Procedure; or
  - (b) not compliant with the Market Rules and/or this Procedure and provide reasons as to why the Reserve Capacity Security is not compliant.

- 5.6.4. If a Market Participant receives a notification of non-compliance under step 5.6.3(b) of this Procedure, the Market Participant must re-submit a Reserve Capacity Security arrangement that is compliant with clause 4.13.5 of the Market Rules and step 5.1 of this Procedure.

## 5.7. Further Steps by AEMO with respect to Reserve Capacity Security Arrangements

- 5.7.1. Where the Reserve Capacity Security arrangement is a guarantee or bank undertaking, then at the same time as AEMO issues a notice of compliance to the Market Participant in step 5.6.3(a) of this Procedure, AEMO must also notify the Treasury Corporation or the bank, as applicable, in writing, that the arrangement has been provided in accordance with clause 4.13.5(a) of the Market Rules and this Procedure.
- 5.7.2. After AEMO notifies the Market Participant and the Treasury Corporation or the bank, as applicable, in step 5.7.1 of this Procedure, AEMO must place the completed guarantee or bank undertaking in a bank safe box, as soon as practicable.
- 5.7.3. Where the Reserve Capacity Security arrangement is provided as a Security Deposit, then within 10 Business Days of the required amount of cleared funds having been received by AEMO, AEMO 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)<sup>2</sup>. As part of this process, AEMO 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 Reserve Capacity Security provider and the Market Participant, as soon as practicable.
- 5.7.4. Upon completion of step 5.7.3 of this Procedure, AEMO must place the completed Security Deposit deed in a bank safe box, as soon as practicable.

## 5.8. Holding Security Deposits and Associated Costs

- 5.8.1. Where AEMO receives Reserve Capacity Security 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 each Market Participant's Security Deposits separate from any AEMO operating funds accounts.

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<sup>2</sup>The *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 <http://www.ppsr.gov.au/Pages/ppsr.aspx> for more information). For the purposes of the Act, any cash in a bank account (Security Deposit) under the control of AEMO pursuant to a Security Deposit deed that is provided to AEMO for the purposes of Credit Support (clause 2.38.4(b) of the Market Rules) or Reserve Capacity Security (clause 4.13.5(b) of the Market Rules), is a form of 'personal property'. AEMO's interest in the Security Deposit is a 'security interest', and the Security Deposit deed secures payment and performance obligations of a Market Participant.

- 5.8.2. AEMO must credit the interest earned daily at AEMO Deposit 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 4.13.6].
- 5.8.3. AEMO may provide written advice to a Market Participant on a monthly basis regarding the interest earned at AEMO Deposit Rate and the deduction of any accrued costs and fees.

## CHAPTER 6. MAINTENANCE OF RESERVE CAPACITY SECURITY

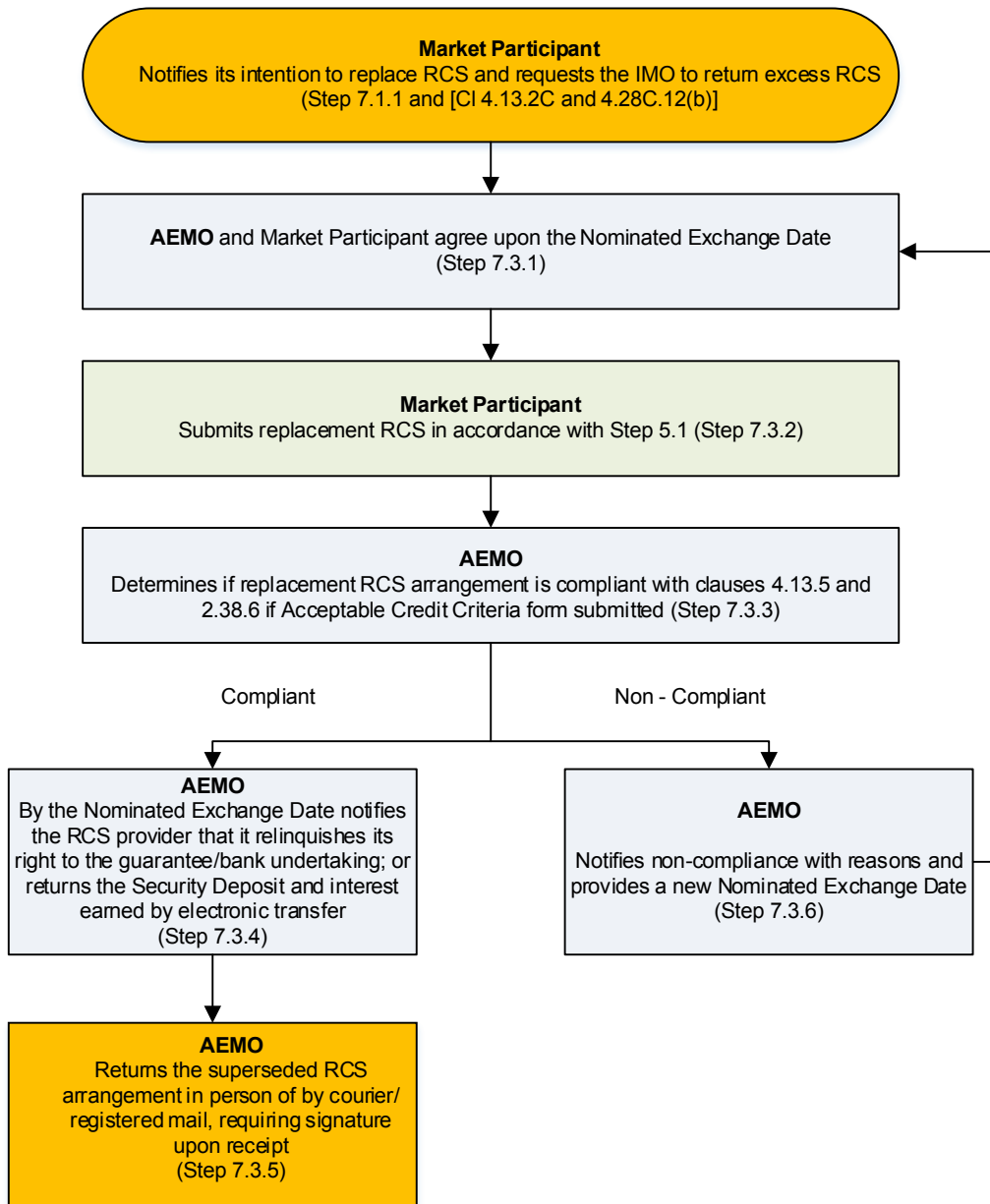
### 6.1. Requirement to Maintain Reserve Capacity Security with AEMO

- 6.1.1. Where a Market Participant's Reserve Capacity Security is due to expire or cease to have effect for any reason and the Market Participant will continue to have an obligation to ensure AEMO holds Reserve Capacity Security, then the Market Participant must provide replacement Reserve Capacity Security that becomes effective at or prior to the expiry of the existing Reserve Capacity Security **[Clause 4.13.3]**.
- 6.1.2. Where a Market Participant becomes aware that its Reserve Capacity Security is affected by any of the circumstances as outlined in step 6.1.4 of this Procedure, it must:
- (a) notify AEMO in writing immediately; and
  - (b) provide duly effective replacement Reserve Capacity Security in an amount not less than its most recently calculated amount under clause 4.13.2 of the Market Rules, before the end of the next Business Day or within any longer period that AEMO has approved in writing under step 6.1.6 **[Clause 4.13.4]**.
- 6.1.3. Where AEMO becomes aware of any circumstance (as outlined in step 6.1.4 of this Procedure) 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 Reserve Capacity Security in an amount not less than its most recently calculated amount under clause 4.13.2, before the end of the next Business Day or within any longer period that AEMO has approved in writing under step 6.1.6 **[Clause 4.13.4]**.
- 6.1.4. For the purposes of clause 4.13.4 of the Market Rules, circumstances that may require replacement Reserve Capacity Security in step 6.1.2 or 6.1.3 include, but are not limited to where:
- (a) existing Reserve Capacity Security is no longer current or valid;
  - (b) the Reserve Capacity Security provider no longer meets any one of the Acceptable Credit Criteria;
  - (c) the Reserve Capacity Security provider ceases to or threatens to cease to carry on providing Reserve Capacity Security in relation to the Market Participant; or
  - (d) the Reserve Capacity Security provider in relation to the Market Participant becomes insolvent or is dissolved.

- 6.1.5. A Market Participant requesting to provide the replacement Reserve Capacity Security to AEMO after the end of the next Business Day under steps 6.1.2(b) or 6.1.3(b), must request an extension of the Due Date for providing replacement Reserve Capacity Security in writing.
- 6.1.6. AEMO may, in its absolute discretion, approve or reject a Market Participant's request for an extension in step 6.1.5. AEMO must provide its decision in writing to the Market Participant as soon as practicable [**Clause 4.13.4(c)**].

## CHAPTER 7. REPLACEMENT OF RESERVE CAPACITY SECURITY

Figure 3 Replacing and Exchanging Reserve Capacity Security



## 7.1. A Market Participant's Notification of Replacing its Reserve Capacity Security when AEMO Holds Excess

- 7.1.1. Where a Market Participant receives AEMO's notification under step 4.2.4 (for Certified Reserve Capacity) or step 4.2.9 (for Early Certified Reserve Capacity) that excess Reserve Capacity Security is held by AEMO, then the Market Participant may:
- notify AEMO in writing of its intention to replace its Reserve Capacity Security; and
  - request AEMO in writing to return the excess Reserve Capacity Security **[Clauses 4.13.2C and 4.28C.12(b)]**.
- 7.1.2. A Market Participant must include in its notification provided in step 7.1.1 of this Procedure:
- the form of replacement Reserve Capacity Security arrangement to be provided and evidence that it will meet the requirements of clause 4.13.5 of the Market Rules **[Clause 4.13.2C(a)]**;
  - the amount of the Reserve Capacity Security which must not be less than the recalculated amount under clause 4.13.2(b) or clause 4.28C.12 as applicable **[Clause 4.13.2C(b)]**; and
  - a Nominated Exchange Date on which AEMO is requested to return the current Reserve Capacity Security to the Market Participant, where this date must be at least 10 Business Days after the date the Market Participant will provide its replacement Reserve Capacity Security arrangement to AEMO.

## 7.2. A Market Participant's Notification of Replacing a Reserve Capacity Security Arrangement

- 7.2.1. A Market Participant may replace the Reserve Capacity Security arrangement provided (for example from a Security Deposit to a bank undertaking) by notifying AEMO in writing of its intention prior to the replacement.
- 7.2.2. A Market Participant must include in its notification provided in step 7.2.1 of this Procedure:
- the form of replacement Reserve Capacity Security arrangement to be provided;
  - evidence that the replacement Reserve Capacity Security arrangement will meet the requirements of clause 4.13.5 of the Market Rules; and
  - a Nominated Exchange Date on which AEMO is requested to return the current Reserve Capacity Security to the Market Participant, where this date must be at least 10 Business Days after the date the Market Participant will provide its replacement Reserve Capacity Security arrangement to AEMO.

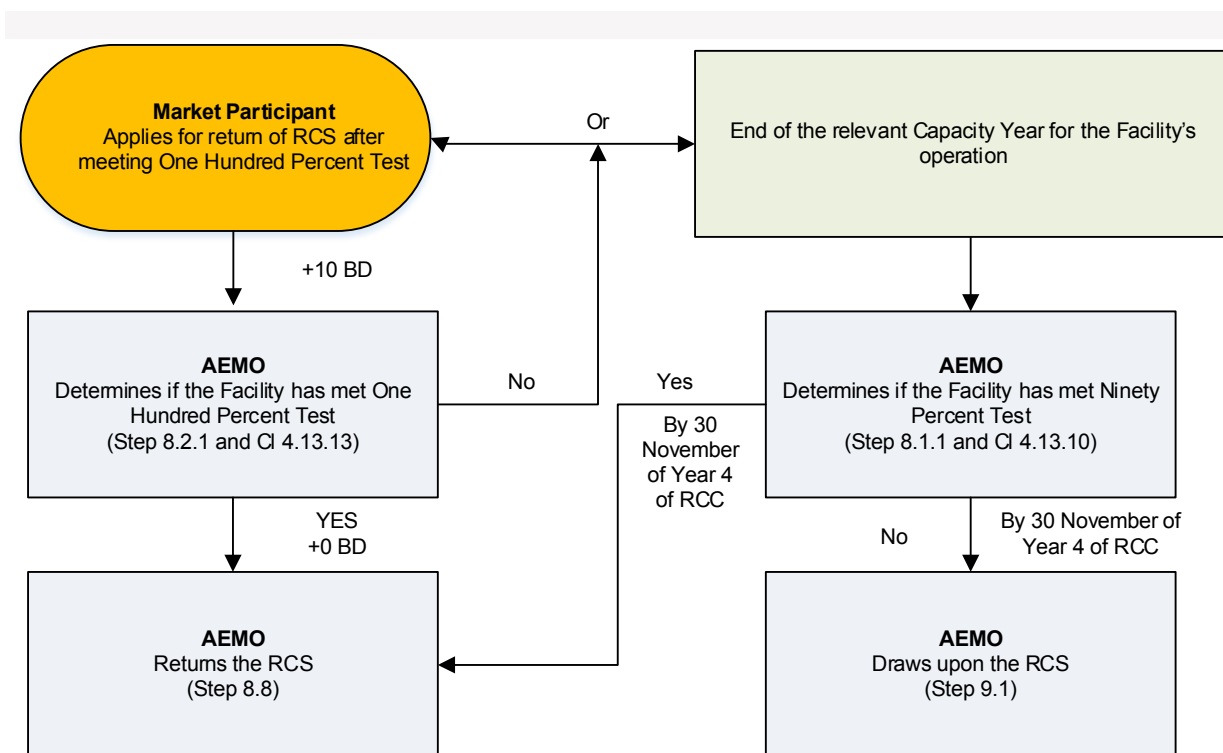
## 7.3. The Process for Replacing Reserve Capacity Security

- 7.3.1. AEMO and the Market Participant must agree upon the Nominated Exchange Date notified by the Market Participant under step 7.1.2(c) or 7.2.2(c) of this Procedure.
- 7.3.2. The Market Participant must then submit to AEMO the replacement Reserve Capacity Security arrangement:
- in accordance with step 5.1 of this Procedure;
  - at least 10 Business Days before the agreed Nominated Exchange Date; and
  - with a duly effective date that falls no less than five Business Days before the Nominated Exchange Date **[Clause 4.13.2C(c)]**.

- 7.3.3. Within five Business Days of receiving the completed replacement Reserve Capacity arrangement, AEMO must assess whether the arrangement is compliant with clauses 4.13.5 and 2.38.6 (if Acceptable Credit Criteria form was submitted) of the Market Rules.
- 7.3.4. If AEMO assesses the replacement Reserve Capacity Security arrangement as compliant under step 7.3.3, AEMO must, by the Nominated Exchange Date, either:
- (a) notify the Reserve Capacity Security provider and the relevant Market Participant in writing that it relinquishes any rights to Draw Upon the superseded Reserve Capacity Security, where it is a guarantee or bank undertaking **[Clause 4.13.14(d)]**; or
  - (b) return the cash deposit plus any interest earned by electronic cash transfer to the Market Participant's nominated bank account, where the superseded Reserve Capacity Security is a Security Deposit **[Clause 4.13.14(c)]**.
- 7.3.5. As soon as practicable after step 7.3.4, AEMO must return the superseded Reserve Capacity Security:
- (a) either in person to the Market Participant's Authorised Officer; or
  - (b) by courier or registered mail requiring signature on receipt.
- 7.3.6. If AEMO assesses the replacement Reserve Capacity Security arrangement as non-compliant under step 7.3.3, AEMO must:
- (a) notify the Market Participant of the decision in writing with reasons; and
  - (b) provide a new Nominated Exchange Date to allow the Market Participant to resubmit its replacement Reserve Capacity Security arrangement in accordance with step 7.1 of this Procedure.

## CHAPTER 8. RETURN OF RESERVE CAPACITY SECURITY

**Figure 4 Return of Reserve Capacity Security after Meeting Tests**



### 8.1. Ninety Percent Test for Return of Reserve Capacity Security

8.1.1. A Market Participant that has provided Reserve Capacity Security must meet the following conditions for the return of its Reserve Capacity Security after the end of the relevant Capacity Year:

- (a) either:
- (i) the Facility has operated to a level which is at least equivalent to its Required Level, adjusted to 90 percent of the level of Capacity Credits specified in clause 4.20.5A of the Market Rules, in at least two Trading Intervals before the end of the relevant Capacity Year; or
  - (ii) the Market Participant for that Facility has provided AEMO a report under clause 4.13.10C of the Market Rules, which specifies that the Facility can operate at a level which is at least equivalent to its Required Level, adjusted to 90 percent of the level of Capacity Credits specified in clause 4.20.5A of the Market Rules; and
- (b) the Facility must be in Commercial Operation as determined by AEMO under step 8.4 and clause 4.13.10B of the Market Rules [**Clause 4.13.10**].



## 8.2. One Hundred Percent Test for Return of Reserve Capacity Security

- 8.2.1. A Market Participant that has provided Reserve Capacity Security must meet the following conditions to apply to AEMO for the return of its Reserve Capacity Security at any time before the end of the relevant Capacity Year:
- the Facility must have operated at a level equivalent to its Required Level, adjusted to 100 percent of the level of Capacity Credits specified in clause 4.20.5A of the Market Rules, in at least two Trading Intervals before the end of the relevant Capacity Year; and
  - the Facility must be in Commercial Operation as determined by AEMO under step 8.4 and clause 4.13.10B of the Market Rules **[Clause 4.13.13]**.

## 8.3. Determining Required Level

- 8.3.1. In accordance with clause 4.11.3B of the Market Rules, AEMO must determine the Required Level to be achieved (which for an upgraded Facility is calculated for the Facility as a whole) for each Facility as follows:

- for Certified Reserve Capacity assigned to a Scheduled Generator under clause 4.11.1(a) of the Market Rules, the Required Level in Trading Interval  $t$  is:

$$\frac{CC_{int} \times TDC(Temp(t))}{TDC(41^{\circ}C)}$$

Where:

$CC_{int}$  is the number of Capacity Credits initially assigned under clause 4.20.5A of the Market Rules;

$TDC(Temp(t))$  is the Facility output indicated in the Temperature Dependence Curve at temperature  $Temp(t)$ ;

$Temp(t)$  is the temperature during Trading Interval  $t$  measured according to the method specified in the Standing Data for the Facility; and

$TDC(41^{\circ}C)$  is the Facility output indicated in the Temperature Dependence Curve at a temperature of  $41^{\circ}C$ .

- for Certified Reserve Capacity assigned to a Scheduled Generator or a Non-Scheduled Generator under clause 4.11.2(b), the Required Level is:

$$\frac{RL_{CRC} \times CC_{int}}{CRC}$$

Where:

$RL_{CRC}$  is the MW value that equals the five percent probability of exceedence of expected generation output, submitted in the report provided under clause 4.10.3A(b) or a proposed alternative MW value submitted in the report provided under clause 4.10.3A(c);

$CC_{int}$  is the number of Capacity Credits initially assigned under clause 4.20.5A of the Market Rules; and

$CRC$  is the Certified Reserve Capacity assigned to the Facility (which was used as the basis for determining the Facility's Required Level).

- (c) for a Demand Side Programme, the Required Level is:

$$RD - CC_{int}$$

Where:

$RD$  is the Relevant Demand as determined in clause 4.26.2CA of the Market Rules; and

$CC_{int}$  is the number of Capacity Credits initially assigned under clause 4.20.5A of the Market Rules.

- 8.3.2. For the purposes of clause 4.13.10(a) of the Market Rules and step 8.1.1(a) of the Procedure, AEMO must determine the adjusted Required Level to be achieved as 90 percent of the value calculated in step 8.3.1(a), (b) or (c) as applicable.
- 8.3.3. For the purposes of clause 4.13.13(a) of the Market Rules and step 8.2.1(a) of the Procedure, AEMO must determine the adjusted Required Level to be achieved as 100 percent of the value calculated in step 8.3.1(a), (b) or (c) as applicable.

## 8.4. Determining Commercial Operation Status

- 8.4.1. For the purposes of clause 4.13.10(b) or 4.13.13(b) of the Market Rules and steps 8.1.1(b) or 8.2.1(b) of this Procedure, a Market Participant may request AEMO in writing to make a determination whether its Facility is in Commercial Operation **[Clause 4.13.10A]**.
- 8.4.2. To decide whether a Facility is in Commercial Operation, AEMO must have regard to the information described in clause 4.13.10B(a) of the Market Rules and may consider any other relevant information submitted by the Market Participant under clause 4.13.10B(b) of the Market Rules including, but not limited to:
- a signed statement from the Market Participant that the Facility is in Commercial Operation;
  - technical documents that indicate the Facility is in Commercial Operation, such as evidence of trading, transactional documentation or financial statements; and
  - for a Demand Side Programme, copies of executed agreements to engage in a Demand Side Programme from companies which are being supplied with electricity from the nominated NMIs associated with that Facility.
- 8.4.3. Within 20 Business Days of receipt of a request under step 8.4.1 [Clause 4.13.10B], AEMO must:
- determine whether a Facility is in Commercial Operation in accordance with step 8.4.2; and
  - notify the Market Participant in writing of the status assigned to that Facility, with reasons.

## 8.5. Other Conditions for Return of Reserve Capacity Security

- 8.5.1. Where the Reserve Capacity Security for a Facility relates to only a portion of the Facility's total Capacity Credits, that Facility as a whole must pass the Ninety Percent Test or One Hundred Percent Test for the return of its Reserve Capacity Security.
- 8.5.2. Where AEMO assesses the performance of a Demand Side Programme under the Ninety Percent Test or One Hundred Percent Test for the return of Reserve Capacity Security, AEMO must not take into account the same Non-Dispatchable Load or Interruptible Load more than once during the relevant Capacity Year for the Demand Side Programme.
- 8.5.3. Where any Non-Dispatchable Load or Interruptible Load was associated with more than one Demand Side Programme during the relevant Capacity Year, AEMO must determine when each of those Demand Side Programmes met the performance requirements under the Ninety Percent Test or One Hundred Percent Test and must take the relevant Load into account for only the first of those Demand Side Programmes that met the performance requirements. For the purposes of determining whether to return Reserve Capacity Security for all other Demand Side Programmes that the relevant Load had been associated with during the Capacity Year, AEMO must calculate the Relevant Demand and Demand Side Programme Load for the Demand Side Programme as if that Load was not associated with that Demand Side Programme.
- 8.5.4. For the purpose of assessing the performance of Demand Side Programmes under the Ninety Percent Test or One Hundred Percent Test, AEMO must exclude any Trading Intervals where the relevant Market Participant has a Reserve Capacity Deficit greater than zero for another Demand Side Programme for which AEMO does not hold the benefit of a Reserve Capacity Security.

## 8.6. AEMO's Obligation to Return Reserve Capacity Security after Ninety Percent Test

- 8.6.1. Where the Facility has met the conditions in the Ninety Percent Test before the end of the relevant Capacity Year, AEMO must return any Reserve Capacity Security to the Market Participant:
  - (a) as soon as practicable after the end of the relevant Capacity Year and before 30 November of Year 4 of the relevant Reserve Capacity Cycle; and
  - (b) in accordance with step 8.8 of this Procedure [**Clause 4.13.10**].

## 8.7. AEMO's Obligation to Return Reserve Capacity Security after One Hundred Percent Test

- 8.7.1. Where the Facility has met the conditions in the One Hundred Percent Test before the end of the relevant Capacity Year, the Market Participant may apply to AEMO in writing at any time before the end of the relevant Capacity Year for the return of its Reserve Capacity Security [**Clause 4.13.13**].
  - (a) Where AEMO receives an application for the return of Reserve Capacity Security under step 8.7.1 of this Procedure, AEMO must within 10 Business Days of receipt of that application:
  - (b) determine whether the need to maintain the Reserve Capacity Security has ceased by assessing if the conditions in the One Hundred Percent Test have been met;

- (c) notify the Market Participant in writing of its determination under step 8.7.1(b); and
- (d) if applicable, return the Reserve Capacity Security in accordance with step 8.8 of this Procedure to **[Clause 4.13.14]**.

## **8.8. AEMO's Process of Returning Reserve Capacity Security to Eligible Market Participants**

- 8.8.1. Where AEMO is required to return Reserve Capacity Security to eligible Market Participants under steps 8.6 or 8.7 of this Procedure, AEMO must either:
- (a) notify the Reserve Capacity Security provider and the relevant Market Participant in writing that it relinquishes any rights to Draw Upon the Reserve Capacity Security, where it is a guarantee or bank undertaking **[Clause 4.13.14(d)]**; or
  - (b) return the cash deposit plus any interest earned by electronic cash transfer to the Market Participant's nominated bank account, where the superseded Reserve Capacity Security is a Security Deposit **[Clause 4.13.14(c)]**.
- 8.8.2. As soon as practicable after step 8.8.1 of this Procedure, AEMO must also arrange for the return of the Reserve Capacity Security arrangement (being the deeds for the guarantee, bank undertaking or Security Deposit, as applicable), either:
- (a) in person to the Authorised Officer of the Market Participant; or
  - (b) by courier or registered mail, requiring a signature upon receipt.

## **CHAPTER 9. DRAWING UPON RESERVE CAPACITY SECURITY**

### **9.1. Conditions in which AEMO May Draw Upon Reserve Capacity Security**

- 9.1.1. If a Market Participant fails to satisfy the conditions in the Ninety Percent Test, then AEMO may Draw Upon the Market Participant's Reserve Capacity Security as soon as practicable after the end of the relevant Capacity Year and before 30 November of Year 4 of the relevant Reserve Capacity Cycle **[Clauses 4.13.11 and 4.13.11A]**.

### **9.2. Application of Monies Drawn Upon**

- 9.2.1. As soon as practicable after the end of the relevant Reserve Capacity Cycle, AEMO must apply the monies drawn upon (after meeting AEMO's costs associated with doing so) in step 9.1.1 of this Procedure as following:
- (a) firstly, to offset the cost of funding any Supplementary Capacity Contracts for any capacity shortage that may stem entirely or in part from the Facility not being available during the relevant Capacity Year; and
  - (b) secondly, once all costs of funding Supplementary Capacity Contracts are covered as applicable, make a rebate payment to Market Customers in proportion to their Individual Reserve Capacity Requirements during the Trading Month in accordance with Chapter 9 of the Market Rules **[Clause 4.13.11A]**.
- 9.2.2. Where AEMO Draws Upon a Market Participant's Reserve Capacity Security, the Market Participant forfeits its rights to the guarantee or bank undertaking or forfeits the entire amount of its Security Deposit, as applicable **[Clause 4.13.12]**.