Energy Market Company

MARKET OPERATIONS MARKET MANUAL

PRUDENTIAL REQUIREMENTS MARKET MANUAL
(Chapter 2 Market Rules)

10 September 2007

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1 Definitions

1.1 Terms in italics

All terms in italics used in this *market manual* shall have the same meanings as ascribed to them under the *market rules*.

2. Current Exposure

2.1 Current Exposure

The current exposure for a *market participant* on a given day is negative one multiplied by the aggregate of the net *settlement amounts* set out on all of the *market participant*'s *preliminary settlement statements* (or corresponding *final settlement statements* if available) for all *trading days* where the *invoices* (whether or not issued) for such *settlement statements* would not yet be due for payment on that given day.

Explanatory Note: The current exposure is used to determine a market participant's estimated net exposure, which is in turn used to determine if a market participant is required to place additional credit support. By convention, a positive current exposure of a market participant indicates that the market participant has, or may have, payment liability to the EMC, while a negative current exposure indicates that the market participant has, or may have, a right to payment from the EMC. By convention, the value of credit support held by the EMC is also reflected as a positive number. However, section 5.3.3 of Chapter 7 states that where the net settlement amount for a market participant is negative, the absolute value of the settlement amount shall be an amount payable by the market participant to the EMC; or where the net settlement amount for a market participant is positive, the settlement amount shall be an amount receivable by the market participant from the EMC.

Thus, in determining current exposure consistently with the conventions described above, the aggregate of the net settlement amounts would need to be multiplied by negative one.

2.2 Estimated net exposure

The estimated net exposure of each *market participant* on a given day represents an estimate of the *market participant*'s 20-day exposure and shall be determined in accordance with the following formula:

Estimated Net Exposure =

Current Exposure + (20-X)(Estimated Average Daily Exposure) – Prepayment Amount

where:

1. Prepayment Amount = the sum of:
   (a) the aggregate prepayments paid to the *EMC* by the *market participant* under section 5.9.2 of Chapter 7 of the *market rules*; and

(b) the aggregate prepayments paid to the *EMC* by the *market participant* under section 7.5.1.2 of Chapter 2 of the *market rules*.

2. 'X' refers to the number of *trading days* to which the *market participant's* current exposure on the given day relate.

Explanatory Note: The estimated net exposure is used by the EMC to (among other things) determine if a margin call should be issued to a market participant under section 7.4.2 of Chapter 2. By convention, a positive estimated net exposure of a market participant indicates that the market participant has, or may have, payment liability to the EMC, while a negative estimated net exposure indicates that the market participant has, or may have, a right to payment from the EMC. By convention, the value of credit support held by the EMC is also reflected as a positive number. Consistently with the above conventions, a negative estimated net exposure of a market participant would thus always be less than any positive value of the credit support of the market participant for the purposes of section 7.4.2 of Chapter 2 and thus would not require any margin calls to be issued to the market participant under that section.

3. Estimated Average Daily Exposure

3.1 Determining initial estimated average daily exposure

Until a *market participant* has a sufficiently long period of participation on the *wholesale electricity market* so that the *EMC* can determine its estimated average daily exposure in accordance with section 3.2 below, the initial estimated average daily exposure of that *market participant*, that will apply immediately when the *market participant* begins to participate in the *wholesale electricity market*, shall be based on the average daily amount that the *market participant* forecasts it will owe to the *EMC* as a result of trading in the *wholesale electricity market* over a period of 30 days.

3.2 Determining subsequent estimated average daily exposure

The estimated average daily exposure of each *market participant* on a given day shall be determined as negative one multiplied by the simple average of the net *settlement amounts* set out on the 90 most recently available *preliminary settlement statements* (or corresponding *final settlement statements* if available) of that *market participant* which have been issued on or before that given day.

Explanatory Note:
By convention, a positive estimated average daily exposure of a market participant indicates that the market participant has, or may have, payment liability to the EMC, while a negative estimated average daily exposure indicates that the market participant has, or may have, a right to payment from the EMC.

However, section 5.3.3 of Chapter 7 states that where the net settlement amount for a market participant is negative, the absolute value of the settlement amount shall be an amount payable by the market participant to the EMC; or where the net settlement amount for a market participant is positive, the settlement amount shall be an amount receivable by the market participant from the EMC.

Thus, in determining estimated average daily exposure consistently with the above convention, the average of the net settlement amounts would need to be multiplied by negative one.

For the avoidance of doubt, a negative estimated average daily exposure of a market participant would be treated as a zero value for the purposes of calculation of credit support value under section 7.3.2 of Chapter 2.

4. Format of Request for Reassessment of Estimated Net Exposure

A *market participant*, who wishes to submit a request for reassessment of its estimated net exposure under section 7.4.3, Chapter 2 of the *market rules*, shall submit a duly completed Request for Reassessment of Estimated Net Exposure in the form set out below, together with all relevant supporting materials, to the *EMC* at the following email address: settlement@emcsg.com.

Energy Market Company

Request for Reassessment of Estimated Net Exposure

Date :	
Submitted by :	
Company :	

Settlement A/C :			
Trading Date :		**Date of Margin Call Issued by the EMC:**	

Reason(s) for Reassessment

We are submitting this Request for Reassessment of Estimated Net Exposure in accordance with Section 7.4.3, Chapter 2 of the Market Rules as we have a reasonable basis to believe that there is a manifest error in the determination of our estimated net exposure ("ENE") by the EMC under section 7.4.2 and that the absence of such error:

☐ would not have required the making of any margin call by the EMC under section 7.4.2 of Chapter 2 of the Market Rules; AND/OR

☐ would have resulted in our ENE (if determined correctly) to be either greater than 110%, or lesser than 90%, of the ENE presently determined by the EMC for the purposes of section 7.4.2 of Chapter 2 of the Market Rules.

Proposed Adjustment to ENE

[*Please state the nature of the error, the proposed correction to ENE - with the mathematical working*]

Market Participant must provide supporting materials to support the abovesaid request for reassessment of ENE.

(*This Form (duly completed) must be received by the EMC no later than 12pm on the first business day following the date of the margin call issued by the EMC.)*

EMC Internal Use:

Date Receipt : ______________________ Received by : ______________________