
Wholesale Electricity Market Rule Change Proposal Submission Form

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Submission

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

Background

Efficient and clearly defined prudential requirements are an essential element to a well functioning centralised trading market. Setting the level of prudential requirements participants must meet resolves to balancing the risk and consequence of default with the financial cost incurred by participants in funding the level of prudential requirements set. In effect, the prudential requirements constitute an insurance against a default impacting all participants.

Typically, insurance

data, credit history and financial standing suggest that the default risk is very low or negligible, then the IMO should exercise its discretion to reduce the credit limit to a level below that determined from the application of clause 2.37.5 calculations.

Bilateral payment values removed

In regard to the new requirement for the IMO to take account of the participant's historical level of payments based on bilateral sale and purchases (viz. clause 2.37.5(b)), Synergy notes the absence of discussion in the rule change proposal as to the merit of its inclusion. While Synergy fully appreciates that bilaterally traded sale and purchase **quantities** are a legitimate inclusion in a credit limit determination, it fails to understand the inclusion of the obligation on the IMO to take account of the level of **payments** when such information is confidential, therefore requiring

Credit Criteria be placed on and restricted to participants – the rationale of the benefit to the market from the IMO proposing this change is difficult to understand. In Synergy's view, there are efficiencies if credit providers can of their own initiative provide this evidence: this reduces costs to participants and potentially introduces an element of competition among credit providers where they have sought to provide the necessary evidence. In Synergy's view there is scope to retain the option for entities to self-provide the necessary evidence as well as allowing participants to also procure the evidence; to remove the scope for the entities to provide such evidence introduces an inefficiency where none existed.

Overall market credit risk

While Synergy supports the thrust of the proposed changes and in particular that the credit limit is the maximum net amount

present options for the market's consideration, thus ensuring that the change process is transparent and the market fully informed of available options in regard to determining the risk the market as a whole is comfortable with.

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

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

Synergy notes that the proposed changes will have significant impact on its business IT systems. In particular, in order to comply with 2.41.2 that a participant not make a submission, if valued according to the list of factors referred to in 2.41.5, that could result in