

AEMO CREDIT SUPPORT MANAGEMENT GUIDE

PREPARED BY: Metering & Settlements

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FINAL

MARKETS TO WHICH THIS DOCUMENT APPLIES	
DECLARED VICTORIAN WHOLESALE GAS MARKET	✓
SHORT TERM TRADING MARKET	✓
NATIONAL ELECTRICITY MARKET	✓
NEW SOUTH WALES AND AUSTRALIAN CAPITAL TERRITORY RETAIL GAS MARKET	
QUEENSLAND RETAIL GAS MARKET	
SOUTH AUSTRALIA RETAIL GAS MARKET	
VICTORIAN RETAIL GAS MARKET	

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1.0	11 March 2011	Metering & Settlements	Initial Version

1 Introduction

1.1 Purpose

Credit support is a critical component of the prudential framework in the wholesale electricity and gas markets operated by AEMO. This guide details the obligations and processes relating to the management of credit support, and is provided to participants for the following purposes:

- Identify the market rules relating to credit support
- Summarise the obligations pertaining to credit support
- Detail the process for managing credit support
- Provide additional information and references

1.2 Summary

Credit support is an obligation in writing that market participants who do not meet the acceptable credit criteria must procure with a value not less than the amount determined by AEMO. The credit support must be provided by an acceptable credit support provider that meets the acceptable credit criteria, typically a bank. Credit support must be duly executed by the credit support provider, delivered unconditionally to AEMO and permit drawings or claims by AEMO to the stated amount.

Market participants are responsible for ensuring prudential requirements are met as described in Chapter 3.3 of the NER, Part 19 Division 2 and Part 20 Division 10 of the NGR.

2 Market Rules

2.1 Acceptable Credit Criteria

The NER and NGR define what AEMO considers to be the acceptable credit criteria and credit rating of a credit support provider. As at December 2010, AEMO was holding credit support provided by 12 different financial institutions. For further information on acceptable credit support providers please contact prudentials@aemo.com.au.

Acceptable Credit Criteria & Credit Ratings

Market	Rules Reference
NEM	NER 3.3.3, NER 3.3.4
VICGas	NGR Part 19, Division 2, Subdivision 7, 255
STTM	NGR Part 20, Division 10, Subdivision 3, 479

2.2 Form of Credit Support

The market rules stipulate that market participants must provide a guarantee in a form as prescribed by AEMO. The prescribed format is posted on the AEMO website:

http://www.aemo.com.au/electricityops/sett_prud_intro.html

The prescribed guarantee format has been designed for use in any of the NEM, VICGAS and STTM markets. The relevant market is identified by selecting the appropriate Market and Rules and Maximum Period checkboxes in the Defined Terms table of the guarantee. A guarantee must be assigned to one market only e.g. a NEM guarantee may only be used for the NEM.

It is important to note that the financial guarantee pro forma may be updated from time to time so always check for the latest version when preparing guarantees. Guarantees submitted to AEMO in the incorrect format may not be accepted. To avoid guarantee rejection and unnecessary delays,

AEMO encourages all participants to submit a draft copy of all bank guarantees to prudentials@aemo.com.au prior to execution. AEMO will check the guarantee format and confirm whether the guarantee is acceptable and if not, detailed information of amendments required will be provided.

Acceptable Credit Support Format

Market	Rules Reference
NEM	NER 3.3.2
VICGas	NGR Part 19, Division 2, Subdivision 7, 255
STTM	NGR Part 20, Division 10, Subdivision 3, 479

2.3 Amount of Credit Support

2.3.1 National Electricity Market (NEM)

NEM market participants must procure credit support with a value not less than the current Maximum Credit Limit (MCL). The MCL for all NEM market participants is reviewed approximately every 3 months and the results of the review are published in an official MCL letter that is sent to a participant nominated recipient. The credit limits methodology, review schedule and current average price information is published on the AEMO website:

<http://www.aemo.com.au/electricityops/prudentials.html>

NEM market participants may view their current MCL on the AEMO Prudential Dashboard via the MMS web browser. Participants who do not have access to the Prudential Dashboard can contact the AEMO Help Desk to arrange access. The Prudential Dashboard is a useful tool that features participant outstandings, security deposit and reallocation information that will assist with the daily monitoring and management of NEM prudentials. Information regarding the Prudential Dashboard is published on the AEMO website:

<http://www.aemo.com.au/electricityops/prudentials.html>

2.3.2 Declared Wholesale Gas Market (VICGas) & Short Term Trading Market (STTM)

Prior to the end of each financial year AEMO determines and provides written confirmation to each VICGAS and STTM market participant of their minimum exposure. The minimum exposure is calculated as AEMO's reasonable estimate of the participant fees payable by the market participant to AEMO in respect of a billing period in the following financial year.

Unless exempted, market participants must procure credit support not less than the value of the current minimum exposure. VICGas and STTM market participants must ensure that the amount of credit support lodged with AEMO never falls below their minimum exposure amount. Market participants may monitor their current minimum exposure by reviewing daily MIS and MIBB Reports. For MIS and MIBB Report access, contact the AEMO Help Desk.

Amount of Credit Support

Market	Rules Reference
NEM	NER 3.3.5
VICGas	NGR Part 19, Division 2, Subdivision 7, 256
STTM	NGR Part 20, Division 10, Subdivision 3, 480

2.4 Replacing Credit Support

All market participants are responsible for the monitoring of credit support and replacement of expiring credit support. Any queries relating to the status of your current credit support may be sent to prudentials@aemo.com.au

Expiring credit support must be replaced at least 10 business days prior to the date of expiry. It is the full responsibility of all market participants to monitor and replace expiring credit support.

Monitoring of Expiring Credit Support

Market	Rules Reference
NEM	NER 3.3.6
VICGas	NGR Part 19, Division 2, Subdivision 7, 257
STTM	NGR Part 20, Division 10, Subdivision 3, 481

2.4.1 National Electricity Market (NEM)

To assist with monitoring of credit support, NEM participants are strongly encouraged to use the Credit Support Webpage, see 4.4. Credit support must be replaced at least 10 business days prior to expiry, the term *business days* is defined in the NER. The ratio of guarantee maximum periods (1 hour, 2 day or 7 day) must never exceed the amounts as outlined in the Instructions to NEM Participants, see Appendix 2.

2.4.2 Declared Wholesale Gas Market (VICGas) & Short Term Trading Market (STTM)

Credit Support must be replaced at least 10 business days prior to expiry, the term *business days* is defined in the National Gas Law. For VICGas and STTM the Maximum Period in the Defined Terms table of the credit support pro forma must be 1 hour, no other Maximum Period will be accepted.

3 Credit Support Procedure

Co-ordination of guarantees can be a difficult task that may be simplified with careful planning and open communication with your chosen financial institution and AEMO. This procedure is for market participants who are providing a new guarantee, replacing an existing guarantee, terminating an active guarantee or some or all of these options.

3.1 Providing New Credit Support

Market participants are encouraged to use the Credit Support Checklist in Appendix 1 when arranging new guarantees and to allow sufficient preparation time. Most financial institution's have a required minimum set amount of time to prepare, execute and deliver a guarantee.

3.2 Guarantee Exchange

To exchange a guarantee, market participants must organise a replacement guarantee with a financial institution and make a request to AEMO for the transportation of the existing guarantee by overnight courier to a nominated AEMO office location. AEMO will arrange for a staff member to facilitate the exchange at the AEMO office on a date and time suitable to both parties. AEMO will only release the existing guarantee once the new guarantee has been checked and accepted. Please remember to allow some waiting time for checking of the new guarantee.

Please note: Due to staff coordination and guarantee transportation time, reasonable notice is required to organise an exchange.

3.3 Termination of Active Credit Support

If a participant requests the return of credit support that is not yet expired, providing that after return of the guarantee AEMO would be holding the acceptable amount of credit support, AEMO will return the guarantee to the financial institution to the contact and address as advised by the participant or the guarantee may be collected from AEMO by the bank.

Upon request, AEMO will provide the financial institution a written termination notice of the guarantee as per Termination clause (i). The guarantee termination notice and the guarantee will be sent directly to the financial institution or the financial institution may collect the documents from AEMO. To avoid unnecessary delays in the return of an active guarantee with a termination notice, market participants should provide AEMO with as much notice as possible.

3.4 Expired Credit Support

All expired credit support will be returned by AEMO directly to the financial institution. When a guarantee has expired, AEMO will make a request to the participant to provide a contact name and address for delivery.

3.5 Delivery of Credit Support

Credit support may be delivered in person, by courier or post to any of the AEMO offices. If delivering by post it is strongly recommended that a tracked postal service be used and additional time allowed for any delays that may occur. There is no allowance or consideration for a late guarantee even if it is outside the control of the participant. It is the full responsibility of a participant to ensure that a guarantee is delivered on the specified due date and time and failure to do so is considered a default event.

Where credit support is required to satisfy a Rules obligation such as participant minimum exposure or MCL, the guarantee must be delivered according to the following times:

	Expiring Credit Support	New Credit Support
NEM	No later than 10.30am, 10 business days prior to expiry date	No later than 10.30am on effective date of MCL
VicGas	By close of business, 10 business days prior to expiry date	By close of business on the business day prior to effective date of minimum exposure
STTM	By close of business 10 business days prior to expiry date	By close of business on the business day prior to effective date of minimum exposure

Notes: 1. All times listed in this table are based on Sydney local time.
2. Business days is as defined in the relevant rules for the market.

3.6 Credit Support Webpage (NEM only)

The Credit Support Webpage is a web-based interface in the MMS web browser (via Prudential Dashboard) that allows NEM market participants to view their credit support status. There is a useful scenario builder tool for participants intended to be used to safely test plans to replace, reduce or increase guarantee levels and if those plans will comply with the NEM Rules. If an MCL is increased as a result of an MCL review, the scenario builder features upcoming events, including if the current credit support amount will satisfy the new MCL. Information regarding the Credit Support Webpage on the AEMO website:

<http://www.aemo.com.au/electricityops/prudentials.html>

4 Contacts

The following contacts should be used for issues relating to credit support:

Issue	Who Can Help	Contact Details
Credit Support Enquiry	Metering & Settlements	02 8884 5015 prudentials@aemo.com.au
IT Enquiry or Problem	AEMO Help Desk	1300 300 295 helpdesk@aemo.com.au

APPENDIX 1: Credit Support Checklist

- Is the Credit Support Provider acceptable? If unsure, contact AEMO prudentials@aemo.com.au
- Download the most recent version of the AEMO Financial Guarantee Pro Forma from the AEMO website: http://www.aemo.com.au/electricityops/sett_prud_intro.html
- If replacing an expiring guarantee, make sure the effective date of the new guarantee is in alignment with the expiration date of the existing guarantee
- For NEM participants, if using a combination of maximum periods - 1 hour, 2 day and 7 day, check the amount of each guarantee type satisfies the acceptable threshold amounts http://www.aemo.com.au/electricityops/sett_prud_intro.html
- Does the guarantee amount comply with your MCL or Minimum Exposure?
- Have your financial institution prepare a draft of the guarantee and email to prudentials@aemo.com.au for review and approval.

APPENDIX 2: Instructions to NEM Market Participants

PRESCRIBED FORMS FOR GUARANTEES UNDER CLAUSE 3.3.2(b) OF THE NATIONAL ELECTRICITY RULES

INSTRUCTIONS TO NEM MARKET PARTICIPANTS

Under clause 3.3.2(b) of the National Electricity Rules (“Rules”), guarantees provided by *Market Participants* must be in a form prescribed by *AEMO*.

This package includes instructions for the pro forma guarantee use and lodgement with *AEMO*.

Market Participants may lodge up to three different forms of guarantee provided that the aggregate amounts under each type of guarantee lodged with *AEMO* meet the following individual thresholds:

No.	Type	Threshold	Notice time that AEMO must give before payment required*
1	1 Hour Response Guarantee	60% of Market Participant’s Guarantee Amount**	60 minutes
2	7 Day Response Guarantee	Up to, but no more than, 20% of the Market Participant’s Guarantee Amount**	7 days
3	2 Day Response Guarantee	Balance of Market Participant’s Guarantee Amount** after taking into account the Type 1 and 2 guarantees provided.	2 days

* Payment must be made by the time specified in *AEMO*’s demand made on the financial institution. The table specifies the minimum notice periods that *AEMO* must give the financial institution before payment is required. *AEMO* may, at its discretion, give a longer notice period.

** “**Guarantee Amount**” means the total uncalled amount secured under guarantees lodged with *AEMO* at any time.

Should a *Market Participant* lodge guarantees with *AEMO* with different response times, they must lodge separate guarantees in the prescribed form in respect of each type of guarantee.

When completing the guarantees, *Market Participants* must ensure that:

- (a) together all guarantees lodged with *AEMO* secure uncalled amounts at least equal to the MCL for that *Market Participant*; and**
- (b) the uncalled amounts secured under each type of guarantee do not (when aggregated with any other guarantee having the same response time) breach the individual thresholds specified above.**

Any guarantees previously lodged with *AEMO* in respect of a *Market Participant* that are still current must be taken into account in determining whether (a) and (b) are satisfied. Please see the examples below.

Market Participants are responsible for ensuring that these obligations are satisfied. If a *Market Participant*’s guarantees do not meet the thresholds specified for each type of guarantee, *AEMO*, at its discretion, may:

- (a) reject at the time of lodgement a guarantee that is not in the prescribed form; or,

(b) demand the *Market Participant* provide replacement guarantees in the prescribed form, in which case *AEMO* will return the guarantee(s) being replaced on lodgement of a replacement in the correct form; or

(c) at any time, return a bank guarantee that is not in the prescribed form.

If a *Market Participant* has lodged guarantees that, in aggregate, do not meet the individual thresholds for each type of guarantee (or subsequently do not meet the individual thresholds), the *Market Participant* will be in breach of its *credit support* obligations under the *Rules* by not having lodged guarantees with *AEMO* in the prescribed form. In these circumstances, *AEMO* will take such action under the *Rules* as it considers appropriate, including the issue of *call notices*.

Examples of the operation of the thresholds

Set out below are six examples of how these arrangements work. Each example assumes that the Guarantee Amount is at least equal to the MCL:

Example 1 - Under the 1 Hour Response Guarantee, the Maximum Amount equals 60% of the Guarantee Amount. Under the 7 Day Response Guarantee, the Maximum Amount equals 20% of the Guarantee Amount. The 2 Day Response Guarantee therefore equals 20% of the Guarantee Amount.

Example 2 - Under the 1 Hour Response Guarantee, the Maximum Amount equals 75% of the Guarantee Amount. Under the 7 Day Response Guarantee, the Maximum Amount equals 10% of the Guarantee Amount. The 2 Day Response Guarantee therefore equals 15% of the Guarantee Amount.

Example 3 - Under the 1 Hour Response Guarantee, the Maximum Amount equals 60% of the Guarantee Amount. The 7 Day Response Guarantee is not used. The 2 Day Response Guarantee therefore equals 40% of the Guarantee Amount.

Example 4 - The *Market Participant's* MCL is \$100M. *AEMO* already holds a 1 Hour Response Guarantee for \$70M, a 7 Day Response Guarantee for \$20M and a 2 Day Response Guarantee for \$10M. The *Market Participant's* MCL increases to \$110M.

In these circumstances, for example, the *Market Participant* may provide a guarantee for the additional \$10M in the form of a 1 Hour Response or 2 Day Response Guarantee or a combination of both. There are other possible combinations involving the 7 Day Response Guarantee. However, it must not provide a 7 Day Response Guarantee for \$10M only as this means more than 20% of the Guarantee Amount would be callable on greater than 2 days notice ($\$20 + \$10M / \$110M =$ approximately 28% of the Guarantee Amount).

Example 5 - *AEMO* already holds guarantees under a 1 Hour Response Guarantee, a 7 Day Response Guarantee and a 2 Day Response Guarantee equal to 60%, 20% and 20% of the Guarantee Amount respectively. *AEMO* makes a call on the 1 Hour Response Guarantee for 30% of the Guarantee Amount. The *Market Participant* must provide a replacement guarantee for 30% of its Guarantee Amount in the form of the 1 Hour Response Guarantee.

Example 6 - A *Market Participant's* MCL is \$100M, however, it lodges guarantees securing \$200M of which \$120M is secured under a 1 Hour Response Guarantee and the remainder is split equally between 2 Day and 7 Day Response Guarantees. It is therefore complying with the required thresholds. *AEMO* makes a call of \$90M on the 1 Hour Response Guarantee. Although *AEMO* is still holding guarantees (\$110M) in excess of the *Market Participant's* MCL (\$100M), the *Market Participant* is no longer complying with the threshold requirements and so must either provide a new \$90M 1 Hour Response Guarantee or provide new guarantees to replace one or more of the existing guarantees so that the guarantees held by *AEMO* meet the thresholds.