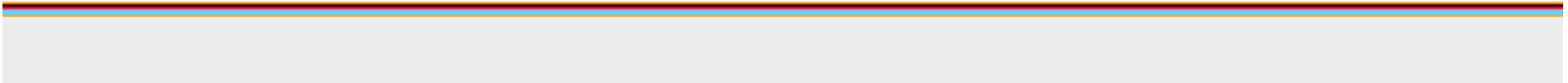


Partial Net Settlement

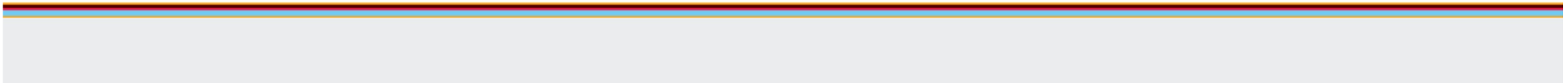
SPSTG

21 November 2012



Overview of presentation

- Gross v net settlement
- WAG recommendation
- How net settlement could work



Gross v net settlement (1)

- Gross settlement:
 - Party X can get both a payer and a payee invoice
 - Pay payer invoice at 2pm and receive payee funds at 4:30pm
- Net settlement:
 - Each party receives either a payer or payee invoice, not both
 - Payers pay 1st, then payees receive funds
 - Major advantage: easier cash management
- Net settlement may be more common overseas

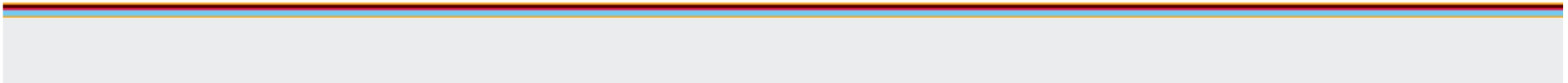
Gross v net settlement (2)

- Key difference is in who bears short term residual credit risk (STRCR)
 - STRCR is the risk after set off and immediately available prudentials
 - STRCR is not affected by gross/net settlement
 - Allocation of STRCR can be re-allocated later by re-invoicing, but this could be administratively complex
 - STRCR can be allocated *only to payees* (although flexibility within that)
 - Gross settlement: STRCR to gross payees
 - Net settlement: STRCR to net payees

WAG: Partial net settlement

- Partial net settlement is intended to:
 - Capture most of the cash management benefits of net settlement
 - While retaining the existing allocation of STRCR
- What is it?
 - Allow netting between payer and payee invoices up to the point where there is just sufficient value on payee invoices to fund the largest planned prudential risk with existing allocation of STRCR
- Introduction of FTRs is a complication

How partial net settlement could work



FTR data

List of Registered FTRs maturing in November 2012

FTR#	Holder	FTR Hedge Value	FTR Acquisition Cost	Amount	On Invoice
1	A	3,400,000	2,000,000	-1,400,000	Payee
2	A	-1,000,000	2,500,000	3,500,000	Payer
3	B	1,000,000	-2,000,000	-3,000,000	Payee
4	B	-2,000,000	0	2,000,000	Payer
5	C	0	-1,000,000	-1,000,000	Payee
6	C	2,000,000	3,000,000	1,000,000	Payer
7	E	6,000,000	2,000,000	-4,000,000	Payee
8	E	-6,000,000	-1,000,000	5,000,000	Payer
9	F	3,000,000	1,000,000	-2,000,000	Payee
10	F	2,000,000	2,000,000	0	Payer
11	J	2,600,000	2,500,000	-100,000	Payee

List of Assignments for which Assignment Difference Payments must be made in November 2012 Settlement

Assignment	Assignor	Date Assignment Occurred	Assignment difference payment (Positive amounts are payments from assignor to CM)	Maturity month for assigned FTR (Amount belongs to account for that month)	On Invoice
1	A	Sep-12	-2,000,000	Nov-12	Payee
2	B	Nov-12	2,000,000	Jun-13	Payer
3	C	Nov-12	1,000,000	Mar-13	Payer
4	C	Nov-12	1,000,000	Nov-12	Payer
5	E	Nov-12	-3,000,000	Nov-12	Payee

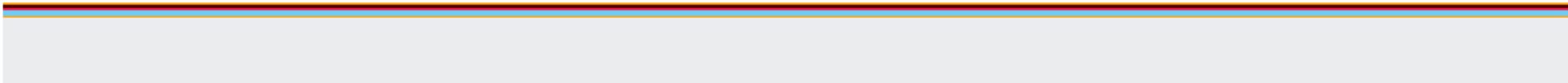
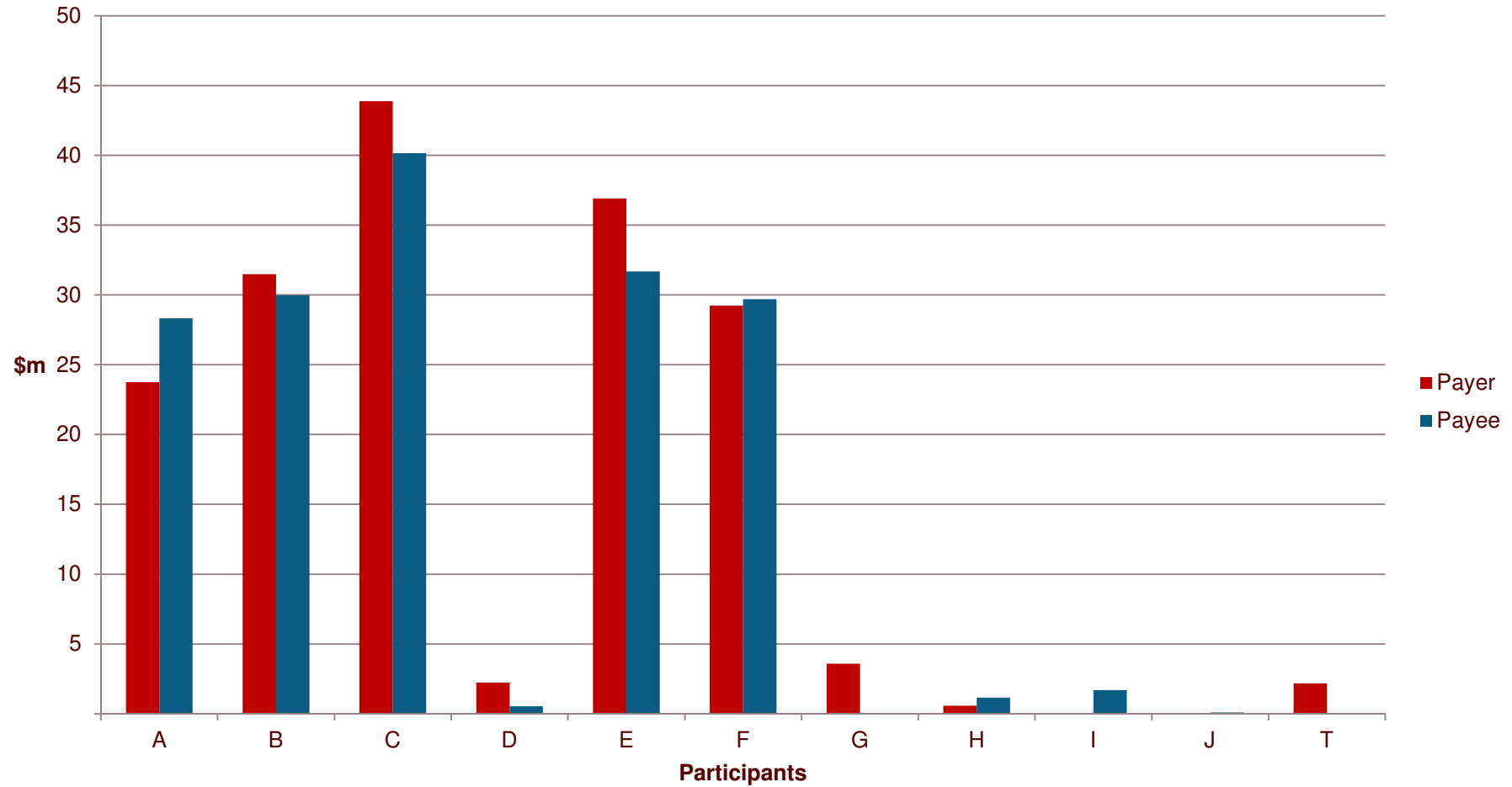
Adding FTRs to settlement data

Organisation	Type	Invoice#	Ancillary Services	MRDA	Electricity	Constrained On	AS Wash-ups	MRDA Wash-ups	Electricity Wash-ups	Constrained On Wash-ups	GST	Hedge Settlement	Wash-up Interest	FTR Settlement for this month	FTR Settlement for future month	INVOICE TOTAL
A	Payer	1												3,500,000	0	
A	Payee	2												-3,500,000	0	
B	Payer	3												2,000,000	2,000,000	
B	Payee	4												-3,000,000	0	
C	Payer	5												2,000,000	1,000,000	
C	Payee	6												-1,000,000	0	
D	Payer	7												0	0	
D	Payee	8												0	0	
E	Payer	9												5,000,000	0	
E	Payee	10												-7,000,000	0	
F	Payer	11												0	0	
F	Payee	12												-2,000,000	0	
G	Payer	13												0	0	
H	Payer	14												0	0	
H	Payee	15												0	0	
I	Payee	16												0	0	
I	Payer	17	2,000,000	0	0	0	-100,000	0	0	0	285,000	0	-200	-100,000	0	
Z1	Special	18			-7,000,000									8,050,000		
Z2	Special	19			-3,000,000				9000		-1,050,000			-448,650		
Z3	Special	20												-1,050,000		
Z4	Special	21												-4,000,000		
Z5	Special	22												1,000,000		
Z6	Special	23													-3,000,000	

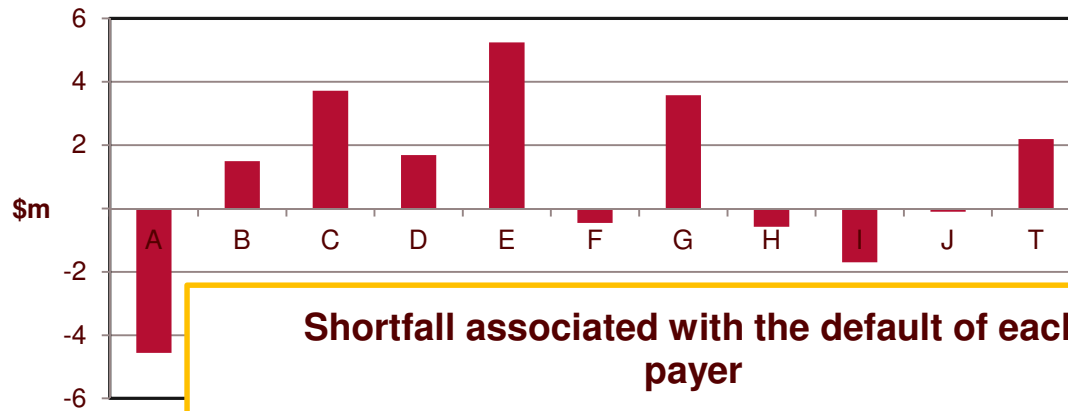
Z1 CM assigns LCE BO from General account to FTR Account Special
 Z2 CM pays LCE XBO to Grid Owner Special
 Z3 CM pays GST on LCE BO to IRD Special
 Z4 CM pays RLCE to Grid Owner Special
 Z5 Funds received from earlier collections of ADPs Special
 Z6 Funds paid for collection of ADPs relating to future months Special

FTR Settlement for this month
 FTR Settlement for future month

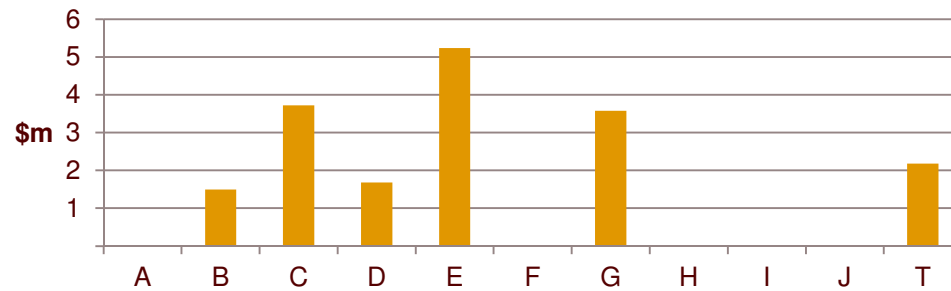
Participants' payer and payee invoice amounts



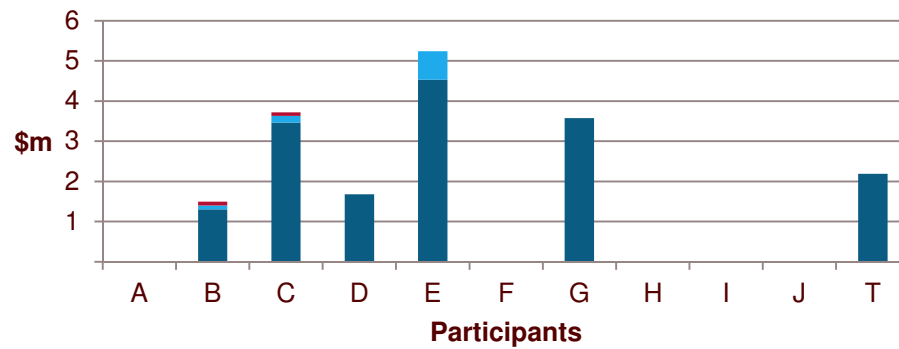
Net payer positions



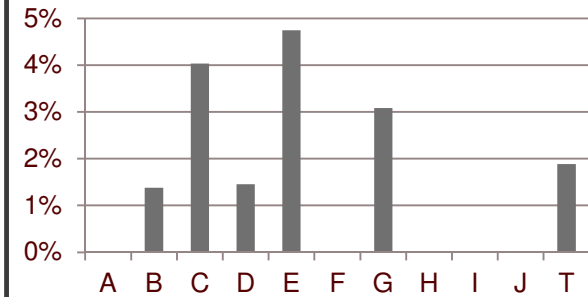
Shortfall associated with the default of each payer



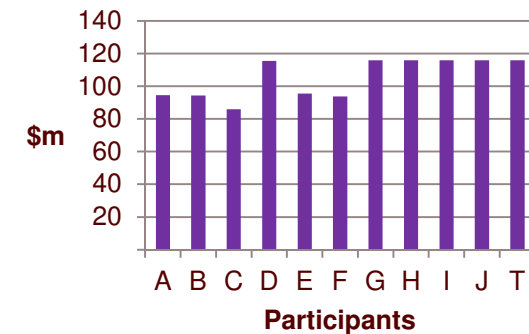
Shortfall allocated to different accounts



General account pro-rating proportion

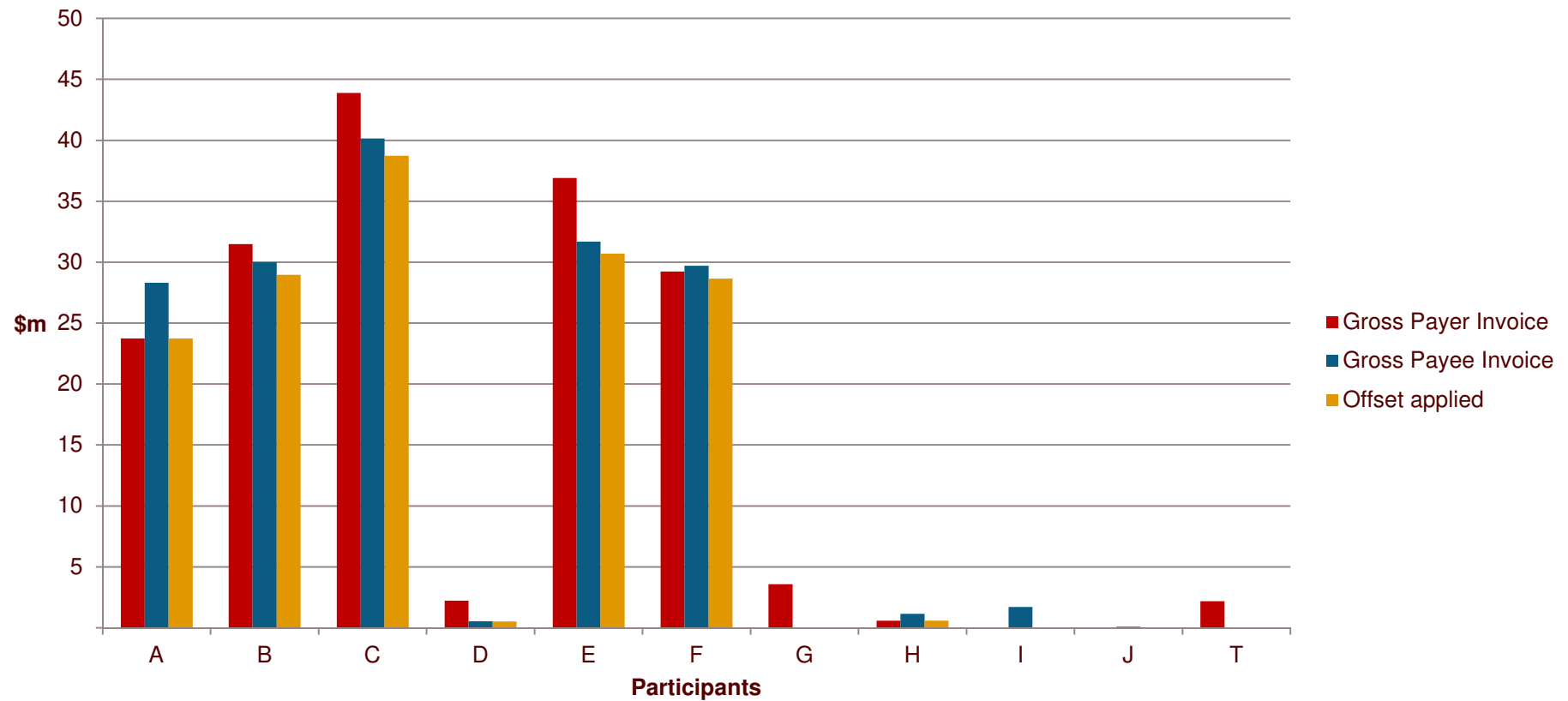


The basis across which the general account shortfall is pro-rated



- FTR account for a future month
- FTR account for Nov 2012
- General account

Offset applied to payer and payee invoices



Any questions/comments?

