

Settlement and Prudential Security Technical Group ::: Meeting number 1

Venue ::: Electricity Authority Meeting Room 1, Level 7, 2 Hunter Street, Wellington

Time and date ::: 0930 ::: 1 November 2012

Minutes

Present

::: Stuart Innes (Chair)

Members

::: Shane Adams (TrustPower)
::: David Chan (Contact Energy)
::: Craig Parker (Pulse Utilities)
::: Paula Checketts (NZAS)
::: Jennifer Hickson (Meridian Energy)
::: Ken Gibb (Genesis Energy)
::: Erich Livengood (NZX)
::: Steve Torrens (NZX)
::: Micky Cave (Transpower)

Apologies

::: Stephen Peterson (Simply Energy)
::: Patrick Hoerler (Mighty River Power)

In attendance

::: Tim Street (Electricity Authority, Director Wholesale)
::: Richard Harrow (Electricity Authority, Adviser Wholesale)
::: Andrew Jefferies (Jefferies Consulting) (by telephone)

Description of action

Morning coffee

Members met each other informally from 09:15.

1 Welcome

The formal part of the meeting began at 09:30.

Apologies were received from Stephen Peterson and Patrick Hoerler.

Members of the Settlement and Prudential Security Technical Group and Authority representatives each introduced themselves and provided information on their industry involvement.

2 **Interests Register**

The Interests Register and the requirements of the Crown Entities Act 2004 were discussed by Richard Harrow. It was explained that members should provide the Chair with any interests they have which they consider may cause a conflict with their role in the SPSTG. Ross Hill of the Authority's legal team will attend the next meeting to provide a more complete explanation and to answer questions members may have.

3 **Role of the SPSTG and Project Planning**

Tim Street explained the function of the SPSTG and the differences between an advisory group and a technical group. The purpose of an advisory group is to provide the Authority Board with recommendations for Code amendments and market facilitation measures, whereas a technical group is established to assist the Authority in its drafting of Code amendments.

The target is for a Code amendment consultation paper to be published by the end of March 2013. To achieve this target, a good draft will be required by mid-February. This will leave a remarkably short period for the SPSTG, and to make good use of time it is expected that members will be provided with material, and asked for opinions between meetings.

External legal services will be provided by Buddle Findlay which will involve writing the draft Code amendments. As part of the drafting process, attention will be given to how the Code meshes with other law and statute.

The Wholesale Advisory Group (WAG) provide the Authority's Board with a range of recommendations for Code amendments and market facilitation measures intended to improve the Code's management of settlement and prudential security issues in the wholesale electricity market.

4 **Introduction to the WAG recommendations on the Settlement and Prudential Security Review**

Richard Harrow presented slides that highlighted to the group the current 'state of play' with regards to settlement and prudential security, including some of the shortcomings of the current system.

The group broke for coffee at 10:30

At 10:50 Carl Hansen thanked the members of the group for their commitment and noted that he saw the review and potential code amendments as a "design upgrade" rather than regulatory intervention.

Richard Harrow then continued his presentation, going on to introduce the recommendations made by the WAG, and noted that some additional suggestions had been made by others involved in the market and that these would also be considered by the Authority and the SPSTG.

Members provided feedback on the recommendations, and these included:

- attention to be given to a range of KPI's in order to inform the merits of any particular amendments;
- dynamic credit limits were suggested, to be driven by a market participant's credit rating;
- encouragement for greater use and types of HSAs able to be applied in the assessment of wholesale market prudential security requirements;
- the use of Swift in managing LOC's by the clearing manager;
- that a position register be provided and maintained for use by members;

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- that a prudential assessment tool be provided on-line, to enable members to better understand prudential assessments made;
 - a call for more information on the probability of loss given default measure used by the WAG, and for consideration of a wider range of measures to better judge the merits of any prudential assessment regime, noting that the PLGD measure did not take into account the magnitude of any loss.

Members asked that future meetings of the SPSTG be full day events, to ensure that the March target for the publishing of the Code amendment consultation paper can be met.

5 **Next meeting**

Members agreed that the Authority would arrange dates for further meetings of the SPSTG.

The meeting closed at 11:35.
