APPENDIX 1 – NEW PRUDENTIAL STANDARD AND FRAMEWORK DRAFT RULE

3.3.8 Credit Limit Procedures

(a) The objective of the *credit limit procedures* is to establish the *maximum credit limit*, *outstandings limit* and *prudential margin* (the **prudential settings**) to ensure the *prudential standard* is met (**credit limit procedures objective**).

(b) To implement the *credit limit procedures objective*, *AEMO* must develop, *publish* and maintain *credit limit procedures* setting out the methodology it will use to determine the *prudential settings* to apply to each *Market Participant*.

(c) *AEMO* must determine the *prudential settings* for each *Market Participant* in accordance with the *credit limit procedures*.

(d) The *maximum credit limit* is the sum of the *outstandings limit* and *prudential margin*. The *outstandings limit* and *prudential margin* are interdependent and *AEMO* must calculate these simultaneously to achieve the *prudential standard*.

(e) In developing the *credit limit procedures*, *AEMO* must ensure that the methodology used to determine the *prudential settings* takes into account, to the extent *AEMO* considers appropriate, the following factors:

(1) the *regional reference price* for the *region* and time of year the *prudential settings* are being calculated for;

(2) volatility of *load* and *regional reference price* for the *region* and time of year *prudential settings* are being calculated for;

(3) *AEMO's* estimate of the *generation* and *load* for each *Market Participant*;

(4) the relationship between average *load* and *peak load* for each *Market Participant* for the relevant time of year;

(5) any *prospective reallocations* for the period being assessed;

(6) the correlation between *energy*, *reallocations* and the *regional reference price*;

(7) the statistical distribution of accrued amounts that may be owed to *AEMO*;

(8) the relevant time period for which the *prudential settings* is being calculated;

(9) in determining the *prudential margin*, *AEMO* must not take into account estimates of a *Market Participant's*:

(i) quantity and pattern of *trading amounts* where the estimate of the aggregate of all *trading amounts* for the period being assessed is a positive amount; and

(ii) quantity and pattern of *reallocation amounts* where the estimate of the aggregate of all *reallocation amounts* for the period being assessed is a positive amount; and

(10) any other factors *AEMO* considers relevant.

(f) *AEMO* must review the effectiveness of the methodology developed under paragraph (b) at least once each year to measure its performance as against the *prudential standard* and *publish* a report of the findings of this review and any recommendations for improving the performance of the methodology.

(g) *AEMO* must comply with the *Rules consultation procedures* when making or amending the *credit limit procedures*.

(h) *AEMO* may make minor or administrative amendments to the *credit limit procedures* without complying with the *Rules consultation procedures*.

Review of Market Participants' Prudential Settings

(i) *AEMO* must review the *prudential settings* of each *Market Participant* at least once each year.

(j) *AEMO* may change the *prudential settings* for a *Market Participant* at any time, and for any reason, provided that any change to the *prudential settings* will apply with effect from the time *AEMO* specifies, which cannot be earlier than the time *AEMO* notifies the *Market Participant* of changes to the *prudential settings*.

(k) *AEMO* must notify the *Market Participant* of any determination or change of a *Market Participant's prudential settings* and provide reasons for that determination or change.

3.3.10 Trading limit

The *trading limit* for a *Market Participant* is the dollar amount determined by *AEMO* using the following formula:

TL = CS – PM

where:

TL is the *trading limit*;

CS is the *credit support* provided by the *Market Participant*; and

PM is the *prudential margin* determined in accordance with clause 3.3.8(c).

Note:

If the *prudential margin* exceeds the *credit support* the *trading limit* will have a negative value.

Chapter 10 Definitions

credit limit procedures

The procedures *published* by *AEMO* in accordance with clause 3.3.8(b).

credit limit procedures objective

The objective of the *credit limit procedures,* which is set out in clause 3.3.8(a).

credit period

The number of days calculated for the *payment period* and the *reaction period*.

maximum credit limit

The minimum amount of *credit support* a *Market Participant* must provide to *AEMO* to cover the relevant *credit period* as determined by *AEMO* in accordance with clause 3.3.8(c).

outstandings limit

AEMO's estimate of the maximum value that a *Market Participant's outstandings* can reach over the *payment period* if the *Market Participant* has lodged *credit support* equal to the *maximum credit limit*.

payment period

The number of days in a *billing period* plus the number of days until payment is due with respect to *transactions* for that *billing period*.

prudential margin

The allowance made by *AEMO* in determining a *Market Participant's maximum credit limit* for the accrual of the *Market Participant's outstandings* during the *reaction period*.

prudential settings

The *maximum credit limit*, *outstandings limit* and *prudential margin*.

prudential standard

The *prudential standard* is a 2% probability of a *Market Participant's maximum credit limit* being exceeded by its *outstandings* at the end of the *reaction period* following a *Market Participant* exceeding its *outstandings limit* on any day and failing to rectify this breach.

reaction period

The number of days from the day that a *Market Participant's outstandings* exceeds its *trading limit* to when the *Market Participant* is suspended from trading under clause 3.15.21(c) if the exceedance is not rectified, which is 7 days.

Savings and Transitional Amendments to the National Electricity Rules

11.[xx] Rules consequential on the making of the National Electricity Amendment (Prudential Standard) Rule 2011

11.[xx].1 Definitions

For the purposes of this rule 11.[xx]:

Amending Rule means the National Electricity Amendment (Prudential Standard) Rule 2011.

Prudential Standard commencement date means the date of the commencement of the Amending Rule.

11.[xx].2 Purpose

The purpose of this rule 11.[xx] is to provide transitional arrangements to facilitate *AEMO's* transition from the framework for determining *maximum credit limits* and the *prudential margins* prior to the Prudential Standard commencement date to the framework for determining the *prudential settings* determined under clause 3.3.8.

11.[xx].3 New procedure

(a) *AEMO* must develop and publish the *credit limit procedures* to take into account the Amending Rule and to take effect from the Prudential Standard Rule commencement date.

(b) Any action taken by *AEMO* prior to the Prudential Standard Rule commencement date for the purpose of developing the *credit limit procedures* as a result of the Amending Rule is taken to satisfy any equivalent actions required under the Rules.

11.[xx].4 Transition to the credit limit procedure

(a) After the Prudential Standard commencement date, *AEMO* must continue to use the *maximum credit limit* and *prudential margin* calculated using the existing methodology until it reviews a *Market Participant's prudential settings* in accordance with clause 3.3.8(i).

(b) Within one month of the Prudential Standard commencement date, *AEMO* must review all existing *Market Participants' prudential settings* in accordance with the *credit limit procedures*.

11.[xx].5 Decisions and actions taken prior to Amending Rule

All decisions and actions taken by *AEMO* prior to the Prudential Standard Rule commencement date in anticipation of the commencement of the Amending Rule are taken to satisfy the equivalent actions required after the Prudential Standard Rule commencement date and continue to have effect for that purpose.