



Market Rule Amendment Submission

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

Email Address: Rule.Amendments@theIMO.com

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

Subject: *Market Rule Amendment Submission*

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

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

PART 1 –SUBMITTER’S INFORMATION

Please enter contact information in full

Name: IMO Staff	
(if applicable) <i>Market Participant / Metering Service Provider No.</i> ¹ : N/A	Market Participant Class: N/A
Telephone: 416-506-2801	Fax: 416-506-2847
Email Address: rule.amendments@theimo.com	

PART 2 – MARKET RULE AMENDMENT SUBMISSION INFORMATION

Subject: Prudential Requirements
Title: Form of Pledge of Cash or Cash Equivalent
Nature of request (please indicate with X): <u>X</u> Alteration__Deletion__Addition Clarification
Chapter: 2 Appendix: Sections: 5.7.5
Sub-sections proposed for amending/clarifying : 5.7.5.2

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

PART 3 – DESCRIPTION OF THE ISSUE

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

Section 5.0 of Chapter 2 of the market rules specifies the prudential requirements for market participants. These prudential requirements are provided and maintained on an on-going basis by market participants in order to protect the IMO-administered markets from payment defaults. The IMO has identified a problem with section 5.7.5.2 of Chapter 2 regarding the provision of cash or cash equivalent for prudential support purposes.

On one occasion, as a result of a decrease in its bond rating, a market participant provided a cash deposit to the IMO to meet its prudential requirements instead of the guarantee it had initially provided. The market participant provided the requested cash deposit, but refused to sign the “Pledge of Cash and Treasury Bills” form approved by the IMO Board. In the “Pledge of Cash and Treasury Bills”, the market participant formally acknowledges the IMO’s right to the market participant’s cash deposit in the event of a payment default.

There is no explicit requirement for participants to execute the Pledge form in section 5.7.5.2 of Chapter 2. Other market rules that relate to guarantees provided for prudential support purposes (chapter 2 sections 5.7.2.2. and 5.7.2.4) require market participants to provide the guarantee “in a form acceptable to the IMO”. It is this provision which obligates market participants to use the IMO Board-approved form of guarantee.

Under the current market rules, there is a possibility that the IMO’s access to a market participant’s cash prudentials in the event of that market participant defaulting could be challenged and frustrated by the market participant. Adding “in a written instrument in a form acceptable to the IMO” to subsection 5.7.5.2 of Chapter 2 of the market rules and thereby requiring the market participant to execute the Pledge will provide greater assurance that the IMO will be able to access the market participant’s cash prudentials in the event of a market participant payment default. This greater assurance will provide additional protection for the rest of the market against a possible default levy resulting from the market participant’s payment default.

PART 4 – PROPOSAL (BY SUBMITTER)

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

It is proposed to amend sub-section 5.7.5.2 of Chapter 2 by inserting the following highlighted phrase:

5.7 Obligation to Provide Prudential Support

.....

5.7.5 The minimum terms and conditions that shall be included in the *prudential support*

shall be as follows:	
5.7.5.1	<i>prudential support</i> 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	<i>prudential support</i> provided in accordance with section 5.7.2.3 shall be an obligation reflected in a written instrument <u>in a form acceptable to the IMO;</u>
5.7.5.3	<i>prudential support</i> 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 <i>IMO</i> amounts in accordance with its terms which relate to the obligations of the relevant <i>market participant</i> under the <i>market rules</i> ; and
5.7.5.4	<i>prudential support</i> provided in accordance with sections 5.7.2.1 to 5.7.2.4 shall permit drawings or claims by the <i>IMO</i> on demand to a stated certain amount.

PART 5 – FOR *IMO* USE ONLY

Technical Panel Decision on Rule Amendment Submission	
MR number: 00257-Q00	
Date submitted to Technical Panel: April 20, 2004	
Accepted by Technical Panel as: <input checked="" type="checkbox"/> General <input type="checkbox"/> Urgent Minor (please indicate with X)	Date: April 20, 2004
Criteria for acceptance: e) It identifies impediments to, or means to enable, making the rules legally enforceable. f) It identifies ambiguity or confusion within the rules that cause interpretation confusion and leads to poor coordination of implementation or to future disputes.	
Priority: Medium	
Criteria for assigning priority: a) Pervasiveness of the problem.	
Not accepted (please indicate with X):	
Clarification/interpretation required (please indicate with X):	
Technical Panel minutes reference: IMOTP 141-0	
Technical Panel Comments:	