



## Market Rule Amendment Proposal

### PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00274-R00		
Subject:	Day-Ahead Market		
Title:	Prudential Security		
Nature of Proposal:	<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input checked="" type="checkbox"/> Addition
Chapter:	2	Appendix:	
Sections:	5.1, 5.2, 5.3, 5.4, 5.5, 5.6, 5.7, 5.8, 5A.1 (new), 5A.2 (new), 5A.3 (new), 5A.4 (new), & 5A.5		
Sub-sections proposed for amending:	5.1.1, 5.2.1, 5.2.2.1, 5.2.2.2 (new), 5.2.3, 5.2.4, 5.2.5, 5.2.6, 5.2.7, 5.2.8, 5.2.9, 5.2.10 (new), 5.3.1, 5.3.2, 5.3.3, 5.3.4, 5.3.4.1, 5.3.4.2, 5.3.4.3, 5.3.5, 5.3.6, 5.3.7, 5.3.8, 5.3.8.1, 5.3.9, 5.3.11, 5.3.12, 5.4, 5.4.1, 5.4.2, 5.5.1, 5.5.1.1, 5.5.1.2, 5.6.1, 5.6.2, 5.6.3, 5.6.5, 5.6.6, 5.7.1, 5.7.2, 5.7.3, 5.7.3A, 5.7.3B, 5.7.5, 5.8.1, 5.8.2, 5.8.2A, 5.8.3, 5.8.4, 5.8.5, 5.8.6, 5.8.8		

### PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date
1.0	Incorporated Technical Panel Comments and Posted for Review and Written Comments	November 4, 2004
Approved Amendment Publication Date:		
Approved Amendment Effective Date:		

**PART 3 – EXPLANATION FOR PROPOSED AMENDMENT**

Provide a brief description of the following:

- The reason for the proposed amendment and the impact on the *IMO-administered markets* if the amendment is not made
- Alternative solutions considered
- The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the *IMO-administered markets*.

#### Summary of Proposed Market Rule Amendments

It is proposed to revise section 5 of Chapter 2 in the following manner:

Provisions concerning both physical transactions and virtual transactions:

- Amend sections 5.1 and 5.2 to include virtual and physical prudential support obligations. These sections provide a preamble to the application of the prudential market rules and revisions are necessary to reflect the Day-ahead market (DAM) design for prudential security. The DAM detailed design document, “Prudential Security” (IMO\_DES\_0019)<sup>1</sup> provides details on these requirements for the DAM.
- Insert a new section 5.2.10 to specify for both virtual and physical prudential support obligations that the IMO shall establish, maintain, and update as required and publish a list of organizations eligible to provide prudential support for market participants.

Provisions concerning physical transactions:

- Amend section 5.3 (Calculation of Participant Trading Limit, Default Protection Amount and Maximum Net Exposure) to clarify its application to physical transactions only.
- Amend section 5.4 (Monitoring of Actual Exposure and Trading Limit) to clarify its application to physical transactions only.
- Amend section 5.5 (Calculation of Actual Exposure) to clarify its application to physical transactions only.
- Amend section 5.6 (Margin Call Requirements and the No Margin Call Option) to clarify its application to physical transactions only.
- Amend section 5.7 (Obligation to Provide Prudential Support) to clarify its application to physical transactions only. In addition, consequential to the proposed insertion of a new section 5.2.10 discussed above, it is necessary to delete section 5.7.3.
- Amend section 5.8 (Reductions in Prudential Support Obligation) to clarify its application to physical transactions only. It is also proposed to delete section 5.8.2A because it is longer in force.

Provisions concerning virtual transactions:

Insert a new section 5A to reflect the prudential support obligations required for participation in virtual transactions. The key elements of section 5A are proposed as follows:

- Insert section 5A.1.1 (Calculation of the Virtual Transaction Prudential Support Obligation). This

<sup>1</sup> The Prudential Security detailed design document is available on the IMO website at the following location:

[http://www.theimo.com/imoweb/pubs/consult/mep/dam\\_wg\\_IMO\\_DES\\_0019\\_PrudentialSecurity.pdf](http://www.theimo.com/imoweb/pubs/consult/mep/dam_wg_IMO_DES_0019_PrudentialSecurity.pdf)

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section would include provisions regarding the market participant's submission of their virtual transaction trading limit ('TL') which forms the basis of the calculating the virtual transaction prudential support obligation. Section 5A.1 also sub-divides the mechanism for calculating the virtual transaction prudential support obligation between an interim method which is used for the first 7 months of operating the DAM and a permanent method which subsequently goes into effect.

- Insert section 5A.1.2, which describes certain variables that are used for the calculation of the virtual transaction prudential support obligation that must be published by the IMO. These variables include:
  - A length of time ('#DAYS') which the virtual transaction prudential support obligation is assessed for;
  - The number of hours ('n') over which the average DAM and real-time prices are calculated in order to assess the volatility of the DAM/real-time price spread;
  - An estimation rate ('VTU') for any uplift amounts that virtual transaction might be exposed to; and
  - The criteria for setting an interim "price delta" to be used to calculate virtual transaction prudential support obligations for the first 7 months of DAM operations
- Insert section 5A.1.3, which describes certain variables which are only used for the calculation of the virtual transaction prudential support obligation after the permanent mechanism goes into effect 7 months after the beginning of DAM operations and must be published by the IMO. These variables include:
  - The Average Day Ahead Market Price (ADAP);
  - The Average Real-Time Market Price (ARTP);
  - The standard deviation (' $\sigma(?)$ ') of the difference between ADAP and ARTP;
  - The statistical confidence level ('z(a)') for adjusting the observed, average DAM/real-time price spread;
  - The "price delta" (' $?_{ADAP, ARTP}$ ') which is used in conjunction with the market participant-supplied trading limit and other published variables to determine the virtual transaction prudential support obligation
- Insert sections 5A.1.4 and 5A.1.5 which (respectively) describe the formulae for calculating the virtual transaction prudential support obligation during the interim period and on a permanent basis.
- Insert sections 5A.1.6 and 5A.1.7 which allows the IMO to recalculate the price "price delta" (' $?_{ADAP, ARTP}$ ') and/or establish a new statistical confidence level ('z(a)') if the average DAM/real-time price spread and/or the volatility of the price spread change by more than 10%
- Insert section 5A.2 (Monitoring Actual Exposure for Virtual Transactions). These sections establish thresholds for issuing margin warnings and margin calls when actual exposure exceeds 25% and 50% (respectively) of the market participant's virtual transaction prudential support obligation.
- Insert section 5A.3 (Calculation of Actual Exposure for Virtual Transactions). These sections obligate the IMO to monitor the actual exposure of all market participants who engage in virtual transactions and prescribes a method for calculating actual exposure which is very similar to that used for physical transactions.

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- Insert section 5A.4 (Margin Call Requirements for Virtual Transactions). These sections obligate market participants to:
  - Pay all virtual transaction margin calls by 4:00 pm on the second business day following the issuance of such margin calls. This obligation is identical to paying margin calls for physical transactions as per the existing market rules;
  - Make sufficient payment of a virtual transaction margin call to reduce the market participant’s actual exposure to virtual transactions to zero.

In addition, the IMO is authorized to invoke certain provisions within Chapter 3 involving the issuance of a cease trade order in all cases where a market participant has failed to fully satisfy a virtual transaction margin call.

- Insert section 5A.5 (Obligation to Provide Virtual Transaction Prudential Support). These sections require market participants to meet their virtual transaction prudential support obligation using only the types of instruments set out in section 5A.5.2 and in the form set out in section 5A.5.6. Sections 5A.5.3 to 5A.5.5 also allows market participants with ongoing net market creditor status in physical transactions to apply a portion of their credit position towards meeting their virtual transaction prudential support obligation.

**Background**

The market rules in Chapter 2 Section 5 specify a market participant’s obligation to provide prudential support. These sections set forth the nature and amount of prudential support that must be provided by market participants as a condition of participation in the IMO-administered markets, and the manner in which market participants must provide and maintain such prudential support on an on-going basis in order to protect the IMO-administered markets and market participants from payment defaults. This, in turn, provides greater assurance for the rest of the market against a possible default levy resulting from a market participant’s payment default. The introduction of the Day-Ahead Market (DAM) requires some reconsideration of the existing prudential market rules. For example, a market participant’s actual exposure, trading limit and maximum net exposure would need to be determined on the basis of the combined real-time and DAM physical transaction activity. Thus, for the most part, any associated rule amendments contemplated for section 5 would be additive in nature.

## PART 4 – PROPOSED AMENDMENT

## 5. Prudential Requirements

### 5.1 Purpose

- 5.1.1 ~~This s~~Sections 5 and 5A sets forth-out the nature and amount of *prudential support* that must be provided by *market participants* as a condition of participation in the *real-time markets* and *day-ahead markets* or of causing or permitting electricity to be conveyed into, through or out of the *IMO-controlled grid*, and the manner in which *market participants* must provide and maintain such *prudential support* on an on-going basis in order to protect the *IMO* and *market participants* from payment defaults. Sections 5.2 to 5.8 set out the nature and amount of *prudential support* that must be provided by *market participants* in order to conduct *physical transactions* in either the *day-ahead market* and the *real-time market*. Sections 5.2 and 5A set out the nature and amount of *prudential support* that must be provided by *market participants* in order to conduct *virtual transactions* in the *day-ahead market*.

### 5.2 Market Participant Prudential Support Obligations

- 5.2.1 Each *market participant* shall initially and continually satisfy the obligations set forth in this section 5.2 with regard to the provision of *prudential support* as a condition of ~~participating~~ conducting in the *real-time markets* *physical transactions, virtual transactions*, or of causing or permitting electricity to be conveyed into, through or out of the *IMO-controlled grid*.
- 5.2.2 Each *market participant* shall provide to the *IMO* and at all times maintain:
- 5.2.2.1 *prudential support in respect of physical transactions* the value of which is not less than the *market participant's prudential support obligation for physical transactions*. For this purpose, the value of the *prudential support for physical transactions at a point in time shall be equal to the amount of the undrawn or unclaimed amounts of prudential support provided by the market participant*; and
- 5.2.2.2 *prudential support in respect of virtual transactions* the value of which is not less than the *market participant's prudential support obligation for virtual transactions*. For this purpose, the value of the *prudential support provided for virtual transactions at a point in time shall be equal to the amount of the undrawn or unclaimed amounts of*

prudential support provided by the market participant for virtual transactions.

- 5.2.3 No *market participant* that is required, pursuant to section 5.3.9 and/or section 5A.3 as the case may be, to provide *prudential support* shall participate in the real-time markets or the day-ahead market or cause or permit electricity to be conveyed into, through or out of the *IMO-controlled grid* unless that *market participant* satisfies the *prudential support* requirements of this section and section 5A and Appendix 2.3.
- 5.2.4 Each *market participant* shall provide to the *IMO*, on an ongoing basis, such information as the *IMO* may reasonably require for the purpose of determining that *market participant's maximum net exposure with respect to physical transactions or their maximum daily trading limit with respect to virtual transactions.*
- 5.2.5 If *prudential support* previously provided to the *IMO* by a *market participant*:  
for physical transactions pursuant to section 5.7; or  
for virtual transactions pursuant to section 5A.5,  
 (the “*existing support*”) is due to expire or terminate and, upon expiry or termination of the *existing support* the total *prudential support* held by the *IMO* in respect of that *market participant* for the type of transaction denoted above, will be less than the applicable *market participant's prudential support obligation* then, at least ten *business days* prior to the time at which the *existing support* is due to expire or terminate, the *market participant* shall provide to the *IMO* replacement *prudential support* which will become effective no later than the expiry or termination of the *existing support*, such that the total *prudential support* provided is equal to the *market participant's prudential support obligation*.
- 5.2.6 Where a *market participant's prudential support obligation* for physical transactions has been reduced pursuant to section 5.8 and the relevant credit rating is revised or the relevant payment history has changed, whether under section 5.8 or otherwise, so as to result in an increase in the *market participant's prudential support obligation* then, within five *business days* of any such change, the *market participant* shall provide to the *IMO* additional *prudential support* such that the total *prudential support* provided is equal to the *market participant's prudential support obligation* when calculated on the basis of the revised credit rating or payment history.
- 5.2.7 Where any part of the *prudential support* provided by a *market participant* otherwise ceases to be current or valid for any reason, the *market participant* shall immediately so notify the *IMO* and provide to the *IMO*, within two *business days*,

replacement *prudential support* such that the total *prudential support* provided is at least equal to the *market participant's prudential support obligation*.

5.2.8 If, as a result of the *IMO* exercising its rights under ~~a~~ *prudential support* for *physical transactions or virtual transactions* provided by a *market participant* in accordance with section 6.3.3.2 of Chapter 3 and Appendix 2.3, the remaining *prudential support* held by the *IMO* in respect of that *market participant* is less than the applicable *market participant's prudential support obligation*, the *market participant* shall, within five *business days* of receiving notice of the exercise by the *IMO* of such rights, provide the *IMO* with additional *prudential support* such that the total *prudential support* provided is equal to the *market participant's prudential support obligation*.

~~5.2.9 A *market participant* to which a *margin call* has been issued pursuant to section 5.4.2 shall respond to such *margin call* in accordance with section 5.6.~~

~~5.2.10 For the purposes of sections 5.7.2.1, 5.7.2.2, and 5A.5 the *IMO* shall establish, maintain, update as required and publish a list of organizations eligible to provide the *prudential support* referred to in sections 5.7.2.2, 5.7.2.2, and 5A.5 and shall establish, for each eligible provider of *prudential support*, an aggregate limit of the *prudential support* that may be provided by that provider of *prudential support* to *market participants*. If aggregate limits are reached for any of these eligible organizations, *market participants* will be required to obtain *prudential support* from other eligible organizations that are still within their respective *prudential support* limits.~~

### 5.3 Calculation of Participant Trading Limit, Default Protection Amount and Maximum Net Exposure for Physical Transactions

5.3.1 The *IMO* shall determine, for each *market participant* (unless that *market participant* has elected to have a *no margin call option* in which case section 5.6.5 applies), a *maximum net exposure* for *physical transactions* as the sum of the *market participant's trading limit* and the *market participant's default protection amount*.

5.3.2 Each *market participant* intending to conduct *physical transactions* shall determine and submit to the *IMO*, using forms and procedures as may be established by the *IMO* in the applicable *market manual*, the amount of its *self-assessed trading limit* at least 7 *business days* prior to the start of any *energy market billing period*, even if that *self-assessed trading limit* is zero.

5.3.2.1 [Intentionally left blank]

a. [Intentionally left blank]

b. [Intentionally left blank]

- 5.3.2.2 [Intentionally left blank]
- a. [Intentionally left blank]
- b. [Intentionally left blank]
- 5.3.2A [Intentionally left blank]
- 5.3.2A.1 [Intentionally left blank]
- a. [Intentionally left blank]
- b. [Intentionally left blank]
- 5.3.2A.2 [Intentionally left blank]
- a. [Intentionally left blank]
- b. [Intentionally left blank]
- 5.3.2A.3 [Intentionally left blank]
- 5.3.3 The self-assessed trading limit for physical transactions submitted by a *market participant* under section 5.3.2 shall be applicable for all future *energy market billing periods* until a revised *self-assessed trading limit* is submitted by that *market participant* to the *IMO* in accordance with the provisions of section 5.3.2. If a *market participant* submits a *self-assessed trading limit* pursuant to section 5.3.2, that *self-assessed trading limit* shall, as of the next *energy market billing period*, supersede any previous *self-assessed trading limit*, and the *previous self-assessed trading limit* shall not be applicable to any such future *energy market billing periods*.
- 5.3.4 Subject to section 5.6.5, the *IMO* shall establish a *minimum trading limit* for physical transactions for each *market participant* as follows:
- 5.3.4.1 ~~the~~ *minimum trading limit* for a *metered market participant* conducting physical transactions shall be equal to the *IMO*'s estimate of the *metered market participant*'s net settlement amounts, excluding estimated settlement amounts ~~associated with the energy forward market and estimated settlement amounts associated with a transmission rights,~~ associated with virtual transaction activity and associated with a transmission rights assuming 7 days of participation ~~in~~ by way of the physical real-time market transactions and assuming all energy injected or withdrawn is transacted through ~~the physical real-time market transactions~~. The *IMO* may use a greater number, up to and including 49 days, of participation in ~~the physical real-time market transactions~~ for the determination of a *metered market participant*'s *minimum trading limit* if that *metered market participant* was subject to more than one *margin call* per *energy market billing period* in respect of physical transactions, provided that any such *margin call* is not the result of a price spike;

- a. [Intentionally left blank]
- b. [Intentionally left blank]
- c. [Intentionally left blank]

5.3.4.2 the *minimum trading limit* for a *market participant* ~~that is not conducting physical transactions that is not a~~ *metered market participant* shall be equal to 25% of the *IMO's* estimate of the *market participant's* net settlement amounts for the upcoming *energy market billing period*. In estimating this net settlement amount, the *IMO* shall, subject to section 5.3.4.3, use an average of the actual net settlement amounts for the 3 most recent *energy market billing periods* in which that *market participant* ~~has transacted in the real-time market~~ *physical transactions*. The *IMO* may use a greater percentage, up to and including 100%, of the estimated *market participant's* net settlement amounts for the determination of a *market participant's* *minimum trading limit* if that *market participant* was subject to more than one *margin call* per *energy market billing period* *in respect of physical transactions*, provided that any such *margin call* is not caused by a price spike; and

- a. [Intentionally left blank]
- b. [Intentionally left blank]

5.3.4.3 the *minimum trading limit* *in respect of physical transactions* for a *market participant* that is not a *metered market participant* who has not transacted for at least 3 months in the *physical* market, shall be equal to 25% of the *market participant's* estimate of its net settlement amount for the upcoming *energy market billing period*. Such a *market participant* shall provide to the *IMO*, an estimate of its net settlement amount for the upcoming *energy market billing period* at least 7 *business days* prior to the start of applicable *energy market billing period*. The *IMO* may adjust the *market participant's* *minimum trading limit* at any time if that *market participant's* actual net settlement amounts for the current *billing period* are projected to differ significantly from the estimate provided.

5.3.4A [Intentionally left blank]

5.3.4A.1 [Intentionally left blank]

- a. [Intentionally left blank]
- b. [Intentionally left blank]

5.3.4A.2 [Intentionally left blank]

5.3.4B [Intentionally left blank]

5.3.4B.1 [Intentionally left blank]

- a. [Intentionally left blank]
- b. [Intentionally left blank]
- c. [Intentionally left blank]
  - i. [Intentionally left blank]
  - ii. [Intentionally left blank]
- d. [Intentionally left blank]
- e. [Intentionally left blank]
  - i. [Intentionally left blank]
  - ii. [Intentionally left blank]

5.3.4B.2 [Intentionally left blank]

- a. [Intentionally left blank]
- b. [Intentionally left blank]
- c. [Intentionally left blank]
  - i. [Intentionally left blank]
  - ii. [Intentionally left blank]
- d. [Intentionally left blank]
- e. [Intentionally left blank]
  - i. [Intentionally left blank]
  - ii. [Intentionally left blank]

5.3.4C [Intentionally left blank]

5.3.5 Upon receipt of a *market participant's self-assessed trading limit for physical transactions* under section 5.3.2, the *IMO* shall use the greater of the following two amounts for that *market participant's trading limit* for the upcoming *energy market billing period*:

5.3.5.1 the *market participant's minimum trading limit* for that *energy market billing period* as determined pursuant to section 5.3.4; or

5.3.5.2 the *market participant's self-assessed trading limit* submitted under section 5.3.2.

5.3.6 If a *market participant* does not provide a *self-assessed trading limit for physical transactions* within the timelines specified in section 5.3.2, the *IMO* shall use the

greater of the following two amounts for that *market participant's trading limit* for the upcoming *energy market billing period*:

- 5.3.6.1 the *market participant's minimum trading limit* for that *energy market billing period* as determined pursuant to section 5.3.4; or
- 5.3.6.2 the *market participant's trading limit* in effect for the current *energy market billing period*.
- 5.3.6.3 [Intentionally left blank]
- 5.3.6.4 [Intentionally left blank]
- 5.3.6.5 [Intentionally left blank]
- 5.3.6A [Intentionally left blank]
- 5.3.7 Once a *market participant's trading limit* for physical transactions has been established pursuant to section 5.3.5 or 5.3.6, that *market participant* is not permitted to change or request a change to that *trading limit* during the upcoming *energy market billing period*.
- 5.3.8 The IMO shall, for each energy market billing period, establish a default protection amount for each market participant conducting physical transactions as follows:
  - 5.3.8.1 for a *metered market participant*, ~~its~~ the default protection amount shall be equal to the IMO's estimate of the *metered market participant's net settlement amounts* for that *energy market billing period*, excluding estimated settlement amounts ~~associated with for any virtual transaction activity~~ the energy forward market and and estimated settlement amounts associated with a transmission rights, assuming 21 days of participation in the *real-time market* and the day-ahead market and assuming all *energy* injected or withdrawn is transacted through the *real-time market* and day-ahead market; and
  - 5.3.8.2 for a *market participant* that is not a *metered market participant*, the *default protection amount* shall be equal to the *minimum trading limit* for that *market participant* for that *energy market billing period* as determined by the IMO pursuant to section 5.3.4.2 or section 5.3.4.3, as applicable.
- 5.3.9 If a market participant's maximum net exposure, for physical transactions as calculated by the IMO, is zero or negative, the market participant is not required to provide any form of prudential support to the IMO. If a market participant's maximum net exposure, as calculated by the IMO, is positive, the market participant shall provide an amount of prudential support to the IMO equal to its prudential support obligation.

- 5.3.10 The *IMO* shall estimate the net *settlement amounts* for a *market participant* referred to in sections 5.3.4 and 5.3.8 initially based on information provided to the *IMO* by the *market participant* in its *application for authorization to participate* and subsequently using such information as the *IMO* may reasonably require for that purpose and, in each case, on the *IMO's estimated market prices* for the relevant *energy market billing period*.
- 5.3.11 The *IMO* shall review the minimum trading limit for physical transactions where applicable, and the trading limit, default protection amount and maximum net exposure of each market participant as follows:
- 5.3.11.1 prior to the start of each *energy market billing period*;
  - 5.3.11.2 within two *business days* after a *market participant's actual exposure* exceeds the *trading limit* for that *market participant*;
  - 5.3.11.3 within two *business days* after it receives notice of any changes to the status of a *market participant* as compared to such status that was in effect when the *market participant's maximum net exposure* was last calculated if the *IMO* determines that the change in such status would have a material impact on the *market participant's maximum net exposure*; and
  - 5.3.11.4 when the *IMO* has adjusted a *market participant's minimum trading limit* pursuant to section 5.3.4.3.
- 5.3.12 The *IMO* may change the minimum trading limit, trading limit, default protection amount, maximum net exposure or the prudential support obligation for a market participant at any time as a result of a review of their physical transaction activity conducted pursuant to section 5.3.11 and shall promptly notify the market participant of any such change. Any change to a market participant's minimum trading limit, trading limit, default protection amount, maximum net exposure or prudential support obligation shall apply with effect from such time, not being earlier than the time of notification of the changed minimum trading limit, trading limit, default protection amount, maximum net exposure or prudential support obligation to the market participant, as the *IMO* may specify in the notice. The market participant must supply the *IMO*, within five business days of the effective date of the change, any additional prudential support that may be required as a result of an increase in the market participant's prudential support obligation that results from such change.

## 5.4 **Monitoring of Actual Exposure and Trading Limit for Physical Transactions**

- 5.4.1 If at any time the *actual exposure* of a *market participant* for physical transactions is equal to or exceeds 70% ~~and is less than 100%~~ of the *market*

*participant's trading limit*, the *IMO* shall inform the *market participant* of that fact unless the *market participant* has opted for the *no margin call option* pursuant to section 5.6.4. The *market participant* may, but is not required to, make a cash payment to be applied to reduce its *actual exposure* or take other action to prevent its *actual exposure* from reaching its *trading limit*. No interest shall be paid on any such payment.

5.4.1.1 [Intentionally left blank]

5.4.1.2 [Intentionally left blank]

5.4.2 If at any time the actual exposure of a market participant for physical transactions equals or exceeds the market participant's trading limit for physical transactions, the *IMO* shall issue to the market participant a margin call unless the market participant has opted for the *no margin call option* pursuant to section 5.6.4.

5.4.2.1 [Intentionally left blank]

5.4.2.2 [Intentionally left blank]

5.4.3 [Intentionally left blank]

## 5.5 Calculation of Actual Exposure for physical transactions

5.5.1 For the purposes of section 5.4, a *market participant's actual exposure* for physical transactions shall be determined by the *IMO* each *business day* and shall be a dollar amount which is equal to:

5.5.1.1 the aggregate of:

- a. all amounts payable by the *market participant* in respect of physical transactions for *billing periods* prior to the current *billing period* which remain unpaid by the *market participant*, whether or not the payment date thereof has yet been reached; and
- b. the *IMO's* reasonable estimate of the aggregate hourly and non-hourly *settlement amounts* payable by the *market participant* in respect of ~~transactions~~ physical transactions which have already occurred in the current *billing period*;

5.5.1.2 less the aggregate of:

- a. all amounts payable to the *market participant* in respect of physical transactions for *billing periods* prior to the current *billing period* which remain unpaid, whether or not the payment date thereof has yet been reached; and

b. the *IMO*'s reasonable estimate of the aggregate hourly and non-hourly *settlement amounts* payable to the *market participant* in respect of *physical transactions* which have already occurred in the current *billing period*.

## 5.6 Margin Call Requirements and the No Margin Call Option for physical transactions

5.6.1 ~~Subject to section 11.4, a~~ *market participant* must satisfy a *margin call* in respect of physical transactions within the time prescribed in section 5.6.2 by paying a portion of the amount payable or which will become payable in respect of the previous or current *billing period*, in accordance with Chapter 9, in an amount sufficient to reduce the *market participant's actual exposure* to no more than the dollar equivalent of 75% of the *market participant's trading limit*. No interest shall be paid on such payments.

5.6.1.1 [Intentionally left blank]

5.6.1.2 [Intentionally left blank]

5.6.2 The time within which a *margin call* in respect of physical transactions must be satisfied under section 5.6.1 shall be by 4:00 pm on the second *business day* following the date of the *margin call*.

5.6.3 For the purposes of the *market rules*, a payment made pursuant to section 5.6.1 shall be applied first to the amount outstanding for physical transactions with respect to the earliest *billing period* under the *market rules* and, if the amount outstanding under the *market rules* in respect of that *billing period* is less than the amount of the payment, then the excess shall be applied to the next earliest *billing period* for physical transactions in respect of which there is an amount outstanding under the *market rules* and so on until there is no excess.

5.6.4 A *market participant* shall not be subject to the *margin call* requirements of sections 5.6.1 and 5.6.2, subject to *IMO* approval, if it elects to use the *no margin call option* using forms and procedures as may be established by the *IMO* in the applicable *market manual*.

5.6.5 The *IMO* shall determine the *market participant's maximum net exposure* for physical transactions where a *market participant* that has selected the *no margin call option* based on 70 days of market activity and assuming all of the *market participant's energy* injected or withdrawn is transacted through the *real-time market* and day-ahead market. For non-metered *market participants* the *IMO* shall determine *maximum net exposure* based on an estimate of 100% of their net *settlement amount* for the upcoming *energy market billing period*. A *market*

*participant* that has elected the *no margin call option* shall not have a *trading limit*.

- 5.6.6 Other than *small distributors*, any *market participant* that elects to use the *no margin call option* shall not be eligible for reductions in its *physical transactions* *prudential support obligations* pursuant to section 5.8.

## 5.7 **Obligation to Provide Prudential Support for physical transactions**

- 5.7.1 Each *market participant* shall meet its obligation under this section 5 to provide and maintain *prudential support* for physical transactions by providing to the *IMO* and maintaining *prudential support*, the value of which is equal to the *market participant's prudential support obligation* for physical transactions.
- 5.7.2 A *market participant's prudential support obligation* for physical transactions shall be met through the provision to the *IMO* and the maintenance of *prudential support* in one or more of the following forms:
- 5.7.2.1 a guarantee or irrevocable commercial letter of credit provided by a bank named in a Schedule to the *Bank Act*, S.C. 1991, c.46;
- 5.7.2.2 a guarantee in a form acceptable to the *IMO* provided by a person, other than an *affiliate* of the *market participant*, having a credit rating from a major bond rating agency identified on the list referred to in section 5.8.7;
- 5.7.2.3 cash deposits made with the *IMO* by or on behalf of the *market participant* which may include near-cash marketable securities in the form of Canadian Government treasury bills. Such treasury bills shall be valued as cash at their current market value less 2 percent to take into account the potential eroding effects of interest rate increases; and/or
- 5.7.2.4 subject to section 5.7.4, a guarantee in a form acceptable to the *IMO* provided by a person that is an *affiliate* of the *market participant* and that has a credit rating from a major bond rating agency identified on the list referred to in section 5.8.7.

~~5.7.3 [Intentionally left blank – section deleted] For the purposes of sections 5.7.2.1 and 5.7.2.2, the *IMO* shall establish, maintain, update as required and publish a list of organizations eligible to provide the *prudential support* referred to in sections 5.7.2.1 and 5.7.2.2 and shall establish, for each such eligible *prudential support* provider of *prudential support*, an aggregate limit of the *prudential support* that may be provided by that *prudential support* provider of *prudential*~~

~~support to market participants. If aggregate limits are reached for any of these eligible organizations, market participants will be required to obtain prudential support from other eligible organizations that are still within their respective prudential support limits.~~

- 5.7.3A Where a *market participant's* ~~prudential support obligation~~ for physical transactions is reduced pursuant to section 5.8.1, the *IMO* shall not accept a guarantee from an *affiliate* of the *market participant* pursuant to section 5.7.2.4, unless the *market participant* provides a letter from the applicable major bond rating agency identified in the list referred to in section 5.8.7, stating that the two ratings are not directly linked and are stand alone ratings in relation to each other.
- 5.7.3B The *IMO* shall not accept a guarantee from an *affiliate* of the *market participant* pursuant to section 5.7.2.4 if the *affiliate* is also a *market participant* and has obtained a reduction of its own *prudential support obligation* for physical transactions pursuant to section 5.8.1.
- 5.7.4 Subject to sections 5.7.3A and 5.7.3B, the *IMO* shall not accept a guarantee from an *affiliate* of the *market participant* pursuant to section 5.7.2.4 where the value of the guarantee exceeds the following;

Credit Rating Category of Affiliate using Standard and Poor's Rating Terminology	Maximum Amount which May be Guaranteed by Affiliate
AAA- and above or equivalent	100% of maximum net exposure of all <i>market participants</i> guaranteed by <i>affiliate</i>
AA-, AA, AA+ or equivalent	Greater of 85% of <i>maximum net exposure</i> or \$25,000,000 of all <i>market participants</i> guaranteed by <i>affiliate</i>
A-, A, A+ or equivalent	Greater of 75% of <i>maximum net exposure</i> or \$12,500,000 of all <i>market participants</i> guaranteed by <i>affiliate</i>
BBB-, BBB, BBB+ or equivalent	Greater of 50% of <i>maximum net exposure</i> or \$5,000,000 of all <i>market participants</i> guaranteed by <i>affiliate</i>
Below BBB- or equivalent	0

- 5.7.5 The minimum terms and conditions that shall be included in *prudential support* for physical transactions shall be as follows:

- 5.7.5.1 *prudential support* provided in accordance with sections 5.7.2.1, 5.7.2.2 and 5.7.2.4 shall be obligations in writing;

- 5.7.5.2 *prudential support* provided in accordance with section 5.7.2.3 shall be an obligation reflected in a written instrument in a form acceptable to the *IMO*;
- 5.7.5.3 *prudential support* provided in accordance with sections 5.7.2.1 and 5.7.2.3 shall constitute valid and binding unsubordinated obligations to pay to the *IMO* amounts in accordance with its terms which relate to the obligations of the relevant *market participant* under the *market rules*; and
- 5.7.5.4 *prudential support* provided in accordance with sections 5.7.2.1 to 5.7.2.4 shall permit drawings or claims by the *IMO* on demand to a stated certain amount.

## 5.8 Reductions in Physical Transaction Prudential Support Obligations

- 5.8.1 Subject to section 5.8.2, the *prudential support obligation* for physical transactions of a *market participant* may be reduced relative to the *market participant's maximum net exposure* by an amount equal to the monetary value ascribed, by the table set forth below, to a credit rating from a major bond rating agency identified in the list referred to in section 5.8.7 issued and in effect in respect of the *market participant*.

Credit Rating Category using Standard and Poor's Rating Terminology	Allowable Reduction in Prudential Support
AAA- and above or equivalent	100% of <i>maximum net exposure</i>
AA-, AA, AA+ or equivalent	Greater of 85% of <i>maximum net exposure</i> or \$25,000,000
A-, A, A+ or equivalent	Greater of 75% of <i>maximum net exposure</i> or \$12,500,000
BBB-, BBB, BBB+ or equivalent	Greater of 50% of <i>maximum net exposure</i> or \$5,000,000
Below BBB- or equivalent	0

- 5.8.2 Any recommendation to move a *market participant* to "credit watch status" by any of the major bond rating agencies identified in the list referred to in section 5.8.7 shall be deemed to automatically result in a one-rating-category reduction in terms of the credit rating of that *market participant* for the purpose of determining the *market participant's prudential support obligation* for physical transactions.

~~5.8.2A — [Intentionally left blank – section deleted.] The operation of section 5.8.2 shall be suspended for *distributors* as of November 19, 2002, until February 14, 2003 or until such other date as may be determined by a resolution of the *IMO Board*. The management of the *IMO* shall monitor and report to the *IMO Board* on the credit situation of *distributors* and other *market participants* and the *IMO Board* shall modify the suspension of section 5.8.2 (or, if appropriate, shall expand the scope of the suspension) if the credit situation changes in a way that makes such modification desirable.~~

5.8.3 Subject to section 5.8.6, the *prudential support obligation* for physical transactions of a *market participant* may be reduced relative to the *market participant's maximum net exposure* or, where applicable, relative to the otherwise applicable *prudential support obligation* calculated in accordance with section 5.3.4B, by an amount equal to the monetary value ascribed, in accordance with section 5.8.4 or 5.8.5, to the *market participant's* historical good payment history in Ontario, which shall be assessed by the *IMO* on the basis of:

- 5.8.3.1 evidence provided by the *market participant* as to the continuous purchase of electricity by the *market participant* prior to the effective date of the *IMO-administered markets* during which time no call for collateral was issued to that *market participant* to protect the supplier from the risk of a payment default by that *market participant*;
- 5.8.3.2 verification of the evidence referred to in section 5.8.3.1 by the *IMO*; and
- 5.8.3.3 the *market participant's* payment history in the *IMO-administered markets* provided that the *market participant's* payment history includes no *event of default*.

5.8.4 The *IMO* shall determine the dollar amount of any allowable reduction in the *prudential support obligation* for physical transactions of a *market participant*, other than a *distributor*, in accordance with the following:

- 5.8.4.1 a *market participant* with less than two years of historical good payment history shall not be entitled to any reduction in its *prudential support obligation*;
- 5.8.4.2 a *market participant* with two or more but less than three years of historical good payment history shall be entitled to a reduction in its *prudential support obligation* equal to two million dollars or ten percent of its *maximum net exposure*, whichever is less;
- 5.8.4.3 a *market participant* with three or more but less than four years of historical good payment history shall be entitled to a reduction in its *prudential support obligation* equal to three million dollars or fifteen percent of its *maximum net exposure*, whichever is less;

- 5.8.4.4 a *market participant* with four or more but less than five years of historical good payment history shall be entitled to a reduction in its *prudential support obligation* equal to four million dollars or twenty percent of its *maximum net exposure*, whichever is less; and
- 5.8.4.5 a *market participant* with five years or more of historical good payment history shall be entitled to a reduction in its *prudential support obligation* equal to five million dollars or twenty-five percent of its *maximum net exposure*, whichever is less.
- 5.8.5 If the *market participant* is a *distributor*, the *IMO* shall determine the dollar amount of any allowable reduction in the *market participant's prudential support obligation* for physical transactions in accordance with the following:
- 5.8.5.1 a *market participant* with less than two years of historical good payment history shall not be entitled to any reduction in its *prudential support obligation*;
- 5.8.5.2 a *market participant* with two or more but less than three years of historical good payment history shall be entitled to a reduction in its *prudential support obligation* equal to two million dollars or twenty percent of its *maximum net exposure*, whichever is less;
- 5.8.5.3 a *market participant* with three or more but less than four years of historical good payment history shall be entitled to a reduction in its *prudential support obligation* equal to three million dollars or thirty percent of its *maximum net exposure*, whichever is less;
- 5.8.5.4 a *market participant* with four or more but less than five years of historical good payment history shall be entitled to a reduction in its *prudential support obligation* equal to four million dollars or forty percent of its *maximum net exposure*, whichever is less; and
- 5.8.5.5 a *market participant* with five years or more of historical good payment history shall be entitled to a reduction in its *prudential support obligation* equal to five million dollars or fifty percent of its *maximum net exposure*, whichever is less.

For purposes of this section 5.8.5, the historical payment history of a *distributor* that is the transferee under a transfer by-law made pursuant to subsection 145(1) of the *Electricity Act, 1998* shall be deemed to include the historical payment history of the *distributor* whose license has been transferred to the transferee under such by-law. For purposes of this section 5.8.5, the historical payment history of a *distributor* that is the successor at law to two or more *distributors*, shall be deemed to include the historical payment history of the predecessor *distributors*.

- 5.8.6 The following restrictions shall apply to the provision of reductions in a *market participant's prudential support obligation for physical transactions* as provided for under sections 5.8.1 and 5.8.3:
- 5.8.6.1 subject to the last paragraph of section 5.8.5, a *market participant* shall not be entitled to a reduction in its *prudential support obligation* pursuant to section 5.8.3 using the payment history of an *affiliate*; and
  - 5.8.6.2 a *market participant* that has a credit rating from a major bond rating agency identified in the list referred to in section 5.8.7 shall not be entitled to a reduction in its *prudential support obligation* under section 5.8.3.
- 5.8.7 For the purposes of section 5.7.2.2, 5.7.2.4, 5.8.1 and 5.8.2, the *IMO* shall establish, maintain, update as required and *publish* a list of major bond rating agencies eligible to provide the credit ratings described in those sections.
- 5.8.8 The *IMO* shall reduce the *prudential support obligation for physical transactions* of a *distributor* by an amount equal to 60% of the *distributor's* collection of *prudential support for physical transactions*, in the forms specified in section 5.7.2.1, 5.7.2.2, 5.7.2.3, or 5.7.2.4, from the *distributor's* customers. In order to qualify for this reduction in *prudential support obligation for physical transactions* the *distributor* shall provide the *IMO* with an affidavit attesting to the amount of *prudential support for physical transactions* of the types specified in this section which the *distributor* has collected from its customers attached to which by way of exhibits shall be copies of bank statements showing any cash deposits and any applicable letters of credit, guarantees, or Government of Canada T-bills held as *prudential support for physical transactions*. The *IMO* shall first deduct the *distributor's* collection of *prudential support for physical transactions* from the *distributor's* customers before applying any other *deductions from prudential support obligation for physical transactions*.

## **5A.1 Calculation of the Virtual Transaction Prudential Support Obligation**

- 5A.1.1** The IMO shall determine, for each market participant, prudential support obligation for virtual transactions using the following:
- 5A.1.1.1** a trading limit in megawatt hours provided to the IMO by the market participant in a manner and form determined by in the applicable market manuals;
  - 5A.1.1.2** the values of the following variables described in:
    - a) sections 5A.1.2 for the first 7 months of operation of the day-ahead market; and,**

b) sections 5A.1.2 and 5A.1.3 thereafter; and

5A.1.1.3 The formula for calculating the *prudential support obligation for virtual transactions* described in:

a) section 5A.1.4 for the first 7 months of operation of the *day-ahead market*; and

b) section 5A.1.5 thereafter.

5A.1.2 The *IMO* shall *publish* the values of the following variables for the calculation of the *prudential support obligation for virtual transactions* not later than 1 month prior to the commencement of the *day-ahead market* and shall *publish* any changes thereto not later than 5 business days prior to any such changes coming into effect:

5A.1.2.1 a fixed length of time, ‘#Days’ (as in number of calendar days to be determined) that represents the number of days for which the *virtual transaction prudential support obligation* is assessed; and,

5A.1.2.2 the number of hours ‘n’ used to periodically assess the Average Day-Ahead Price (ADAP), the Average Real-Time Price (ARTP) and the volatility of the difference between the two  $\{\sigma(?)\}$ ; and

5A.1.2.3 an estimated rate ‘VTU’ (in units of \$/MWh) established by the *IMO Board* or its delegate for the estimation of any DAM uplift amounts from the *day-ahead market* that might be incurred by *virtual transactions* to SELL energy. The components are:

a) DAM Forecast Load Commitment Uplift as determined in accordance with Chapter 9 section 4.9B; and

b) DAM PASS 2 Import Uplift as determined in accordance with Chapter 9 section 3.9A;

5A.1.2.4 an interim “price delta” estimate (in units of \$/MWh) established by the *IMO Board* or its delegate of the average difference between the energy price in the *day-ahead market* and *real-time market*,  $\{?\}_{ADAP,ARTP}$  for the first 7 months of operation of the *day-ahead market* considering a number of factors including, (but not necessarily confined to):

a) the historical volatility of the *HOEP*;

- b) the practices of and relevant data from neighbouring jurisdictions operating a *day-ahead market* similar to the *day-ahead market*;
- c) the flexibility and speed by which the *IMO* is allowed to revise the interim “price delta” through the authority granted to it through the *market rules*; and
- d) the expected value of the “price delta” that the mechanism specified in section 5A.1.3 is expected to yield given the observed volatility of *market prices* for the *day-ahead market* during the interim period.

5A.1.3 The *IMO* shall publish the values of the following variables for the calculation of the a *prudential support obligation for virtual transactions* not later than 6 months following to the commencement of the *day-ahead market* and shall publish any changes thereto not later than 5 *business days* prior to any such changes coming into effect;

5A.1.3.3 the calculated average of the *market price for the day-ahead market* ‘ADAP’ over ‘n’ hours for the Ontario Zone applicable to the time period ‘#Days’ (\$/MWh);

5A.1.3.4 the calculated average of the *market price for the real time market* ‘ARTP’ over ‘n’ hours for the Ontario Zone, applicable to the time period ‘#Days’(\$/MWh);

5A.1.3.5 the standard deviation ‘σ(?)’ of the unadjusted difference between the; average *market prices for the day-ahead market* and the *real-time market* for the Ontario Zone over the applicable study period ‘n’ formulated as follows:

$$\sqrt{\frac{n \sum_H (DAM\{5\}_P_h - HOEP_h)^2 - \left[ \sum_H (DAM\{5\}_P_h - HOEP_h) \right]^2}{n(n-1)}}$$

Where:

DAM{5}\_P<sub>h</sub> is the *energy price for the day-ahead market* in the Ontario Zone during hour h from *Pass 5* of the *DAM calculation engine* while uniform pricing is in effect;

HOEP<sub>h</sub> is the *Hourly Ontario Energy Price* in the Ontario Zone during hour h

H is the set of all hours ‘h’ in the study period, ‘n’.

n is the Study Period (number of hours) published under section 5A.1.2;

5A.1.3.6 the *day-ahead market*/Real-time Price Spread Statistical Confidence Level  $z(a)$  (in standard deviation units) established by the *IMO Board* or its delegate as determined in section 5A.1.3.5 and is used to adjust the price spread to a statistical confidence level in the manner described in section 5A.1.3.7. This value represents the statistical probability that the difference between the *energy prices in the day-ahead market and the real-time market for any given settlement hour* will fall within the average difference observed over the Study Period (number of hours) published under section 5A.1.2 where, :

$z(a)$  represents the conversion of percentile 'a' of the normal probability distribution (function 'Z'), to a specific distance from its mean (in number of standard deviation units); and

'a' is the *IMO-chosen probability* (percentile of normal distribution 'Z') that the *spread in energy prices for the day-ahead market and real-time market for a given settlement hour* will be equal to or less than the average price spread between ADAP and ARTP for all *settlement hours in the Study Period*;

5A.1.3.7 the price delta ' $\Delta_{ADAP, ARTP}$ ' is the absolute value of the difference between the Average Day-Ahead Market Price (ADAP) and the Average Real-Time Market Price (ARTP), occurring during the most recent number of months determined in accordance section 5A.1.2 adjusted to a given risk tolerance level based upon observed volatility. (\$/MWh) formulated is as follows:

$\Delta_{ADAP, ARTP} = [ADAP - ARTP] + z(a) \sigma(\Delta)$ ; and

5A.1.4 For the first 7 months of operations of the *day-ahead market* the *IMO* shall calculate for each applicable *market participant*, its *prudential support obligation for virtual transactions* using the parameters described in section 5A.1.2 and the *trading limit for virtual transactions* provided by the *market participant* pursuant to section 5A.1.1 using the following formula:

*Prudential support obligation* =  $[TL \times \Delta_{ADAP, ARTP} \times \#Days] + [VTU \times TL \times \#Days]$

5A.1.5 After the first 7 months of operations of the *day-ahead market* the *IMO* shall calculate for each applicable *market participant*, its *prudential support obligation for virtual transactions* using the applicable parameters described in sections 5A.1.2 and 5A.1.3 and the *trading limit for virtual transactions* provided by the *market participant* pursuant to section 5A.1.1:

*Prudential support obligation* =  $[TL \times \Delta_{ADAP, ARTP} \times \#Days] + [VTU \times TL \times \#Days]$

5A.1.6 The *IMO* may continuously monitor:

- 5A.1.6.1 the unadjusted, average price difference referred to in section 5A.1.3;  
and
- 5A.1.6.2 the standard deviation ' $\sigma(?)$ ' determined in section 5A.1.3.5  
over the course of the set of all hours 'h' in the sStudy pPeriod, 'n'.
- 5A.1.7 When either of the values described in section 5A.1.6 deviates more than 10% from the values that were previously published, the IMO may:
- 5A.1.7.1 re-calculate the price delta ' $?_{ADAP,ARTP}$ ' using the formula described in section 5A.1.3.7; and/or
- 5A.1.7.2 revise the Statistical Confidence Level ' $z(a)$ ' described in section 5A.1.3.6,  
and shall *publish* these values prior to the *trading day* in which these revised values shall go into effect. The IMO Board or its delegate shall ratify any revision to the day-ahead market/Real-time Price Spread Statistical Confidence Level ' $z(a)$ ' under section 5A.1.7.2 within 30 business days of its publication.

## **5A.2 MONITORING OF ACTUAL EXPOSURE FOR VIRTUAL TRANSACTIONS**

- 5A.2.1 If at any time the *actual exposure* of a *market participant* for *virtual transactions* is equal to or exceeds 25% and is less than 50% of the *market participant's prudential support obligation for virtual transactions*, the *IMO* shall issue to that *market participant* a *margin warning*. The *market participant* may, but is not required to, make a cash payment to be applied to reduce its *actual exposure for virtual transactions* or take other action to prevent its *actual exposure* from reaching its *trading limit*. No interest shall be paid on any such payment.
- 5A.2.2 If at any time the actual exposure of a market participant for virtual transactions equals or exceeds 50% of the market participant's prudential support obligation for virtual transactions, the IMO shall issue to the market participant a margin call for virtual transactions.

## **5A.3 Calculation of Actual Exposure for Virtual Transactions**

- 5A.3.1 For the purposes of section 5A.2, a *market participant's actual exposure for virtual transactions* shall be determined by the *IMO* each *business day* and shall be a dollar amount is equal to:
- 5A.3.1.1 the aggregate of:
- a. all amounts payable by the *market participant* in respect of *virtual transactions* for *billing periods* prior to the current *billing period* which remain unpaid by the *market participant*, whether or not the payment date thereof has yet been reached; and
  - b. the *IMO's* reasonable estimate of the aggregate hourly and non-hourly *settlement amounts* payable by the *market participant* in respect of *virtual transactions* which have already occurred in the current *billing period*;
- 5A.3.1.2 less the aggregate of:
- a. all amounts payable to the *market participant* in respect of *virtual transactions* for *billing periods* prior to the current *billing period* which remain unpaid, whether or not the payment date thereof has yet been reached; and
  - b. the *IMO's* reasonable estimate of the aggregate hourly and non-hourly *settlement amounts* payable to the *market participant* in respect of *virtual transactions* which have already occurred in the current *billing period*.

## **5A.4 Margin Call Requirements for *Virtual Transactions***

- 5A.4.1 A market participant shall satisfy a margin call in respect of virtual transactions within the time prescribed in section 5A.4.2 by paying an amount sufficient to reduce the market participant's actual exposure for virtual transactions to zero. No interest shall be paid on such payments.
- 5A.4.2 The time within which a margin call in respect of virtual transactions must be satisfied under section 5A.4.1 shall be by 4:00 pm on the second business day following the date of the margin call.
- 5A.4.3 For the purposes of the market rules, a payment made pursuant to section 5A.4.1 shall be applied first to the amount outstanding for virtual transactions from the earliest billing period under the market rules and, if the amount outstanding under the market rules in respect of that billing period is less than the amount of the payment, then the excess shall be applied to the next earliest billing period for virtual transactions in respect of which there is an amount outstanding under the market rules and so on until there is no excess.
- 5A.4.4 If a market participant fails to fully satisfy the obligations specified in section 5A.4.2 the IMO shall act in accordance with Chapter 3, section 6.3.3.C.

## **5A.5 Obligation to provide Virtual Transaction Prudential Support**

- 5A.5.1 Each market participant shall meet its obligation under this section 5A to provide and maintain prudential support for virtual transactions by providing to the IMO and maintaining prudential support, the value of which is equal to the market participant's prudential support obligation for virtual transactions.
- 5A.5.2 A market participant's prudential support obligation for virtual transactions must be met through the provision to the IMO and the maintenance of prudential support for virtual transactions in one or more of the following forms:
- 5A.5.2.1 a guarantee or irrevocable commercial letter of credit provided by a bank named in a Schedule to the Bank Act, S.C. 1991, c.46;
- 5A.5.2.2 near-cash marketable securities in the form of Canadian Government treasury bills. Such treasury bills shall be valued at their current market value less 2 percent to take into account the potential eroding effects of interest rate increases; and/or
- 5A.5.2.3 a portion of the market participant's market creditor position is determined in accordance with section 5A.5.3.

5A.5.3 A market participant may use a portion of its market creditor position under section 5A.5.2.3 provided that:

5A.5.3.1 the market participant has been a net creditor of the physical markets for at least 12 of the preceding 13 months; and

5A.5.3.2 the portion of the market participant's market creditor position shall not exceed a percentage published by the IMO of the lowest net market creditor position set out in a monthly invoice issued to the market participant over the preceding 12 months .

5A.5.4 The IMO shall publish any change to the maximum percentage of a market participant's market creditor position that may be used to meet its prudential support obligation for virtual transactions a minimum of 5 business days before any such change is intended to go into effect.

5A.5.5 In the event that a market participant elected under section 5A.5.2.3 to use a portion of its market creditor position and is issued a monthly invoice that sets out an amount for physical transactions that is lower than the amount in any of the previous 12 months the market participant shall:

5A.5.5.1 provide additional prudential support for virtual transactions equal to the difference in its market creditor position between the two invoiced amounts; or

5A.5.5.1 within 2 business days of receiving such an invoice, provide to the IMO a lower trading limit for virtual transactions as set out in section 5A.1.1 that results in a lower prudential support obligation for virtual transactions that can be supported with its revised prudential support for virtual transactions held by the IMO.

5A.5.6 The minimum terms and conditions that shall be included in the prudential support for virtual transactions shall be as follows:

5A.5.6.1 prudential support provided in accordance with section 5A.5.2.1 shall be an obligation in writing;

5A.5.6.2 prudential support provided in accordance with section 5A.5.2.2 shall be an obligation reflected in a written instrument; and

5A.5.6.3 prudential support provided in accordance with sections 5A.5.2.1 and 5A.5.2.2 shall constitute valid and binding unsubordinated obligations to pay to the IMO amounts in accordance with its terms which relate to the obligations of the relevant market participant under the market rules; and

5A.5.6.4 prudential support provided in accordance with sections 5A.5.2 and 5A.5.3 shall permit drawings or claims by the IMO on demand to a stated certain amount.

**PART 5 – IMO BOARD COMMENTS**

Insert Text Here



## Market Rule Amendment Proposal

### PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00274-R01		
Subject:	Day-Ahead Market		
Title:	Prudential Security		
Nature of Proposal:	<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input type="checkbox"/> Addition
Chapter:	2	Appendix:	
Sections:	8.1, 8.2, 8.3, 8.4, 8.5, 8.6, 8.6A (new)		
Sub-sections proposed for amending:	8.1.2.2, 8.1.3, 8.1.3.1, 8.1.3.2, 8.1.4, 8.2.2, 8.2.3, 8.2.3.6, 8.3.1.1, 8.3.2.2, 8.3.3, 8.4.2.2, 8.4.4 (new), 8.4.5 (new), 8.5.1.1, 8.5.3.1 (new), 8.5.3.2		

### PART 2 – PROPOSAL HISTORY – PLEASE REFER TO MR-00274-R00

Version	Reason for Issuing	Version Date
Approved Amendment Publication Date:		
Approved Amendment Effective Date:		

**PART 3 – EXPLANATION FOR PROPOSED AMENDMENT**

Provide a brief description of the following:

The reason for the proposed amendment and the impact on the *IMO-administered markets* if the amendment is not made

Alternative solutions considered

The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the *IMO-administered markets*.

#### Summary of Proposed Market Rule Amendments

It is proposed to revise section 8 of Chapter 2 in the following manner:

- Amend section 8.1.2 to clarify that the imposition of a default levy shall not relieve a defaulting market participant of any of its obligations which may be associated with the issuance of a cease trading order by the IMO to a market participant conducting a virtual transaction.
- Amend section 8.1.3 to clarify that the IMO shall impose separate default levies where a market participant is in default in respect to either physical transactions or virtual transactions.
- Amend section 8.2.2 to specify that if the IMO has issued a cease trading order in respect of virtual transactions and the market participant fails to remedy the default that resulted in the cease trading order being issued the IMO shall issue a first notice of default levy.
- Amend section 8.2.3 to clarify that the first notice of default levy shall be issued to each non-defaulting market participant that either participated in physical or virtual transactions depending upon which type of transaction was the subject of the default.
- Amend section 8.3.3 by including a reference to the proposed section 8.6A which sets out the apportionment of the default levy to market participants conducting virtual transactions.
- Move sections 8.6.2 and 8.6.3 to sections 8.4.4. and 8.4.5 to ensure that the protocol for invoicing the default levy applies to both physical transactions and virtual transactions.
- Amend section 8.5.3 to specify amongst which market participants the second default levy shall apportioned.
- Amend section 8.6 to specify the apportionment and invoicing of a default levy for physical transactions.
- Insert a new section 8.6A to specify the apportionment and invoicing of a default levy for virtual transactions. This includes: a proposed section 8.6A.1 to clarify under which circumstances the first notice of default levy and the second notice of default levy shall be issued to market participants conducting virtual transactions; a proposed sub-section 8.6A.1.2 which specifies the formula for the allocation of a default levy to non-defaulting market participants conducting virtual transactions; and, a proposed sub-section 8.6A.2 which establishes a cap for the application of a default levy of no greater than 50 per cent of a non-defaulting market participant's prudential support obligation for virtual transactions and also specifies that any residual amounts remaining from the default shall be assigned to all market participants eligible to receive a default levy in

**PART 3 – EXPLANATION FOR PROPOSED AMENDMENT**

respect of physical transactions.

**Background**

A new separate construct is proposed to manage market risk associated with market participants engaged in virtual transactions (see also, part R00 of this amendment) – whereby any residual risk generated by virtual transactions would be assigned to those who participate in virtual transactions. The DAM design selected this separation to ensure that risk is borne by those whom are contributing to and/or participating in the risk. It is also recognized, however, that it is difficult to determining precisely how many virtual transactions will be conducted in the DAM, the relative size of each market participant conducting virtual transactions and the degree to which they are conducting these transactions as expressed in megawatt quantities. Ultimately, however, all IMO-administered markets must be protected in the event of a default related to virtual transactions. Given this uncertainty, it is proposed to add rule provisions to cap the relative risk of being assigned a default levy. This cap is relative to the size of each individual market participant’s virtual transaction prudential support obligation. In aggregate, any residual amount of the default amount would be assigned to all market participants eligible to receive a notice of default levy for defaults arising from physical transactions. This rule provision protects both market participants utilizing virtual transactions, and the principle of financial neutrality in the IMO-administered markets by ensuring that the market is not left with an unrecoverable default amount under any circumstances.

For more information please refer to MR-00274-R00.

**PART 4 – PROPOSED AMENDMENT****8. Default Levy****8.1 Power to Impose Default Levy**

- 8.1.1 The *IMO* shall be entitled to recover, by means of the imposition of a *default levy* on *non-defaulting market participants*, in accordance with this section 8, the aggregate of any amounts owing to the *IMO* under the *market rules* which have not been paid in full by the *defaulting market participant* and the costs and expenses reasonably incurred by the *IMO* in investigating the default in payment, in realizing on any applicable *prudential support* and in implementing the *default levy*.
- 8.1.2 The imposition of a *default levy* ~~pursuant to~~ under this section 8 shall in no way waive, excuse or relieve a *defaulting market participant* of its obligations under the *market rules* and shall be without prejudice to:

- 8.1.2.1 such rights or remedies which the *IMO* may otherwise have to recover all amounts owing by the *defaulting market participant*; and
- 8.1.2.2 the right of the *IMO* to take such other action, including but not limited to the issuance of a *suspension order* or a *cease trading order*, as may be provided for in these *market rules* in respect of the *defaulting market participant's* default in payment.

8.1.3 Where a *defaulting market participant* has defaulted in payment in respect of

8.1.3.1 *physical transactions*; or,

8.1.3.2 *virtual transactions*

the *IMO* shall impose separate *default levies* in respect of each such ~~*IMO-administered market*~~ type of transaction in accordance with this section 8.

8.1.4 The provisions of this section 8 apply only to a default in payment by a *defaulting market participant* in the *real-time market* and the ~~*energy forward*~~ *day-ahead market*. Default in payment by a *defaulting market participant* in the *TR market* shall be addressed in accordance with the provisions of section 4 of Chapter 8.

## 8.2 Notice of First Default Levy

8.2.1 Where a *market participant* has failed to either remit or cause to be remitted to the *IMO settlement clearing account* the full amount due by that *market participant* by the close of *banking business* (of the bank at which the *IMO settlement clearing account* is held) on a *market participant payment date*:

8.2.1.1 [Intentionally left blank]

8.2.1.2 [Intentionally left blank]

8.2.1.3 the *IMO* may take such steps as may be permitted by section 6.14 of Chapter 9.

8.2.2 Where the *IMO* issued a *suspension order* and/or *disconnection order* or *default notice* or *cease trading order* in accordance with sections 6.3.3.2, 6.3.7B ~~or~~, 6.3.7D or 6.3.3C of Chapter 3, and the *defaulting market participant* has failed to remit to the *IMO settlement clearing account* the full amount due by that *market participant* within the time specified in the *default notice* or the *cease trading order*, the *IMO* shall:

8.2.2.1 issue a first *notice of default levy* in accordance with section 8.2.3; and

8.2.2.2 take such steps, if it has not already done so, as may be required to realize, in accordance with section 3 of Appendix 2.3, any *prudential*

*support* held in respect of the *defaulting market participant* the right to realization of which is triggered by the default in payment at issue.

- 8.2.3 A first notice of *default levy* shall be issued to each *non-defaulting market participant* that ~~participated in the real-time market~~ participated in *physical transactions or virtual transactions* ~~or the energy forward market~~ to which the default in payment by the *defaulting market participant* relates during the *billing period* to which such default relates and shall identify:
- 8.2.3.1 the name of the *defaulting market participant*;
  - 8.2.3.2 the *IMO-administered market* and the *billing period* in respect of which the default in payment by the *defaulting market participant* has occurred;
  - 8.2.3.3 the *defaulting market participant's default amount*, calculated in accordance with section 8.3.1;
  - 8.2.3.4 the amount of the first *default levy* calculated in accordance with section 8.3.2;
  - 8.2.3.5 the value of all *prudential support* held in respect of the *defaulting market participant* the right to realization of which is triggered by the default in payment at issue;
  - 8.2.3.6 the estimated amount of any second *default levy* that may have to be imposed pursuant to section 8.4 in the event of the inability by the *IMO* to realize all of the *prudential support* referred to in section 8.2.3.5 prior to the time noted in section 8.4.1;
  - 8.2.3.7 the *non-defaulting market participant's* share of the first *default levy*, calculated in accordance with:
    - a. section 8.6.1 in the case of *physical transactions*; and
    - b. section 8.6A.1 in the case of *virtual transactions*; and
  - 8.2.3.8 the *non-defaulting market participant's* share of the estimated amount of any second *default levy* referred to in section 8.2.3.6.
- 8.2.4 The first *notice of default levy* shall be issued at least ten days prior to the date on which the *invoice* imposing the first *default levy* on *non-defaulting market participants* is issued by the *IMO* in accordance with section 8.6.2.

### **8.3 Calculation of Default Amount and First Default Levy**

- 8.3.1 For the purposes of section 8.2.3.3, the *market participant's default amount* shall be the aggregate of:

- 8.3.1.1 the net invoice amount payable by the *defaulting market participant* for the *billing period* in respect of which payment has not been received within the time specified in section 8.2.2, exclusive of any amounts payable on account of financial penalties or damages; and
- 8.3.1.2 any *default interest* payable in respect of the amount referred to in section 8.3.1.1 that has accrued since the *market participant payment date* referred to in section 8.2.1 in accordance with section 6.14.3 of Chapter 9.
- 8.3.2 For the purposes of section 8.2.3.4, the amount of the first *default levy* shall be:
- 8.3.2.1 the aggregate of:
- a. the *defaulting market participant's default amount*, calculated in accordance with section 8.3.1; and
  - b. any costs and expenses reasonably incurred to the date of issuance of the first *notice of default levy* by the *IMO* in investigating the default in payment to which the *default levy* relates, in realizing on any applicable *prudential support* held in respect of the *defaulting market participant* and in implementing the *default levy*;
- 8.3.2.2 less the aggregate unclaimed or undrawn dollar amount of [the applicable prudential support](#) held in respect of the *defaulting market participant* the right to realization of which is triggered by the default in payment at issue.
- 8.3.3 The first *default levy* shall be apportioned amongst and *invoiced to non-defaulting market participants* in accordance with sections 8.6.1 ~~and 8.6.2~~ [and 8.6A as applicable](#).

## 8.4 Notice of Second Default Levy

- 8.4.1 Unless the amount of the first *default levy* is equal to the *defaulting market participant's default amount* the *IMO* shall, on the seventh *business day* following the issuance of *invoices* imposing the first *default levy*, issue a second *notice of default levy* in accordance with section 8.4.2.
- 8.4.2 The second *notice of default levy* shall be issued to each *non-defaulting market participant* on whom a first *default levy* has been imposed and shall identify:
- 8.4.2.1 the name of the defaulting market participant;
  - 8.4.2.2 the *IMO-administered market*, [type of transaction](#), and the *billing period* in respect of which the default in payment by the *defaulting market participant* has occurred;

- 8.4.2.3 the *defaulting market participant's* residual *default amount*, calculated in accordance with section 8.5.1;
- 8.4.2.4 the amount of the first *default levy*;
- 8.4.2.5 the amount of any *prudential support* held in respect of the *defaulting market participant* that has been realized;
- 8.4.2.6 the amount of any *prudential support* held in respect of the *defaulting market participant* the right to realization of which is triggered by the default in payment at issue and that remains to be realized;
- 8.4.2.7 the amount of the second *default levy*, calculated in accordance with section 8.5.2; and
- 8.4.2.8 the *non-defaulting market participant's* share of the second *default levy*, calculated in accordance with:

section 8.6.1 in the case of *physical transactions*; and,  
section 8.6A.1 in the case of *virtual transactions*.

8.4.3 The second *notice of default levy* shall be issued at least ten days prior to the date on which the *invoice* imposing the second *default levy* on *non-defaulting market participants* is issued by the *IMO* in accordance with section 8.6.2.

8.4.4 Subject to section 8.4.5, a *non-defaulting market participant's* share of a *default levy* shall be included in or with the first invoice scheduled to be issued to the *non-defaulting market participant* pursuant to Chapter 9 following the expiry of the time noted in section 8.2.4 or 8.4.3, as the case may be, in respect of each *IMO-administered market* to which the *default levy* relates.

8.4.5 Where, for any reason, no invoice is scheduled to be issued to a *non-defaulting market participant* to whom a second *notice of default levy* has been issued under section 8.4.2, the *IMO* shall issue an *invoice* to that *non-defaulting market participant's* share of the second *default levy*. Any such *non-defaulting market participant* shall pay to the *IMO* the *invoice* amount on the second *business day* following receipt of the *invoice*.

## 8.5 Calculation of Residual Default Amount and Second Default Levy

8.5.1 For the purposes of section 8.4.2.3, the *defaulting market participant's* residual *default amount* shall be:

- 8.5.1.1 the aggregate of:

- a. the net invoice amount payable by the ~~defaulting market participant~~ defaulting market participant for the billing period billing period in respect of which payment has not been received as of the date of issuance of the second *notice of default levy*, exclusive of any amounts payable on account of financial penalties or damages; and
- b. any *default interest* payable in respect of the amount referred to in section 8.5.1.1(a) that has accrued since the date of issuance of the first *notice of default levy* in accordance with section 6.14.3 of Chapter 9;
- 8.5.1.2 less the aggregate of:
- a. the amount of the first *default levy*; and
- b. any amount that has been recovered by the *IMO* since the date of issuance of the first *notice of default levy* under ~~any the applicable~~ prudential support held in respect of the *defaulting market participant*.
- 8.5.2 For the purposes of section 8.4.2.7, the amount of the second *default levy* shall be the aggregate of:
- 8.5.2.1 the *defaulting market participant's* residual *default amount*, calculated in accordance with section 8.5.1; and
- 8.5.2.2 any costs and expenses reasonably incurred by the *IMO* in investigating the default in payment to which the *default levy* relates, in realizing any applicable *prudential support* and in implementing the *default levy* since the date on which the first *default levy* was calculated.
- 8.5.3 The second *default levy* shall be apportioned and *invoiced* to *non-defaulting market participants* in accordance with: ~~sections 8.6.1 and 8.6.2.~~
- 8.5.3.1 section 8.6.1 in the case of *physical transactions*; and,
- 8.5.3.2 section 8.6A.1 in the case of *virtual transactions*.

## 8.6 **Apportionment and Invoicing of Default Levy for physical transactions**

- 8.6.1 For the purposes of sections 8.2.3.7 and 8.4.2.8, the amount of a *default levy* shall be apportioned amongst all *non-defaulting market participants* to whom a *notice of default levy* has been issued in accordance with sections 8.2.3 or 8.4.2 by

allocating to each *non-defaulting market participant* a share of the *default levy* calculated as follows:

8.6.1.1 in the case of a *default levy* imposed in respect of a default in the ~~*real-time market*~~ *physical transactions*, the share allocated to each *non-defaulting market participant* shall be determined on the basis of the following formula:

[ <i>default amount</i> x (absolute value of the <i>non-defaulting market participant's net invoice</i> amount, exclusive of any amounts payable on account of <i>virtual transactions</i> , financial penalties or damages, in the <i>IMO-Administered markets</i> for the <i>market billing period</i> to which the default in payment by the <i>defaulting market participant</i> relates)]	divided by	net <i>physical</i> transaction dollar amount
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Where the net *physical* transaction dollar amount is:

Σ the absolute value, in dollars, of each <i>market participant's net invoice</i> amount, for the <i>market billing period</i> to which the default in payment by the <i>defaulting market participant</i> relates <u>net of any virtual transaction settlement amounts</u>	Minus	the absolute value, in dollars, of the <i>defaulting market participant's net invoice</i> amount for such <i>market billing period</i> <u>net of any virtual transaction settlement amounts</u> ;
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8.6.2 ~~[Intentionally left blank – section deleted.] Subject to section 8.6.3, a non-defaulting market participant's share of a default levy shall be included in or with the first invoice scheduled to be issued to the non-defaulting market participant pursuant to Chapter 9 following the expiry of the time noted in section 8.2.4 or 8.4.3, as the case may be, in respect of each IMO-administered market to which the default levy relates. [Intentionally left blank]~~

8.6.3 ~~[Intentionally left blank – section deleted.]~~

~~Where, for any reason, no invoice is scheduled to be issued to a non-defaulting market participant to whom a second notice of default levy has been issued under section 8.4.2, the IMO shall issue an invoice to that non-defaulting market participant comprising the amount of that non-defaulting market participant's share of the second default levy. Any such non-defaulting market participant shall~~

~~pay to the IMO the invoice amount on the second business day following receipt of the invoice.~~

## 8.6A Apportionment and Invoicing of Default Levy for virtual transactions

8.6A.1 For the purposes of sections 8.2.3.7 and 8.4.2.8, the amount of a *default levy* shall be apportioned amongst all *non-defaulting market participants* to whom a *notice of default levy* has been issued in accordance with sections 8.2.3 or 8.4.2 by allocating to each *non-defaulting market participant* a share of the *default levy* calculated as follows:

8.6A.1.2 in the case of a *default levy* imposed in respect of a default in ~~the energy forward market,~~ *virtual transactions* the share allocated to each *non-defaulting market participant* shall be determined on the basis of the following formula:

<u><i>[default amount x (absolute value of the non-defaulting market participant's net invoice amount, exclusive of any amounts payable on account of physical transactions, financial penalties or damages, in the IMO-Administered markets for the market billing period to which the default in payment by the defaulting market participant relates</i></u>	divided by	<u><i>net virtual transaction dollar amount</i></u>
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Where the *net virtual transaction dollar amount* ~~*net transaction MWh amount*~~ is:

<u><i>∑ the absolute value, in dollars, of each market participant's net invoice amount for virtual transactions, for the real-time market billing period to which the default in payment by the defaulting market participant relates net of any physical transaction settlement amounts</i></u>	minus	<u><i>the absolute value, in dollars, of the defaulting market participant's net invoice amount for such virtual transactions for market billing period net of any physical transaction settlement amounts†</i></u>
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8.6A.2 In any monthly *billing period* in which a *default levy* is issued in respect of virtual transactions the IMO shall only apply the *default levy* issued in respect of virtual transactions in such a manner that no single *market participant* shall bear a

portion of such default levy that is greater than fifty percent of its prudential support obligation for virtual transactions, and any residual amounts of the default levy shall be allocated in the manner described in section 8.6.1.1 to all market participants eligible to receive a default levy in respect of physical transactions.

## 8.7 Allocation of Default Levy

- 8.7.1 The *IMO* shall allocate amounts received from *non-defaulting market participants* in respect of a *default levy*:
- 8.7.1.1 first, to repay any short-term funds borrowed by the *IMO* pursuant to section 6.14.4 of Chapter 9 on account of the *defaulting market participant's* default in payment; and
  - 8.7.1.2 [Intentionally left blank]
  - 8.7.1.3 second, to the payment of amounts owed by the *defaulting market participant* to the *IMO* on account of the *IMO administration charge*.
- 8.7.2 Amounts received from *non-defaulting market participants* in respect of a *default levy* to cover the reasonable costs and expenses referred to in sections 8.3.2.1 and 8.5.2.2 shall be used to offset the *IMO administration charge*.

### PART 5 – IMO BOARD COMMENTS

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## Market Rule Amendment Proposal

### PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00274-R02		
Subject:	Day-Ahead Market		
Title:	Prudential Security		
Nature of Proposal:	<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input type="checkbox"/> Addition
Chapter:	3	Appendix:	
Sections:	6.3		
Sub-sections proposed for amending:	6.3.1, 6.3.3.2, 6.3.3A, 6.3.3.C (new), 6.3.4, 6.3.4A (new), 6.3.8A (new), 6.3.9		

### PART 2 – PROPOSAL HISTORY – PLEASE REFER TO MR-00274-R00

Version	Reason for Issuing	Version Date
Approved Amendment Publication Date:		
Approved Amendment Effective Date:		

**PART 3 – EXPLANATION FOR PROPOSED AMENDMENT**

Provide a brief description of the following:

The reason for the proposed amendment and the impact on the *IMO-administered markets* if the amendment is not made

Alternative solutions considered

The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the *IMO-administered markets*.

#### Summary of Proposed Market Rule Amendments

It is proposed to revise section 6.3 of Chapter 3 in the following manner:

- Amend section 6.3.1 to include the non-payment of a margin call as an event of default.
- Insert section 6.3.3.C to apply a specific remedy in circumstances where a market participant has failed to fully satisfy a virtual transaction margin call (an event of default). In such cases, a cease trading order is issued in order to prevent any further virtual transaction bids or offers from being submitted into the day-ahead market until the event of default is resolved.
- Insert section 6.3.4A to specify that if a market participant has caused an event of default, and- has defaulted in payment of amounts owing for both virtual and physical transactions and has provided only a partial payment, this payment shall be allocated between the amounts owing for physical transactions and virtual transactions on a pro-rata basis on the relative size of the invoice amount for each type of transaction.
- Insert section 6.3.8A to specify that the IMO shall lift a *cease trading order* if the event that triggered its issuance is remedied and authorizes the IMO to impose additional conditions on the market participant’s virtual transactions. These would include imposing: a lower trading limit; a more frequent continuing schedule of payments; and/or a more stringent prudential support obligation.
- Amend section 6.3.9 to authorize the IMO to give effect to a suspension order once issued by rejecting any physical transaction bid or physical transaction offer.

#### Background

Section 6.3 of Chapter 3 specifies IMO and market participant authorities and permissions in respect of market rule enforcement. There is a need to amend this section of the market rules to include enforcement actions which may be undertaken by the IMO with respect to market participants conducting virtual transactions. For more information please refer to MR-00270-R00 and The DAM detailed design document, “Prudential Security” (IMO\_DES\_0019).

**PART 4 – PROPOSED AMENDMENT**

### 6.3 **Suspension Orders ~~and~~, Disconnection Orders and Orders to Cease Trading in Virtual Transactions**

6.3.1 Each of the following is an *event of default* in relation to a *market participant*:

- 6.3.1.1 the *market participant* does not pay money due for payment by it under the *market rules* by the appointed time on the due date including without limitation in respect of a *margin call*;
- 6.3.1.2 the *IMO* does not receive payment in full of any amount claimed by the *IMO* under any *prudential support* in respect of the *market participant* within one *business day* in the jurisdiction of the *market participant* after the due time for payment of that claim;
- 6.3.1.3 the *market participant* fails to provide *prudential support* required to be supplied under the *market rules* within the time required;
- 6.3.1.4 it becomes unlawful for the *market participant* to comply with any of its obligations under the *market rules* or any other obligation owed to the *IMO* or it is claimed to have become so by the *market participant*;
- 6.3.1.5 it becomes unlawful for any person who has provided *prudential support* in relation to the *market participant* (a “*prudential support provider*”) to comply with any of its obligations under the *market rules* or any other obligation owed to the *IMO* or it is claimed to have become so by the *market participant’s prudential support provider*;
- 6.3.1.6 a licence (including a *licence*), permit or other authorization necessary to enable the *market participant* or the *market participant’s prudential support provider* to carry on their respective principal business or activities is suspended, revoked or otherwise ceases to be in full force and effect, provided that where a *market participant* holds more than one *licence* and only one such *licence* has been suspended, revoked or otherwise ceases to be in full force and effect, the *event of default* and any action taken by the *IMO* with respect thereto shall relate only to such *licence*;
- 6.3.1.7 the *market participant* or the *market participant’s prudential support provider* ceases or threatens to cease to carry on its business or a substantial part of its business;
- 6.3.1.8 the *market participant* or the *market participant’s prudential support provider* enters into or takes any action to enter into an arrangement, composition or compromise with, or an assignment for the benefit of, all or any class of their respective creditors or members or a moratorium involving any of them;

- 6.3.1.9 the *market participant* or the *market participant's prudential support provider* states that it is unable to pay from its own money its debts when they fall due for payment;
- 6.3.1.10 a receiver or receiver and manager or person having a similar or analogous function under the laws of any relevant jurisdiction is appointed in respect of any property of the *market participant* or the *market participant's prudential support provider* which is used in or relevant to the performance by the *market participant* or the *market participant's prudential support provider* of its obligations under the *market rules* or its *licence*;
- 6.3.1.11 an administrator, liquidator, trustee in bankruptcy or person having a similar or analogous function under the laws of any relevant jurisdiction is appointed in respect of the *market participant* or the *market participant's prudential support provider*, or any action is taken to appoint such person;
- 6.3.1.12 an application is made for the winding up or dissolution or a resolution is passed or any steps are taken to pass a resolution for the winding up or dissolution of the *market participant* or the *market participant's prudential support provider*;
- 6.3.1.13 the *market participant* or the *market participant's prudential support provider* is wound up or dissolved, unless the notice of winding up or dissolution is discharged;
- 6.3.1.14 the *market participant* or the *market participant's prudential support provider* is taken to be insolvent or unable to pay its debts under any applicable legislation;
- 6.3.1.15 the *market participant* ceases to satisfy any material requirement imposed upon it as a condition of its authorization to participate in the *IMO-administered markets* or to cause or permit electricity to be conveyed into, through or out of the *IMO-controlled grid*.
- 6.3.2 A *market participant* shall notify the *IMO* immediately upon the earlier of becoming aware of any circumstance that may give rise to or of the occurrence of:
- 6.3.2.1 an *event of default* referred to in sections 6.3.1.4 to 6.3.1.15; and
- 6.3.2.2 a receiver or receiver and manager or person having a similar or analogous function under the laws of any relevant jurisdiction being appointed in respect of any property of the *market participant* or the *market participant's prudential support provider*.
- 6.3.3 Where an *event of default* has occurred in relation to a *market participant*, the *IMO*:

- 6.3.3.1 shall, unless a *default notice* has been issued, issue to the *market participant* a notice specifying the *event of default* and of the *IMO's* intent to commence suspension proceedings unless the *market participant* remedies the *event of default* within 5 days or 2 *business days*, whichever is longer;
- 6.3.3.2 may issue to the *market participant* a *default notice* specifying the *event of default* and requiring the *market participant* to remedy the *event of default* within such time as may be specified in the *default notice*, which time shall not be more than:
- a. 5 days; or
  - b. 2 *business days*; and
- 6.3.3.3 may, if it has not already done so, make claim upon any *prudential support* held in respect of the obligations of the *market participant* for such amount as the *IMO* determines represents the amount of any money actually or contingently owing by the *market participant* to the *IMO* under the *market rules*.;
- 6.3.3A Where the *IMO* issues a *default notice* to a *market participant* pursuant to section 6.3.3.2, the *IMO* shall when applicable, notify the *OEB* and the *transmitter* or *distributor* to whose *facilities* the *market participant* is connected:
- 6.3.3A.1 of the issuance of the *default notice*;
  - 6.3.3A.2 of the time within which the *market participant* may remedy the *event of default* as specified in the *default notice*; and
  - 6.3.3A.3 where applicable, once the *event of default* specified in the *default notice* has been remedied by the *market participant*.
- 6.3.3B Where the *IMO* issues either a notice of the *IMO's* intent to commence suspension proceedings in accordance with section 6.3.3.1 or a *default notice* in accordance with section 6.3.3.2 to:
- 6.3.3B.1 a *selling market participant*, such notice or *default notice* shall be deemed to constitute a revision to any *physical bilateral contract quantities* that relate to that *selling market participant* for the period from the time the notice or *default notice* is issued until the *event of default* is remedied pursuant to section 6.3.4, such that the *physical bilateral contract quantities* that relate to such period shall be considered by the *IMO* to be zero; or
  - 6.3.3B.2 a *market participant* that has been allocated *metering data* pursuant to section 2.4.5 of Chapter 9, such notice or *default notice* shall be deemed to constitute a revision to any *physical allocation data* that relate to the period from the time the notice or *default notice* is issued

until the *event of default* is remedied pursuant to section 6.3.4, such that any allocation to that *market participant* that relates to such period shall be considered by the *IMO* to be zero.

6.3.3.C Where an *event of default* has occurred in respect of a *market participant's virtual transactions*, the *IMO* may issue to the *market participant* a *cease trading order*. From and after the issuance of a *cease trading order* and until it has been lifted by the *IMO*, the *market participant* shall not be entitled to submit *virtual transaction bids or offers* into the *day-ahead market* and the *IMO* shall ensure that no *virtual transaction bids or offers* submitted into the *day-ahead market* by that *market participant* shall be input into any operations of the *DAM calculation engine* subsequent to the time that the *cease trading order* comes into effect.

6.3.4 A market participant may remedy an event of default by:

6.3.4.1 satisfying, or causing to be satisfied, the outstanding financial or other obligations which gave rise to the *event of default*, including paying any applicable *default interest* calculated in accordance with Chapter 9 and any costs and expenses reasonably determined by the *IMO* to have been incurred by the *IMO* by reason of the *event of default*; or

6.3.4.2 proving to the reasonable satisfaction of the *IMO* that the facts or circumstances which constituted the *event of default* no longer exist.

6.3.4A Where a market participant:

6.3.4A.1 has caused an *event of default* to occur in respect of net amounts owing to the *IMO* for both *physical transactions* and *virtual transactions* on the same monthly invoice;

6.3.4A.2 has defaulted in payment of amounts owing on a monthly invoice that includes both *physical transactions* and *virtual transactions*; and

6.3.4A.3 the *market participant* has only provided a partial payment to remedy the default,

any partial payments that may be made in respect of such invoice shall be allocated between the amounts owing for *physical transactions* and *virtual transactions* on a pro-rata basis on the relative size of the invoice amount for each type of transaction.

6.3.5 [Intentionally left blank]

6.3.6 Notwithstanding that the *event of default* may have been remedied by the *market participant*, the *IMO* may, where it considers that it is in the interests of preserving the integrity of the *IMO-administered markets*, impose such conditions

on the authorization of a *market participant* to participate in the *IMO-administered markets* or to cause or permit electricity to be conveyed into, through or out of the *IMO-controlled grid* as the *IMO* determines appropriate including, but not limited to, the conditions noted in sections 6.3.8.1 to 6.3.8.3.

6.3.7 If an *event of default* is not remedied within the time specified in the notice issued by the *IMO* pursuant to section 6.3.3.1 or the *default notice* issued pursuant to section 6.3.3.2 or within such longer period as may be agreed to in writing by the *IMO*, the *IMO* may issue to the *market participant* a notice indicating the *IMO's* intention to issue:

6.3.7.1 a *suspension order* to the *market participant* suspending or restricting all or any of the *market participant's* rights to participate in the *IMO-administered markets* or to cause or permit electricity to be conveyed into, through or out of the *IMO-controlled grid*; or

6.3.7.2 the *suspension order* referred to in section 6.3.7.1 and a *disconnection order* to the *transmitter* to whose *facilities* the *market participant* is connected directing the *transmitter* to *disconnect* the relevant *facilities* or equipment of the *suspended market participant*,

and shall provide a copy of such notice to the *OEB* and to the *transmitter* or *distributor* to whose *facilities* the *market participant* is connected.

6.3.7A A notice issued pursuant to section 6.3.7 indicating the *IMO's* intention to issue a *suspension* and/or *disconnection order* under sections 6.3.7.1 or 6.3.7.2 shall specify the right of the *market participant* to request, within 5 days or 2 *business days*, whichever is the longer, a hearing before the *IMO Board* or a committee established by the *IMO Board* for that purpose, as the case may be, to show cause why the *suspension order*, the *disconnection order*, or both, as the case may be, should not be issued.

6.3.7B Where the *market participant* has:

6.3.7B.1 not requested a hearing pursuant to section 6.3.7A; or

6.3.7B.2 notified the *IMO* that it does not intend to request a hearing pursuant to section 6.3.7A,

the *IMO* may:

6.3.7B.3 issue a *suspension order* to the *market participant* suspending or restricting all or any of the *market participant's* rights to participate in the *IMO-administered markets* or to cause or permit electricity to be conveyed into, through or out of the *IMO-controlled grid*;

6.3.7B.4 issue the *suspension order* referred to in section 6.3.7B.3 and issue, with notice to the *market participant*, a *disconnection order* to the *transmitter* to whose *facilities* the *market participant* is connected

directing the *transmitter* to *disconnect* the relevant *facilities* or equipment of the *suspended market participant*; or

6.3.7B.5 make such other order as the *IMO* considers appropriate,

and the *IMO* shall, if it has not already done so, issue a *default notice* to the *market participant*, make claim upon any *prudential support* held in respect of the obligations of the *market participant* for such amount as the *IMO* determines represents the amount of any money actually or contingently owing by the *market participant* to the *IMO* under the *market rules* and shall notify the *OEB* and the *transmitter* or *distributor* to whose *facilities* the *suspended market participant* is connected accordingly.

6.3.7C Where the *market participant* has requested a hearing pursuant to section 6.3.7A, the *IMO Board* or a committee of the *IMO Board* established for that purpose shall, within 7 days of the date of receipt of such request, commence a hearing providing the *market participant* with a reasonable opportunity to show cause as to why the *suspension order*, the *disconnection order* or both should not be issued against it. In such case, the *IMO* shall not issue either the *suspension order* or the *disconnection order* until such hearing has been held.

6.3.7D Upon conclusion of the hearing referred to in section 6.3.7C, the *IMO Board* or the committee of the *IMO Board* established for that purpose, as the case may be, may:

6.3.7D.1 issue a *suspension order* to the *market participant* suspending or restricting all or any of the *market participant's* rights to participate in the *IMO-administered markets* or to cause or permit electricity to be conveyed into, through or out of the *IMO-controlled grid*;

6.3.7D.2 issue the *suspension order* referred to in section 6.3.7D.1 and issue, with notice to the *market participant*, a *disconnection order* to the *transmitter* to whose *facilities* the *market participant* is connected directing the *transmitter* to *disconnect* the relevant *facilities* or equipment of the *suspended market participant*; or

6.3.7D.3 make such other order as the *IMO Board* or the committee of the *IMO Board* considers appropriate and direct the *IMO* if it has not already done so, to issue a *default notice* to the *market participant* and make claim upon any *prudential support* held in respect of the obligations of the *market participant* for such amount as the *IMO* determines represents the amount of any money actually or contingently owing by the *market participant* to the *IMO* under the *market rules*,

and shall direct the *IMO* to notify the *OEB* and the *transmitter* or *distributor* to whose *facilities* the *suspended market participant* is connected accordingly.

6.3.8 The *IMO* shall lift a suspension order if the event which triggered its issuance is remedied and there are no other *events of default* in existence with respect to the *suspended market participant* and may, as a condition of lifting a *suspension order*, impose such conditions on the authorization of the *market participant* to participate in the *IMO-administered markets* or to cause or permit electricity to be conveyed into, through or out of the *IMO-controlled grid* as the *IMO* determines appropriate including, but not limited to:

- 6.3.8.1 establishing a lower *trading limit* in respect of the *market participant* than would otherwise be the case under section 5.4 of Chapter 2;
- 6.3.8.2 establishing a more frequent continuing schedule of payments than would otherwise be the case under Chapter 9; or
- 6.3.8.3 imposing more stringent prudential requirements than would otherwise be the case under section 5 of Chapter 2,

and shall notify the *OEB* and the *transmitter* or *distributor* to whose *facilities* the *suspended market participant* is connected accordingly.

6.3.8A The *IMO* shall lift a *cease trading order* if the event that triggered its issuance is remedied and there are no other *events of default* then outstanding with respect to the *market participant*. When lifting a *cease trading order*, the *IMO* may impose such conditions on the ability of the *market participant* to participate in the *day-ahead market* by way of *virtual transactions* as the *IMO* determines appropriate including, but not limited to:

- 6.3.8.1 establishing a lower *trading limit* for *virtual transactions* in respect of the *market participant* than would otherwise be the case under section 5A.1.1 of Chapter 2;
- 6.3.8.2 establishing a more frequent continuing schedule of payments than would otherwise be the case under Chapter 9; or
- 6.3.8.3 imposing more stringent *prudential support obligations* than would otherwise be the case under section 5A of Chapter 2,

6.3.9 Following the issuance of a *suspension order*, the *IMO* may do one or more of the following to give effect to the *suspension order*:

- 6.3.9.1 reject any *bid*, *offer*, *physical transaction bid*, *physical transaction offer*, *TR bid* or *TR offer* submitted by the *suspended market participant*;
- 6.3.9.2 withhold the payment of any amounts otherwise due to the *suspended market participant* under the *market rules*; or

- 6.3.9.3 [Intentionally left blank]
- 6.3.9.4 make such further order or issue such directions to the *suspended market participant* as the *IMO* determines appropriate.
- 6.3.9A Where the *IMO* issues a *suspension order*:
- 6.3.9A.1 against a *selling market participant*, such *suspension order* shall be deemed to constitute a revision to any *physical bilateral contract quantities* that relate to the period during which the *suspension order* is in effect, including any period during which its operation is stayed pursuant to section 6.3.10, such that the *physical bilateral contract quantities* that relate to such period shall be considered by the *IMO* to be zero; or
- 6.3.9A.2 against a *market participant* to which *metering data* has been allocated pursuant to section 2.4.5 of Chapter 9, such *suspension order* shall be deemed to constitute a revision to any *physical allocation data* that relates to the period during which the *suspension order* is in effect, including any period during which its operation is stayed pursuant to section 6.3.10, such that any allocation to that *market participant* that relates to such period shall be considered by the *IMO* to be zero.
- 6.3.9B A *transmitter* that receives a *disconnection order* from the *IMO* pursuant to section 6.3.7B or 6.3.7D shall, subject only to section 3.4.1.5 of Chapter 5, on the date and at the time specified in the *disconnection order*, disconnect the *facilities* or equipment of the *suspended market participant* referred to in the *disconnection order*. The *transmitter* shall not reconnect such *facilities* or equipment until such time as it receives the notice referred to in section 6.3.10A, and shall reconnect such *facilities* or equipment on the date and at the time specified in such notice.
- 6.3.10 The *IMO* may at any time and upon notice to the *suspended market participant*, extend, stay the operation of or lift a *suspension order* or modify the conditions of any *suspension order*, and shall notify the *OEB* and the *transmitter* or *distributor* to whose *facilities* the *suspended market participant* is connected accordingly.
- 6.3.10A Where the *IMO* lifts or stays the operation of a *suspension order* issued to a *suspended market participant* in respect of whom a *disconnection order* was issued pursuant to section 6.3.7B or 6.3.7D, the *IMO* shall at the same time lift or stay the operation, as the case may be, of the *disconnection order* and shall advise the *suspended market participant*, the *OEB* and the *transmitter* or *distributor* to whose *facilities* the *suspended market participant* is connected accordingly.
- 6.3.10B Where the *IMO* extends a *suspension order* issued to a *suspended market participant* in respect of whom a *disconnection order* was issued pursuant to section 6.3.7B or 6.3.7D, the *IMO* may at the same time extend the *disconnection order* for a corresponding period of time and shall advise the *suspended market*

*participant*, the *OEB* and the *transmitter* or *distributor* to whose *facilities* the *suspended market participant* is connected accordingly.

- 6.3.11 The *IMO* shall, immediately following the issuance of a *suspension order*, issue a public announcement that the rights of the *suspended market participant* to participate in the *IMO-administered markets* or to cause or permit electricity to be conveyed into, through or out of the *IMO-controlled grid* have been suspended or restricted, including details of the suspension or restriction and whether a *disconnection order* has also been issued in respect of the *suspended market participant*. The *IMO* shall issue a public notice promptly after a *suspension order* and, where applicable, a *disconnection order*, is lifted, extended, modified or stayed.
- 6.3.12 From the time the *IMO* issues a *suspension order* to a *market participant*, the *suspended market participant* is ineligible to trade or enter into any transaction in the *IMO-administered markets* or to cause or permit electricity to be conveyed into, through or out of the *IMO-controlled grid* to the extent specified in the *suspension order*, until such time that the *IMO* notifies the *suspended market participant* and all other *market participants* that the *suspension order* has been lifted or stayed.
- 6.3.13 The *suspended market participant* shall comply with the terms of the *suspension order* issued to it. A *suspended market participant* shall also comply with any order relating to it, including any directions or arrangements which may be made for the purpose of giving effect to the *suspension order*, made by the *IMO* pursuant to section 6.3.9.
- 6.3.14 A *suspended market participant* shall remain liable for all of its obligations as a *market participant* other than as expressly provided in its *suspension order*, including but not limited to the payment of any monies to the *IMO* in respect of any *energy* withdrawn from the *IMO-controlled grid* by the *suspended market participant* while the *suspension order* is in effect. Issuance of a *suspension order* shall not affect any liability or obligation of a *suspended market participant* for the payment of any monies to the *IMO* or any other person including, but not limited to, a liability under section 8 of Chapter 2, which was incurred or arose under the *market rules*:
- 6.3.14.1 prior to the date on which the *suspension order* was issued; or
- 6.3.14.2 during any period in which the operation of the *suspension order* has been stayed,
- regardless of the date on which any claim relating thereto may be made.
- 6.3.15 [Intentionally left blank]
- 6.3.16 [Intentionally left blank]

6.3.17 [Intentionally left blank]

6.3.18 [Intentionally left blank]

6.3.19 [Intentionally left blank]

6.3.20 [Intentionally left blank]

**PART 5 – IMO BOARD COMMENTS**

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## Market Rule Amendment Proposal

### PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00274-R03		
Subject:	Day-Ahead Market		
Title:	Prudential Security		
Nature of Proposal:	<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input type="checkbox"/> Addition
Chapter:	2	Appendix:	2.3
Sections:	1.1, 1.2, 1.2.1, 1.2.2, 1.3, 1.4, 1.5, 1.9, 2.1, 2.1.1, 2.1.2, 3.1,3.3, 3.4		
Sub-sections proposed for amending:			

### PART 2 – PROPOSAL HISTORY – PLEASE REFER TO MR -00274-R00

Version	Reason for Issuing	Version Date
Approved Amendment Publication Date:		
Approved Amendment Effective Date:		

**PART 3 – EXPLANATION FOR PROPOSED AMENDMENT**

Provide a brief description of the following:

- The reason for the proposed amendment and the impact on the *IMO-administered markets* if the amendment is not made
- Alternative solutions considered
- The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the *IMO-administered markets*.

**Summary of Proposed Market Rule Amendments**

Consequential to the amendments proposed in MR-00270-00 there is a need to amend Appendix 2.3 of Chapter 2. This appendix specifies additional provisions in the market rules regarding prudential support.

It is proposed to revise Appendix 2.3 of Chapter 2 in the following manner:

- Amend section 1.1 to ensure it applies to both the day-ahead market and the real-time market.
- Amend section 1.2 by sub-dividing all references to the provision of prudential support between physical transactions and virtual transactions.
- Amend section 1.3 by prefacing this section as only applying to physical transactions.
- Amend section 1.4 by prefacing this section as only applying to physical transaction activity.
- Amend section 1.5 by prefacing this section as only applying to physical transaction activity.
- Amend section 1.9 to ensure it applies to both the day-ahead market and the real-time markets.
- Amend section 2.1 by sub-dividing all references to the provision of prudential support between physical and virtual transactions and replace references to participation in the real-time markets with separate references to DAM and real-time markets.
- Amend section 3.4 by replacing references to participation in the real-time markets with separate references to DAM and real-time markets.

For further information please refer to MR-00270-R00.

## PART 4 – PROPOSED AMENDMENT

## Appendix 2.3 – Prudential Support

### 1. Additional Provisions Regarding Prudential Support

#### 1.1 Determination of Prudential Support Obligations

Prior to participating in the *real-time markets* or *day-ahead markets*, the *IMO* shall deliver to each *market participant* a schedule, in the form set forth in the applicable *market manual*, setting out the determination by the *IMO* of that *market participant's prudential support obligations*, which shall be completed by the *IMO* on the basis of the determinations referred to in Section 5 of Chapter 2. Such schedule shall be effective until amended and replaced in accordance with this Appendix.

#### 1.2 Provision of Prudential Support

Prior to participating in the *real-time markets*, or the *day-ahead market*, each *market participant* shall deliver to the *IMO*:

1.2.1 a schedule, in the form set forth in the applicable *market manuals* completed by the *market participant* setting out the *prudential support* with which the *market participant* has elected to satisfy its *prudential support obligation* in respect of either or both of *physical transactions* or *virtual transactions* as set out in the schedule delivered to it by the *IMO* referred to in section 1.1; and

1.2.2 the *prudential support* as set out in that schedule.

In the event that the sum of all *prudential support* provided by the *market participant* to the *IMO* is a greater amount than required by the *market rules*, the *IMO* shall, upon written request by the *market participant*, return (or direct the custodian to return) to the *market participant* an amount equal to the difference between the value of all prudential support then held by or on behalf of the *IMO* and the prudential support obligation of the market participant at that time;

The *IMO* shall return such amount within five *business days* of the receipt of the request for the return of the amount from the *market participant*. In the event the

*market participant* has posted one or more different types of *prudential support*, the *IMO* shall return the type of *prudential support* as directed by the *market participant*. Upon the return by the *IMO* to the *market participant* of the amount of any *prudential support*, any security interest or lien granted on such *prudential support* will be released immediately and, to the extent possible, without any further action by either party.

### 1.3 Reduction of **Physical Transaction** Prudential Support Obligation for Credit Rating

Where the *market participant*'s *prudential support obligation for physical transactions* reflects a reduction by reason of the *market participant*'s credit rating from a major bond rating agency identified in the list of such agencies published by the *IMO*, the *market participant* covenants and agrees to advise the *IMO* in writing immediately upon the *market participant* becoming aware of either a change in or loss of the then current credit rating or the decision of the bond rating agency to place the *market participant* on "credit watch status" or equivalent. Where, as a result of either any such change or loss in the then current rating or the placing of the *market participant* on "credit watch status", the *market participant* is no longer entitled under the *market rules* to the same reduction by way of credit rating, the *IMO* shall deliver to the *market participant* an amended schedule setting out the *market participant*'s revised *prudential support obligation for physical transactions*.

### 1.4 **Physical Transaction** Prudential Support by way of a Third Party Guarantee

*Prudential support for physical transactions* in the form of a guarantee provided by a third party pursuant to sections 5.7.2.2 or 5.7.2.4 of Chapter 2 shall provide for payment by the guarantor to the *IMO* on demand up to the amount stated in the guarantee. The only conditions on the ability of the *IMO* to draw on the guarantee shall be the delivery of copies of an unpaid invoice previously issued to the *market participant* and a certificate of an officer of the *IMO* that a specified amount is owing by the *market participant* to the *IMO* and that, in accordance with the provisions of the *market rules*, the *IMO* is entitled to payment of that specified amount as of the date of delivery of the certificate. Where the *market participant*'s *prudential support for physical transactions* includes a guarantee provided by a third party that has a credit rating from a major bond rating agency identified in the list of such agencies published by the *IMO*, the *market participant* covenants and agrees to advise the *IMO* in writing immediately upon the *market participant* becoming aware of a change in or loss of the then current credit rating issued to the guarantor. Where as a result of the loss of such credit

rating, the *market participant* is no longer entitled to meet its *prudential support obligation for physical transactions* in whole or in part through the provision of such a guarantee, the *market participant* must provide alternative *prudential support for physical transactions* within the time frame mandated in section 5.2 of Chapter 2.

## 1.5 Reduction of ***Physical Transaction*** Prudential Support Obligation for Payment History

Where the *market participant's prudential support obligation for physical transactions* reflects a reduction by reason of evidence of the *market participant's* good payment history determined in accordance with sections 5.8.4 or 5.8.5 of Chapter 2 and, for any reason, the *market participant* is no longer entitled under the *market rules* to the same amount of reduction by way of good payment history, the *IMO* shall deliver to the *market participant* an amended schedule setting out the *market participant's* revised *prudential support obligation for physical transactions*.

## 1.6 Prudential Support by way of Letter of Credit

Where a portion of the *market participant's prudential support* is in the form of a letter of credit pursuant to section 5.7.2.1 of Chapter 2, the following provisions shall apply:

- 1.6.1 the letter of credit shall provide that it is issued subject to either The Uniform Customs and Practice for Documentary Credits, 1993 Revision, ICC Publication No. 500 or The International Standby Practices 1998;
- 1.6.2 the *IMO* shall be named as beneficiary in each letter of credit, each letter of credit shall be irrevocable, partial draws on any letter of credit shall not be prohibited and the letter of credit or the aggregate amount of all letters of credit shall be in the face amount of at least the amount specified in its then current schedule;
- 1.6.3 the only conditions on the ability of the *IMO* to draw on the letter of credit shall be the delivery of copies of an unpaid invoice previously issued to the *market participant* and a certificate of an officer of the *IMO* that a specified amount is owing by the *market participant* to the *IMO* and that, in accordance with the provisions of the *market rules*, the *IMO* is entitled to payment of that specified amount as of the date of delivery of the certificate;
- 1.6.4 the letter of credit shall either provide for automatic renewal (unless the issuing bank advises the *IMO* at least thirty days prior to the renewal date that the letter of credit will not be renewed) or be for a term of at least one (1) year. In either case it is the responsibility of the *market participant* to maintain the requisite amount of *prudential support*. Where the *IMO* is advised that a letter of credit is not to be renewed or the term of the letter of credit is to expire, the *market participant* shall

arrange for and deliver alternative *prudential support* within the time frame mandated by the *market rules* so as to enable the *market participant* to be in compliance with the *market rules*; and

- 1.6.5 by including a letter of credit as part of its *prudential support*, the *market participant* represents and warrants to the *IMO* that the issuance of the letter of credit is not prohibited in any other agreement, including without limitation, a negative pledge given by or in respect of the *market participant*.

## 1.7 Prudential Support by way of Cash

Where a portion of the *market participant's prudential support* is in the form of cash pursuant to section 5.2.2.3 of Chapter 2, the provision of such *prudential support* shall be reflected in a written instrument and the following provisions shall apply:

- 1.7.1 at the *market participant's* option, cash may include treasury bills issued by the Government of Canada. Any such treasury bills shall be valued at their current market value from time to time less two (2%) percent to take into account the potential eroding effects of interest rate increases on the value of such treasury bills;
- 1.7.2 the *IMO* shall retain the services of a custodian which shall retain the cash or treasury bills as agent for the *IMO* and not the *market participant*; and
- 1.7.3 the *IMO* shall direct the custodian to deposit cash with a bank to which the Bank Act (Canada) applies. There shall be added to the *market participant's prudential support* any and all interest earned on the cash so deposited or accretion amount(s) received in respect of the treasury bills.

## 1.8 Replacement Schedules

The *IMO* and the *market participant* may or, where required to enable the *market participant* to be in compliance with the *market rules*, shall from time to time deliver to one another one or more additional schedules, which schedules shall be in the form approved by the *IMO* from time to time. Where the *IMO* delivers to the *market participant* an additional schedule, each such schedule shall replace the preceding schedule, and shall be effective from the date of its delivery to the *market participant* for all purposes thereafter until such time as a subsequent amended schedule is delivered by the *IMO* to the *market participant*. Where any such amended schedule shows an increase in the *market participant's prudential support obligation* relative to the preceding schedule or requires the provision of alternative *prudential support*, the *market participant* shall deliver such additional or alternative *prudential support* as may be required so as to enable the *market participant* to be in compliance with the *market rules*. Where the *market*

*participant* delivers an amended schedule, modified to reflect additional or alternative forms of, such amended schedule, provided that it is accompanied by such additional or alternative, shall replace the preceding schedule and shall be binding on the *market participant* for all purposes thereafter until such time as a subsequent amended schedule is delivered to the *IMO* by the *market participant*.

## 1.9 Dispute Resolution

If the *market participant* disagrees with the determination by the *IMO* of any of the amounts of *prudential support obligations* set out on a schedule and such dispute cannot be resolved by the *market participant* and the *IMO*, then the *market participant* shall submit the matter to dispute resolution under section 2 of Chapter 3. Notwithstanding the initiation of the dispute resolution process, the *market participant* shall provide such additional *prudential support* as may be required in order to continue participating in the *day-ahead market or real-time market* based on the determination by the *IMO* until the matter has been resolved.

## 2. Pledge of Prudential Support in the form of Cash or Treasury Bills

### 2.1 Pledge

*Prudential support* in the form of cash or treasury bills provided as part of the *market participant's prudential support obligation* in respect of the *market participant's* participation in the *day-ahead market or real-time market* shall be held by or on behalf of the *IMO* (together with all accretions thereto, all income therefrom and proceeds thereof) and the *market participant* shall assign to the *IMO* all of its present and future right, title and interest in and to such cash and treasury bills as general and continuing collateral security and as a pledge to secure:

- 2.1.1 subject to section 13 of Chapter 1, all indebtedness, obligations and liabilities of any kind, now or hereafter existing, direct or indirect, absolute or contingent, joint or several, of the *market participant* to the *IMO* in respect of the *market participant's* participation in the *day-ahead market or real-time market*; and
- 2.1.2 all reasonable costs, charges, expenses and fees (including, without limiting the generality of the foregoing, reasonable legal fees on a solicitor and client basis) incurred by or on behalf of the *IMO*, in the enforcement of its rights under the *market rules* in respect of the participation by the *market participant* in the *real time markets or day-ahead market*.

### 3. Exercise of Rights and Remedies to Prudential Support

#### 3.1 Exercise of Rights

Upon the occurrence of an *event of default*, the *IMO* shall be entitled to exercise its rights and remedies as set out in the *market rules*, or provided for at law or in equity. Without limiting the generality of the foregoing, such rights and remedies shall, in respect of the *prudential support* provided by the *market participant*, include setting-off and applying any and all *prudential support*, held in the form of cash or treasury bills or proceeds of either cash or treasury bills against the indebtedness, obligations and liabilities of the *market participant* to the *IMO* in respect of the participation by the *market participant* in the day-ahead market or real-time markets. When the *IMO* is reasonably certain that it will be issuing a *first notice of default levy* it shall *publish* the name of the *defaulting market participant*.

#### 3.2 Remedies Cumulative

Each of the remedies available to the *IMO* under the *market rules* or at law or in equity is intended to be a separate remedy and in no way is a limitation on or substitution for any one or more of the other remedies otherwise available to the *IMO*. The rights and remedies expressly specified in the *market rules* or at law or in equity are cumulative and not exclusive. The *IMO* may in its sole discretion exercise any and all rights, powers, remedies and recourses available under the *market rules* or under any document comprising the *prudential support* provided by the *market participant* or any other remedy available to the *IMO* howsoever arising, and whether at law or in equity, and such rights, powers and remedies and recourses may be exercised concurrently or individually without the necessity of any election.

#### 3.3 Application of Prudential Support against Actual Exposure

Except as may be otherwise provided in the *market rules*, all moneys received in respect of the realization of the *prudential support* provided by the *market participant* may, notwithstanding any appropriation by the *market participant* or any other person, be appropriated to such parts of the *market participant's* or *actual exposure* or its other obligations (as applicable), any interest thereon owing pursuant to the *market rules* or the costs, charges, expenses and fees referred to in section 3.4 and in such order as the *IMO* sees fit, and the *IMO* shall have the right to change any appropriation at any time.

### 3.4 Payment of Expenses

The *market participant* agrees to pay to the *IMO* forthwith on demand all reasonable costs, charges, expenses and fees (including, without limiting the generality of the foregoing, legal fees on a solicitor and client basis) of or incurred by or on behalf of the *IMO* in the realization, recovery or enforcement of the *prudential support* provided by the *market participant* and enforcement of the rights and remedies of the *IMO* under the *market rules* or at law or in equity in respect of the participation by the *market participant* in the [day-ahead market or](#) real-time markets.

### 3.5 Deficiency

If the proceeds of the realization of any *prudential support* provided by the *market participant* are insufficient to pay all of the *actual exposure* of the *market participant* or its other obligations to the *IMO*, the *market participant* shall forthwith pay or cause to be paid to the *IMO* any such deficiency. The *IMO* shall provide a calculation of any such deficiency to the *market participant*.

## PART 5 – IMO BOARD COMMENTS

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