



INDEPENDENT
MARKET
OPERATOR

Procedure Change Report

Changes to Market Procedure for Prudential Requirements

PC_2013_04

Procedure Change Process

Date: 12 March 2014

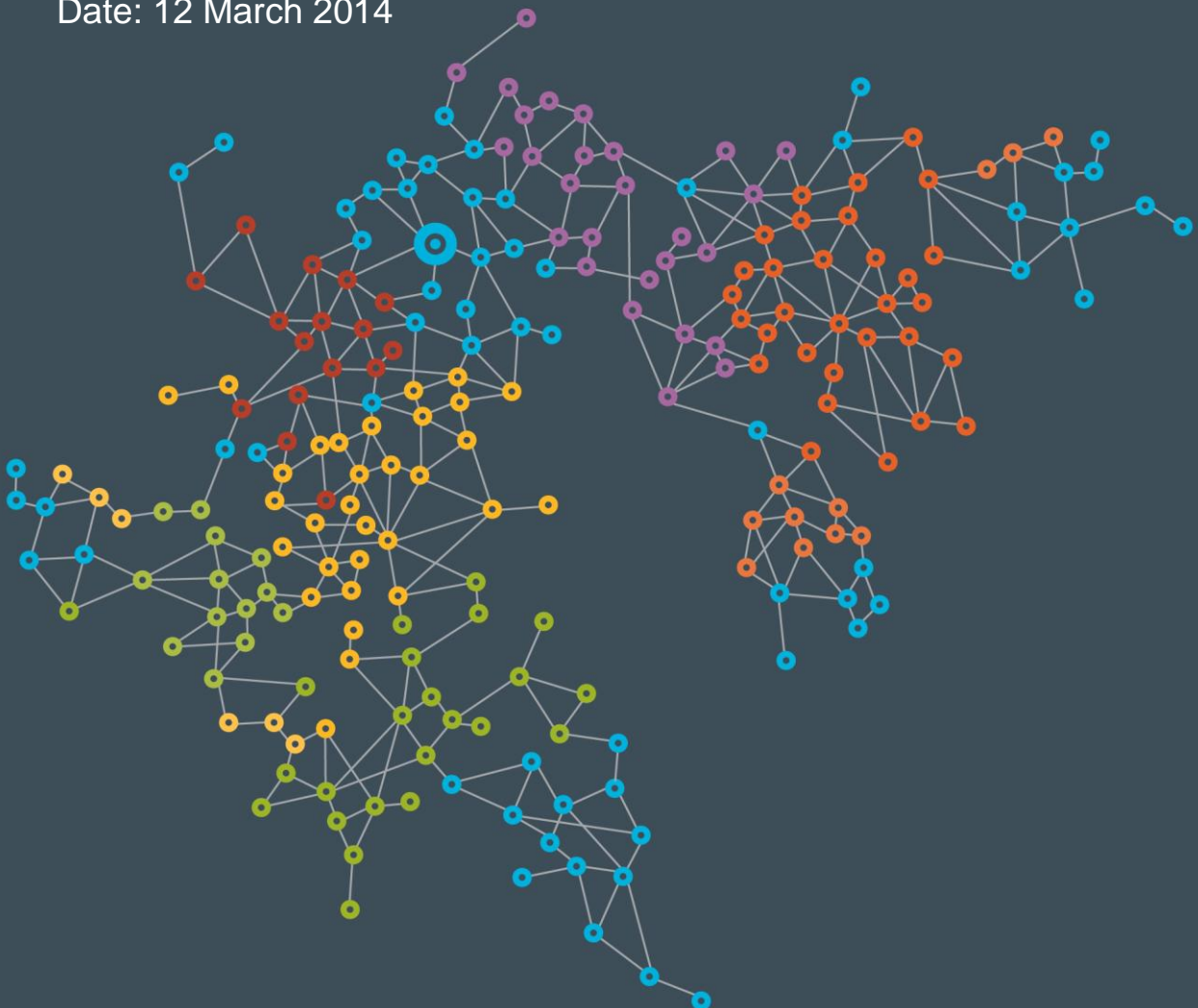


TABLE OF CONTENTS

1. Procedure Change Process and Timetable	5
2. Proposed Amended Market Procedure	5
2.1. The Procedure Change Proposal	5
3. Consultation	7
3.1. Market Advisory Committee or Working Group	7
3.2. Public Workshops	8
3.3. Submissions Received During Consultation Period	8
4. The IMO's Assessment	16
4.1. Further Changes to the Market Procedure	16
4.2. Wholesale Market Objectives	16
4.3. The Electricity Industry Act, Regulations and Market Rules	17
4.4. Implementation of the Market Procedure	17
5. The IMO's Decision	17
6. The Amended Market Procedure	18
6.1. Commencement	18
6.2. The Amended Market Procedure	18

Executive Summary

Proposed Amendments

The IMO proposed several amendments to the Market Procedure: Prudential Requirements to support the proposed Amending Rules in the Rule Change Proposal: Prudential Requirements (RC_2012_23). The proposed amended Market Procedure elaborated on the processes related to the:

- (a) determination of a Market Participant's Credit Limit;
- (b) notification of changes in circumstances justifying an increase to a Market Participant's Credit Limit;
- (c) circumstances in which a Market Participant must provide replacement Credit Support;
- (d) management of the list of entities meeting Acceptable Credit Criteria;
- (e) application of a Market Participant's voluntary prepayments to its Outstanding Amount;
- (f) concept of a Market Participant's Trading Margin and the calculation and method of making a Margin Call; and
- (g) list of factors for assessing the expected value of transactions.

Consultation

The Market Advisory Committee (MAC) was provided the opportunity to consider the Market Procedure along with the Rule Change Proposal for RC_2012_23 at the MAC meeting held on 7 August 2013. No comments in relation to the Market Procedure were received.

The IMO presented the proposed amended Market Procedure to the IMO Procedure Change and Development Working Group (IMOPWG) at its 20 September 2013 meeting. Issues were raised in relation to the use of a Market Participant's anticipated maximum exposure to determine its Credit Limit, the estimation of a Market Participant's forecast exposure and the 24 hour window to respond to a Margin Call. The IMO addressed these issues in the revised proposed amended Market Procedure that was re-circulated to the IMOPWG members on 13 December 2013.

Further feedback was received from Alinta Energy and Community Electricity. Alinta Energy requested more detail on the calculation of a Market Participant's forecast exposure and its effect on the Outstanding Amount. Community Electricity was concerned that the processes related to providing Security Deposits as Credit Support seemed administratively inefficient and incongruous with the timelines for responding to Margin Calls. The IMO included this feedback in the proposed amended Market Procedure and submitted it into the Procedure Change Process on 13 January 2014.

The IMO's Assessment of the Proposal

The IMO considers that, overall, the proposed amended Market Procedure is consistent with the Wholesale Market Objectives and the Market Rules because it operationalises the principles outlined in the Market Rules as amended by RC_2012_23.

The IMO notes that some changes are required to the prudential risk report to implement the proposed amendments in relation to the impact of voluntary prepayments on the Outstanding Amount. The IMO notes that these changes are included in the IMO's existing operating budget. No Market Participant identified any issues with the practicality of implementation of the proposed amended Market Procedure.

The IMO's Decision

The IMO's decision is to accept the amended Market Procedure as modified following the public consultation period.

Next steps

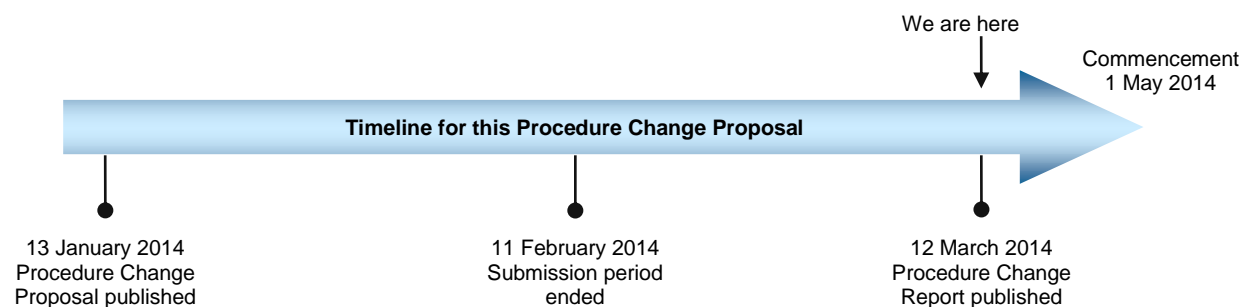
The amended Market Procedure is proposed to commence at **8:00 AM** on **1 May 2014** together with the proposed Amending Rules in RC_2012_23.

1. Procedure Change Process and Timetable

On 13 January 2014, the IMO submitted a Procedure Change Proposal regarding changes to the Market Procedure: Prudential Requirements (PC_2013_04) (Market Procedure).

This proposal is being processed using the Procedure Change Process, described under clause 2.10 of the Wholesale Electricity Market (WEM) Rules (Market Rules).

The key dates in processing this Procedure Change Proposal are:



2. Proposed Amended Market Procedure

2.1. The Procedure Change Proposal

The IMO developed the Rule Change Proposal: Prudential Requirements (RC_2012_23)¹ to provide clarification on the obligations of Market Participants and the IMO with respect to prudential security and management of financial exposure in the market resulting from Payment Defaults. To support the Amending Rules in the Final Rule Change Report for RC_2012_23, the IMO proposed changes to the associated Market Procedure with the objective of moving the prescriptive detail from the Market Rules into the Market Procedure.

The proposed amended Market Procedure elaborated on the processes related to the:

- (a) determination of a Market Participant's Credit Limit;
- (b) notification of changes in circumstances justifying an increase to a Market Participant's Credit Limit;
- (c) circumstances in which a Market Participant must provide replacement Credit Support;
- (d) management of the list of entities meeting Acceptable Credit Criteria;
- (e) application of a Market Participant's voluntary prepayments to its Outstanding Amount;
- (f) concept of a Market Participant's Trading Margin and the calculation and method of making a Margin Call; and

¹ More details are available on the Market Web Site: http://www.imowa.com.au/rc_2012_23.

(g) list of factors for assessing the expected value of transactions.

The key areas that the IMO proposed to amend substantively in the Market Procedure are discussed below.

1. Credit Limit determinations

In response to the proposed amendments to clause 2.37 of the Market Rules which require the IMO to determine, review and revise a Credit Limit for each Market Participant, the IMO proposed to amend the Market Procedure to:

- (a) provide greater transparency around the application of various factors in determining Credit Limits under section 2 of the proposed amended Market Procedure;
- (b) provide further detail on the calculation of the Credit Limit for each type of Market Participant under section 2.2 and 2.3 of the proposed amended Market Procedure; and
- (c) improve the IMO's process of notifying a Market Participant of its Credit Limit under section 2.7 of the proposed amended Market Procedure.

The IMO also included the amendments to the Market Procedure to reflect the Amending Rules made in the Rule Change Proposal: Removal of Network Control Services Expression of Interest and Tender Process (RC_2010_11) by removing the references to Credit Limits for Network Operators which are required to fund Network Control Service Contracts.

2. Time period of historical settlement data used in Credit Limit determination

In determining Credit Limits, the IMO uses historical data to predict future behaviour. The IMO currently uses settlement data from the previous 48 months to form the basis of a Market Participant's Credit Limit. The IMO received suggestions from Market Participants that this time period is too long and therefore does not adequately represent current circumstances and behaviours.

Based on analyses of the impact of the proposed reduction in the time period and considerations such as the potential reduction in prudential financing costs for Market Participants, the IMO formed the view that the time period of historical data to be used in Credit Limit determination should be reduced to 24 months. A time period of 24 months captures two peak periods (by including two summer seasons). A shorter time period would not offer enough peak periods and would reduce further if exceptional events occurred (for example price spikes due to the Varanus Island incident in 2008) and had to be factored out. Accordingly, the IMO proposed to amend step 2.2.3 of the Market Procedure to reflect the proposed change in time period of historical data from 48 to 24 months.

3. Notification of any change in circumstances affecting a Market Participant's Credit Limit

In response to the proposed amendments to clause 2.37.5 of the Market Rules (renumbered to clause 2.37.8) in RC_2012_23, the IMO proposed to outline in step 2.8.1 of the Market Procedure a non-exhaustive list of circumstances which may justify a potential increase to a Market Participant's Credit Limit. In accordance with Amending Rule 2.37.8 in RC_2012_23, a Market Participant is required to notify the IMO of circumstances that may result in a potential increase to its Credit Limit. Where a potential decrease to the Credit Limit is expected, the Market Participant may, but is not required to, notify the IMO.

4. Accounting for voluntary prepayments in the calculation of the Outstanding Amount

In response to the proposed amendments to clause 2.40.1 of the Market Rules in RC_2012_23, the IMO outlined the process for handling voluntary prepayments in section 5.2 of the Market Procedure.

The IMO proposed that a Market Participant electing to make a voluntary prepayment must complete a proforma deed (to be made available on the Market Web Site) stating that the prepaid amount is to be applied to reduce its Outstanding Amount and increase its Trading Margin. The proposed amendments outlined in section 5.2 of the Market Procedure also require the IMO to adjust this amount in the next Invoice till the prepayment is exhausted and reduce the Outstanding Amount accordingly in the prudential risk report available through the Market Participant Interface on the WEM System (WEMS).

5. Credit Support arrangements and timelines

In response to the proposed amendments to clauses 2.38.1, 2.38.2 and 2.38.3 of the Market Rules in RC_2012_23, the IMO proposed to amend section 3 of the Market Procedure to provide further detail around the processes to be followed by Market Participants and the IMO to ensure that adequate Credit Support is maintained at all times.

6. List of factors to assess the expected value of transactions

The IMO proposed amendments to clause 2.37.9 of the Market Rules (renumbered to clause 2.41.5) in RC_2012_23 requiring the IMO to develop a list of factors to be taken into account when determining the expected value of a transaction. The IMO proposed to include this list in Appendix 1 of the Market Procedure.

For full details of the Procedure Change Proposal please refer to the Market Web Site: http://www.imowa.com.au/pc_2013_04

3. Consultation

3.1. Market Advisory Committee or Working Group

Under clause 2.3.17(a) of the Market Rules, the Market Advisory Committee (MAC) has delegated the consideration of IMO Procedure Change Proposals to the IMO Procedure Change and Development Working Group (IMOPWG). However, MAC members were provided the opportunity to consider the proposed amended Market Procedure along with the Rule Change Proposal for RC_2012_23 at the MAC meeting held on 7 August 2013. No comments in relation to the proposed amended Market Procedure were received. Additionally, in accordance with clauses 2.10.8 and 2.10.9 of the Market Rules, the IMO notified the MAC once the Procedure Change Proposal had been published and noted that it would convene a meeting of the MAC should two or more members request it. No MAC member contacted the IMO in this regard.

The IMO presented the proposed amended Market Procedure to the IMOPWG at its 20 September 2013 meeting. Issues were raised in relation to the use of a Market Participant's anticipated maximum exposure to determine its Credit Limit, the estimation of a Market Participant's forecast exposure and the 24 hour window to respond to a Margin Call. The IMO addressed these issues both at the meeting and in the Draft Rule Change Report for RC_2012_23.

The minutes of the IMOPWG meeting held on 20 September 2013 are available on the Market Web Site: <http://www.imowa.com.au/IMO-Procedures-Working-Group>.

Following the IMOPWG meeting, the IMO re-circulated the revised proposed amended Market Procedure to IMOPWG members on 13 December 2013. Additionally, the IMO also provided a draft version of the prudential risk report to demonstrate the proposed calculation for estimating forecast exposure to give a Market Participant certainty of its prudential security in the market.

During the informal consultation period, feedback was received from Alinta Energy and Community Electricity. Alinta Energy was concerned that sufficient detail had not been provided on the calculation of the forecast exposure and its effect on the Outstanding Amount. Community Electricity was concerned that the processes related to providing Security Deposits as Credit Support seemed administratively inefficient and incongruous with the timelines for responding to Margin Calls.

The IMO proposed further amendments to relevant sections of the Market Procedure in response to these suggestions. Specifically, the IMO included greater clarity on the calculation of the Outstanding Amount in section 5.1 of the Market Procedure. The IMO also amended the timeline for delivery of Credit Support in Figure 1 of the Market Procedure based on the consideration that where a new Market Participant is required to provide Credit Support for the first time, the IMO should provide a longer timeframe as opposed to situations where additional Credit Support may need to be deposited within a short timeframe.

Following the informal consultation period, the IMO formally submitted the Procedure Change Proposal on 13 January 2014.

3.2. Public Workshops

No public workshop was held in regard to this Procedure Change Proposal.

3.3. Submissions Received During Consultation Period

The public consultation period for the proposed amended Market Procedure was held between 14 January and 11 February 2014. The IMO received two submissions during the consultation period from Alinta Energy and Community Electricity.

Community Electricity supported the proposed amendments on the grounds that it clarified and updated existing procedures thereby improving the overall integrity of the WEM. Community Electricity expressly supported the inclusion of voluntary prepayments noting that it would greatly improve liquidity and administration in respect of a Market Participant's obligations.

Alinta Energy was generally supportive of the proposed amendments. However, Alinta Energy reiterated its concern with using the highest value of transactions owed to determine a Market Participant's Credit Limit. The IMO has responded to this issue in detail in the Final Rule Change Report for RC_2012_23 noting that the current methodology for determining Credit Limits has resulted in the IMO holding sufficient prudential security to adequately protect the overall market from individual Market Participant's Payment Default. Additionally, the proposed Amending Rules in RC_2012_23 and the resulting proposed amendments to the Market Procedure provide an accurate reflection of the IMO's current practice.

Alinta Energy also suggested some minor amendments to improve the clarity and integrity of the Market Procedure, which the IMO has adopted. These suggestions related to maintaining consistency in the use of terms across the Market Procedure and adding further clarity in some steps where the item pertains to a specific Market Participant. These suggestions and other issues raised in the submissions have been addressed in the table over the page.

A copy of the submissions in full received during the submission period is available on the Market Web Site: http://www.imowa.com.au/pc_2013_04

Submitter	Issue/Suggestion	Response
Community Electricity	Voluntary prepayment should be added as a potential method for meeting Margin Calls. Given that lodgement of a Security Deposit requires at least 10 Business Days for administration, a prepayment is the only method of complying with the one Business Day deadline for meeting a Margin Call.	<p>The IMO notes the concern in relation to the 10 Business Days required to register a Security Deposit on the Personal Property Securities Register which may (in some limited circumstances) impact on the IMO's ability to make a call on the Security Deposit during this period.</p> <p>The IMO considers that because a voluntary prepayment is applied directly after cleared funds are received to reduce a Market Participant's Outstanding Amount, it should be used as a short-term corrective measure to avoid potential Margin Calls and continue to securely transact in the market. A Margin Call, requiring the provision of additional Credit Support is intended to be a preventive measure to ensure that the Credit Limit is revised to a level high enough to avoid future Margin Calls.</p> <p>The IMO notes that its planned amendments to the prudential risk report will allow Market Participants to monitor their financial liabilities and the IMO to predict a potential Margin Call. Where the IMO considers that a Margin Call may be required based on an assessment of the expected invoiced amounts, the IMO will work with the Market Participant to ensure a voluntary prepayment is processed in advance of the Invoice due date so as to avoid any potential Margin Call.</p>
Alinta Energy	Table 1: Reconciliation Settlement: "The process of calculating a Rule Participant's transactions pertaining to their reconciliation segment <u>in accordance with clause 9.11 of the Market Rules</u> and reflected in the Non-STEM..." Alinta notes that this amendment will ensure consistency with the other proposed definitions for Balancing Settlement and Ancillary Service Settlement.	The IMO agrees to this suggestion and has included it in Table 1 of the proposed amended Market Procedure.
	Table 1: Reserve Capacity Settlement: "The process of calculating a Rule Participant's transactions pertaining to their Reserve Capacity segment <u>in accordance with clause 9.7 of the Market Rules</u> and reflect in the Non-STEM..." As noted above Alinta considers that this amendment will ensure consistency with the other proposed definitions.	The IMO agrees to this suggestion and has included it in Table 1 of the proposed amended Market Procedure.

	<p>Step 1.7.1: “The IMO may, in its absolute discretion, amend and publish on the Market Web Site any market documents <u>and user guides</u> listed in steps 1.4.2 and 1.4.3.” Alinta considers that this amendment will enhance the integrity of the proposed redrafted Procedure.</p>	<p>The IMO agrees to this suggestion and has included it in step 1.7.1 of the proposed amended Market Procedure.</p>
	<p>Step 2.2.2: “... in the order of steps listed below:” Alinta suggests this minor amendment to improve ease of reading.</p>	<p>The IMO agrees to this suggestion and has included it in step 2.2.2 of the proposed amended Market Procedure.</p>
	<p>Step 2.4.1, 2.5.1 and 2.6.1: The IMO should clarify whether each piece of information should be provided as a MW or MWh value (where applicable).</p>	<p>The IMO agrees to this suggestion and has included it in the relevant steps in sections 2.4, 2.5 and 2.6 of the proposed amended Market Procedure.</p>
	<p>Step 2.4.1(a): The drafting should be updated to clarify what is intended by “maximum output” of a facility i.e. nameplate capacity, sent-out capacity?</p>	<p>The IMO notes that this value is intended to be the Sent Out Capacity of a Facility and has made this change in step 2.4.1(a) of the proposed amended Market Procedure.</p>
	<p>Step 2.4.1(b): The IMO should consider whether information on Certified Reserve Capacity, which would not technically have been submitted at the time of Facility Registration, could be obtained internally. It appears unnecessary for a participant to re-provide this information to the IMO given the IMO sets the Facility’s Certified Reserve Capacity.</p>	<p>The IMO notes that the value for a Facility’s Certified Reserve Capacity is generally obtained internally during the Credit Limit determination process. However, for the purposes of providing complete information to new Market Participants, the IMO considers it appropriate to retain these details in the Market Procedure.</p> <p>However, the IMO has clarified the steps 2.4.1, 2.5.1 and 2.6.1 of the proposed amended Market Procedure to indicate that provision of certain information will not be required if the information is readily available to the IMO.</p>
	<p>Step 2.4.2(b) and step 2.5.2(b): It is unclear what the Ancillary Service cost would be (i.e. could be the costs for the entire market).</p>	<p>Where a Market Generator expects to provide Ancillary Services, this estimate would be based on the actual or estimated quantity of energy to be used in Ancillary Service provision. However, as the Ancillary Services settlement amount in the Market Rules includes a Market Participant’s share of the total Ancillary Services cost to the market, the IMO will also estimate this share for the Market Participant. The IMO has clarified this in the relevant steps of the Market Procedure by referring to the Ancillary Services settlement amount as outlined in clause 9.9.1 of the Market Rules.</p>

	<p>Step 2.4.2(f): Alinta notes that the future potential introduction of a dynamic refund mechanism will potentially change how potential exposure to refunds is accounted for in determining Credit Limits.</p>	<p>The IMO notes that any potential impact of the dynamic refund mechanism on Credit Limit determinations will be considered as an outcome of the rule change process for RC_2013_20.</p>
	<p>Step 2.4.3(a) and 2.5.3(a): It's unclear why purchases in the STEM would not be taken into account in determining an initial amount for a Market Generator or a Market Customer.</p>	<p>A Market Participant purchasing energy from the IMO to meet their energy requirements can do so either in the STEM or the Balancing Market. For the purposes of estimating the quantity of energy purchased from the IMO for the initial Credit Limit determination, the IMO only requires information on the Bilateral Contract sale and purchase quantities. Further, to estimate the dollar value of this purchased quantity, the IMO uses a reasonable estimate of the Balancing Price over the previous 70 Trading Days. The IMO has added clarity to the relevant steps in the proposed amended Market Procedure.</p>
	<p>Step 2.5.2(d): "Individual Reserve Capacity Requirement <u>for the Market Customer</u>". Alinta considers this amendment will make it clear that the estimate relates to the IRCR of the relevant Market Customer.</p>	<p>The IMO agrees with this suggestion and has included it in step 2.5.2(d) of the proposed amended Market Procedure.</p>
	<p>Step 2.5.4: The IMO should clarify whether it intends to determine a Credit Limit every time a Market Customer adds one or more end-customers or loads. This is currently unclear when reading the relevant procedure steps.</p>	<p>The IMO notes that under clause 2.37.8(a) of the Market Rules as amended by RC_2012_23, a Market Customer is required to notify the IMO when it considers that its consumption may increase (for example, as a result of adding new end-consumers or Loads). The IMO acknowledges that it may not be practicable to revise the Credit Limit every time a Market Customer adds a new end-consumer or Load. However, the IMO retains the discretion to decide whether or not to revise the Credit Limit based on the information supplied by the Market Customer.</p>
	<p>Step 2.8.2: There should be an express requirement for the IMO to reconsider a Market Participant's Credit Limit following a request being received in accordance with this procedure step. Please refer to Alinta's second round submission on RC_2012_23 for further details of Alinta's rationale for the inclusion of this requirement.</p>	<p>The IMO has amended step 2.8.3 of the proposed amended Market Procedure to expressly state the decision and the timeframe within which the IMO must make the decision.</p>

	Table 3 (ID b): “Before the new Facilities undertake a Commissioning Test”	The IMO agrees with this suggestion and has included it in Table 3 of the proposed amended Market Procedure.
	Table 3 (ID d): “...expected increase in consumption in step 2.8.1(a)”	The IMO agrees with this suggestion and has included it in Table 3 of the proposed amended Market Procedure.
	Step 3.7.4(a): “...and two individuals representing the Treasury Corporation or Bank...”	The IMO agrees with this suggestion and has included it in step 3.7.4(a) of the proposed amended Market Procedure.
	Step 3.7.5: Alinta notes that this step is written in a different style to the remainder of the procedure and suggests it is revised to be more succinct and present the specific obligation up-front.	The IMO agrees with this suggestion and has revised step 3.7.5 to state the obligation up-front, keeping it consistent with other similar steps in the proposed amended Market Procedure.
	Step 4.2.1: Alinta notes its comments provided as part of RC_2012_23 relating to the list of Acceptable Credit Providers and in particular that there should not be a limitation on an entity providing evidence to the IMO that it meets the criteria itself. Please refer to Alinta’s second round submission on RC_2012_23 for further details.	The IMO has addressed this issue in more detail in section 3.5 of the Final Rule Change Report for RC_2012_23 as it contains the principle to be addressed. The IMO noted that for the purpose and implementation of the Market Rules, the entity of concern that is required to comply with the Market Rules is the Market Participant and the responsibility for ensuring that the Credit Support provider continues to meet the Acceptable Credit Criteria rests with the Market Participant. However, the rule operates in a way that does not disallow the Credit Support provider from supplying evidence to the IMO directly.
	Step 5.5.1: It should be clarified that the information to be published in the WEMS relates to the relevant Market Participant and not more broadly.	The IMO notes that step 5.5.1 of the proposed amended Market Procedure specifies that the prudential risk report for a specific Market Participant is published on the WEMS Market Participant Interface which is only accessible after an authorised login. This ensures that the information on the Market Participant Interface is accessible only to the relevant Market Participant and not to the market broadly.
	Alinta requests the IMO to confirm whether the process for Security Deposits, Guarantees and Undertakings is the same as those for the provision of a Reserve Capacity Security (as reflected in the relevant Market Procedure). Likewise the processes relating to the Acceptable Credit Criteria should also be the same between	The IMO confirms that, to the extent the processes for Credit Support and Reserve Capacity Security are similar, the relevant steps in the Market Procedures will be drafted consistently. The processes around Acceptable Credit Criteria will also be treated similarly.

	<p>Prudentials and Reserve Capacity Security.</p>	<p>The IMO also notes that the proposed amendments to the Market Procedure: Reserve Capacity Security are underway.</p>
	<p>The Procedure refers to “the Credit Support”, “a Credit Support arrangement” and “Credit Support” interchangeably. The IMO should review the procedure to ensure consistent language is used throughout.</p>	<p>The IMO has reviewed the proposed amended Market Procedure to maintain consistency with the use of the terms. The IMO notes that ‘Credit Support’ signifies all aspects of Credit Support broadly whereas ‘Credit Support arrangement’ refers to a guarantee, bank undertaking or Security Deposit.</p>
	<p>The Procedure refers to “calling on Credit Support”, “making a call on Credit Support” and “drawing upon Credit Support” interchangeably. The IMO should review the procedure to ensure consistent language is used throughout, noting that “Draw Upon” is a defined term in the Market Rules that applies for the purposes of Prudentials and therefore would appear to be the most appropriate terminology to adopt.</p>	<p>The IMO has reviewed the proposed amended Market Procedure to maintain consistency with the use of the terms. The IMO notes that ‘making a call’ on Credit Support refers to initiating the process whereas ‘Draw Upon’ is specifically defined in the Market Rules as the application of the Credit Support to satisfy various owed amounts.</p>
<p>Alinta Energy</p>	<p>Alinta notes its concerns with the level of detail provided in the Market Objective assessment for the proposed changes. This is particularly the case given that the IMO is proposing to implement substantive amendments in the procedure for which a specific assessment has not been presented to date as part of the consultation processes for either the rule change (which outlines the principles for the amended prudentials regime) or the procedure change (which implements the detail to support the new principles). For example, an assessment against the market objectives of the changes to use 24 months’ worth of data rather than 48 months when determining a participant’s Credit Limit has not been presented in the IMO’s Procedure Change Proposal nor has it yet been provided through the rule change process. Nonetheless this proposed change will have a substantive effect in reducing the Credit Limit for some participants (as demonstrated by the revised calculations previously provided by the IMO to MAC members).</p> <p>It is good regulatory practice for both the IMO and System Management to present the specific market objective assessment for each proposed change to industry for its consideration as part of the relevant consultation process. Given there is only one round of</p>	<p>The IMO noted in the Procedure Change Proposal that the proposed amendments to the Market Procedure have been drafted to operationalise the principles outlined in the Market Rules as amended by RC_2012_23. Additionally, the IMO’s initial assessment against the Wholesale Market Objectives was presented in the Procedure Change Proposal.</p> <p>The IMO considers that this amended Market Procedure does not introduce any concepts that do not support the Prudential Obligations in the Market Rules as amended by RC_2012_23. Additionally, the IMO has provided its assessment of the more substantive items in amended Market Procedure against the Wholesale Market Objectives in section 4.2 of this Procedure Change Report.</p> <p>More generally, the IMO notes that Market Procedures provide details of the operation and implementation of Market Rule requirements, implying that a specific assessment of each amendment in the Market Procedure against Wholesale Market Objectives is generally not required.</p>

	<p>consultation on changes to a procedure contemplated by the Market Rules it is most appropriate for the IMO or System Management's to present in the Procedure Change Proposal its initial assessment that the proposed amendments to the Market Procedure will be consistent with the Wholesale Market Objectives (clause 2.9.3(a)(ii.)). For substantive amendments that are not specifically contemplated by the Market Rules details of the submitting parties' assessment of the change against the objectives should be clearly outlined.</p>	
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4. The IMO's Assessment

In determining whether to accept the Procedure Change Proposal, the IMO has undertaken an assessment in light of clauses 2.9.3(a) of the Market Rules. Market Procedures must be:

- developed, amended or replaced in accordance with the process in the Market Rules;
- consistent with the Wholesale Market Objectives; and
- consistent with the Electricity Industry Act, Electricity Industry (Wholesale Electricity Market) Regulations (Regulations) and Market Rules.

During public consultation, the IMO received two submissions on the proposed amended Market Procedure. All suggestions have been considered by the IMO in conducting its assessment.

4.1. Further Changes to the Market Procedure

The IMO notes that following the public consultation process it has:

- amended the relevant steps in the Market Procedure to maintain consistency with the further amendments to clauses 2.38.3 and 2.42.4 of the Market Rules presented in the Final Rule Change Report for RC_2012_23;
- amended section 2.8 and section 5.4 of the Market Procedure in response to Alinta Energy's submission received during the second submission period for RC_2012_23;
- provided further clarity where required, as suggested in Alinta Energy's submission received during the public consultation period for this Procedure Change Proposal; and
- included a number of additional minor amendments to improve the overall integrity of the amended Market Procedure.

4.2. Wholesale Market Objectives

The IMO considers that the steps described in the proposed amended Market Procedure will facilitate the Prudential Obligations to be met by Market Participants and the IMO as described in clauses 2.37 to 2.42 of the Market Rules. Specifically, the IMO considers that the proposed amendments to the Market Procedure:

- (a) support the operation of the Amending Rules provided in the Final Rule Change Report for RC_2012_23, which better achieve Wholesale Market Objectives (a) and (b);
- (b) potentially reduce prudential financing costs for some Market Participants due to a reduction in the time period of historical settlement data used for Credit Limit determinations;
- (c) facilitate Market Participants in managing their prudential security over the short-term through the express inclusion of voluntary prepayments in the calculation of the Outstanding Amount and its impact on the Trading Margin;
- (d) provide additional clarity on the obligations of Market Participants and the IMO with respect to maintaining prudential security in the market;
- (e) document the current process and obligations thereby improving transparency; and
- (f) provide a basis for future consideration of reforms to the prudential regime.

For these reasons, the IMO considers that the proposed amended Market Procedure, as a whole, is consistent with the Wholesale Market Objectives.

4.3. The Electricity Industry Act, Regulations and Market Rules

The IMO considers that the proposed amended Market Procedure is consistent, as a whole, with the Electricity Industry Act, Regulations and Market Rules. The Market Procedure is drafted to support the operation of Prudential Obligations by clearly documenting the processes to be followed by both Market Participants and the IMO to implement the principles outlined in clauses 2.37 to 2.42 of the Market Rules.

The IMO also considers that the Market Procedure is consistent with all other Market Procedures. The IMO notes that proposed amendments to the Market Procedure: Reserve Capacity Security will be drafted to maintain consistency with this Market Procedure.

4.4. Implementation of the Market Procedure

The Market Procedure will require the IMO to implement certain amendments to the prudential risk report available on the Market Participant Interface in WEMS to incorporate the impact of voluntary prepayments on the Outstanding Amount and Trading Margin. The IMO notes that these changes are included in the IMO's existing operating budget. No Market Participant has identified any issues in relation to the practicality of implementation of the proposed amended Market Procedure.

The IMO considers that commencement at **8:00 AM on 1 May 2014** will allow the IMO and Market Participants sufficient time from the date of publication of this Procedure Change Report to ensure compliance with the amended Market Procedure.

5. The IMO's Decision

The IMO's decision is to approve the proposed amended Market Procedure: Prudential Requirements as proposed in the Procedure Change Proposal and amended following the public consultation process.

The IMO has made its decision on the following basis. The amended Market Procedure: Prudential Requirements:

- will support the operation of the Market Rules as amended by RC_2012_23 and RC_2010_11;
- is consistent with the Wholesale Market Objectives;
- is consistent with the Electricity Industry Act, Regulations and Market Rules;
- has the general support of the IMOPWG and submissions received during the consultation period.

Additional detail outlining the analysis behind the IMO's reasons is outlined in section 4 of this Procedure Change Report.

6. The Amended Market Procedure

6.1. Commencement

The amended Market Procedure: Prudential Requirements will commence at **8.00 AM** on **1 May 2014**.

6.2. The Amended Market Procedure

The amended Market Procedure: Prudential Requirements is attached to this report and is also available on the Market Web Site: http://www.imowa.com.au/pc_2013_04.