BUDDLEFINDLAY

To
Settlement and Prudential Security
Technical Group

From
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By
Post

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Draft Part 14A: Prudential requirements

We have prepared the attached preliminary draft of a new Part 14A of the Electricity
Industry Participation Code for discussion at the Group's meeting on 21 November 2012.

The draft is very preliminary and will be subject to extensive change. We consider that the
drafting could be made even simpler and clearer, particularly in the later provisions of the
Part itself, and in Part 2 of Schedule 14A.1.

We have not considered whether changes are necessary to the forms in the remaining
Schedules. We have attempted to reflect as many of WAG's recommendations on the
prudential provisions as possible, however we will need further instructions in relation to the
recommendations relating to accepting hedge settlement agreements written over by
bilateral cap contracts and access to margin accounts as security.

The most fundamental change reflected in the drafting is the creation of a new Part relating
to prudential requirements, separate from clearing and settlement. In our view, this is
appropriate and should make the Code more user-friendly. The prudential requirements
provisions are quite discrete and do not overlap with the clearing and settlement provisions.
They also include quite extensive schedules which, in the Code as currently organised, are
separated from the prudential requirements provisions.

We look forward to the Group's comments on the draft.

Tony Dellow / Anna Parker