

To
Settlement and Prudential Security
Technical Group

From
Tony Dellow
Anna Parker

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

LAWYERS

WELLINGTON

State Insurance Tower
1 Willis Street
PO Box 2694
Wellington 6140
New Zealand
DX 5P20201
Tel 64-4-499 4242
Fax 64-4-499 4141

AUCKLAND

PricewaterhouseCoopers Tower
188 Quay Street
PO Box 1433
Auckland 1140
New Zealand
DX CP24024
Tel 64-9-358 2555
Fax 64-9-358 2055

CHRISTCHURCH

245 St Asaph Street
PO Box 322
Christchurch 8140
New Zealand
DX WP20307
Tel 64-3-379 1747
Fax 64-3-379 5659