



## Market Rule Amendment Submission

This form is used to request an amendment to, or clarification of, the *Market Rules*. Please complete the first four parts of this form and submit the completed form by email or fax to the following:

Email Address: [Rule.Amendments@ieso.ca](mailto:Rule.Amendments@ieso.ca)

Fax No.: (416) 506-2847 Attention: Market Rules Group

**Subject: Market Rule Amendment Submission**

All information submitted in this process will be used by the *IESO* solely in support of its obligations under the *Electricity Act, 1998*, the *Ontario Energy Board Act, 1998*, the *Market Rules* and associated policies, standards and procedures and its license. All submitted information will be assigned the *confidentiality classification* of “Public” upon receipt. You should be aware that the *IESO* will *publish this amendment submission* if the *Technical Panel* determines it warrants consideration and may invite public comment.

Terms and acronyms used in this Form that are italicized have the meanings ascribed thereto in Chapter 11 of the *Market Rules*.

### PART 1 – SUBMITTER’S INFORMATION

Please enter contact information in full.	
Name: <u>IESO Staff</u>	
(if applicable) <i>Market Participant / Metering Service Provider</i> No. <sup>1</sup> : <u>N/A</u>	<i>Market Participant Class</i> : <u>N/A</u>
Telephone: <u>905-855-4128</u>	Fax: <u>905-855-6371</u>
E-mail Address: <u>Rule.amendments@ieso.ca</u>	

### PART 2 – MARKET RULE AMENDMENT SUBMISSION INFORMATION

Subject: <u>Prudential Support Obligations</u>	
Title: <u>Prudential Support – Revisions to the Amounts for Credit Ratings, Good Payment History Reductions and Guarantees</u>	
Nature of Request (please indicate with x)	
<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion
<input type="checkbox"/> Addition	<input type="checkbox"/> Clarification
Chapter: <u>2</u> Appendix: _____ Sections: <u>5.7, 5.8</u>	
Sub-sections proposed for amending/clarifying: _____	

<sup>1</sup> This number is a maximum of 12 characters and does not include any spaces or underscore.

### PART 3 – DESCRIPTION OF THE ISSUE

Provide a brief description of the issue and reason for the proposed amendment. If possible, provide a qualitative and quantitative assessment of the impacts of the issue on you and the *IESO-administered markets*. Include the Chapter and Section number of the relevant *market rules*.

#### Summary

The IESO proposes to amend the market rules in order to increase the unsecured credit allowable to market participants in satisfying their prudential support obligations with the IESO.

Specifically, the amendments will increase:

- The allowable reductions to prudential support obligations available to those market participants with third party credit ratings from an acceptable bond rating agency;
- The allowable reductions to prudential support obligations based on a market participant's good payment history;
- Allowable amounts for guarantees which are based on the third party credit rating of an affiliate or a non-affiliate of a market participant.

This proposal is based on stakeholder consultation as part of SE-107 Prudential Review - 2013.

Further information on SE-107 can be found on the IESO's website at:

[http://www.ieso.ca/imoweb/consult/consult\\_se107.asp](http://www.ieso.ca/imoweb/consult/consult_se107.asp)

#### Background

As a condition of participating in the real-time markets or conveying electricity through the IESO-controlled grid, market participants who are net debtors must provide the IESO with prudential support (i.e. collateral) to mitigate credit risk. Prudential support is required:

- Due to the anonymous nature of transactions in the real-time market;
- To provide some assurance to suppliers that the total amount due to them will be paid irrespective of the amounts collected from all participants; and
- Due to the characteristics of electricity itself - electricity is consumed at the moment it is generated, and it is impossible to recover the physical commodity in the event a payment is not received.

The level of prudential support required from a market participant can be reduced by a participant's credit rating or good payment history. Unsecured credit via a guarantee can be similarly provided by a market participant to satisfy their prudential support obligation based on the credit rating of an affiliate or non-affiliate of the participant.

The Market Rules direct the IESO to pay creditors (net sellers to the market) in full on the payment date with funds received from debtors (net buyers in the market). If a debtor does not pay the amounts owed in full, the IESO then calls upon that participant's prudential support for the amount outstanding. Any differences between the prudential support held and the amount outstanding is collected from all non-defaulting market participants through the default levy process.

The prudential framework, from the perspective of its participants, seeks to balance the cost of providing prudential support against the potential cost of a default levy. The market rules require the

**PART 3 – DESCRIPTION OF THE ISSUE**

IESO to review the prudential framework at least once every three years (SE-23 in 2007, SE-88 in 2010, SE-107 in 2013), and this amendment proposal is a result of the 2013 stakeholding efforts of SE-107.

**PART 4 – PROPOSAL (BY SUBMITTER)**

Provide your proposed amendment. If possible, provide suggested wording of proposed amendment.

Based on the conclusions from SE-107, the IESO proposes to amend the market rules in order to increase the levels of unsecured credit allowable to market participants in satisfying their prudential support obligations with the IESO.

**PART 5 – FOR IESO USE ONLY**

*Technical Panel Decision on Rule Amendment Submission:* Warrants consideration

MR Number: MR-00406

Date Submitted to *Technical Panel*: September 10, 2013

Accepted by *Technical Panel* as: (please indicate with x) Date:

General       Urgent       Minor September 17, 2013

Criteria for Acceptance: The amendment submission identifies means to reduce market participant costs in satisfying their prudential support obligations.

Priority: Regular

Criteria for Assigning Priority: Based on the conclusion of SE-107, the IESO will finalize the increases to the levels of unsecured credit allowable in satisfying prudential support obligations with the IESO.

Not Accepted (please indicate with x):

Clarification/Interpretation Required (please indicate with x):

*Technical Panel Minutes Reference:* IESOTP 273-1

*Technical Panel Comments:* \_\_\_\_\_