

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



Settlement summary (current)

Clearing				Ancillary			Constrained		MRDA Wash-	Electricity	Constrained		Hedge	Wash-up	INVOICE
Month	Organisation	Type	Invoice#	Services	MRDA	Electricity	On	AS Wash-ups	ups	Wash-ups	On Wash-ups	GST	Settlement	Interest	TOTAL
Nov-12	Α	Payer	1	300,000	-10,000	15,500,000	100,000	500	-2	-20,000	300	2,380,620	2,000,000	-380	20,251,038
Nov-12	Α	Payee	2	-500,000	800	-20,000,000	-70,000	0	0	-50,000	0	-3,092,880	-1,200,000	-4,000	-24,916,080
Nov-12	В	Payer	3	3,000,000	-20,000	20,000,000	300,000	-90,000	0	688,000	2,000	3,582,000	0	20,000	27,482,000
Nov-12	В	Payee	4	-2,000,000	40,000	-20,000,000	-900,000	0	0	1,000	0	-3,428,850	-700,000	0	-26,987,850
Nov-12	С	Payer	5	5,000,000	-20,000	30,000,000	300,000	200,000	70	70,000	-4,000	5,331,911	0	-2,000	40,875,981
Nov-12	С	Payee	6	-4,000,000	10,000	-30,000,000	-80,000	0	0	20,000	0	-5,107,500	0	1,000	-39,156,500
Nov-12	D	Payer	7	10,000	-800	2,000,000	10,000	-1,000	5	-80,000	-700	290,626	0	-2,000	2,226,131
Nov-12	D	Payee	8	0	0	-500,000	0	0	0	0	0	-75,000	30,000	0	-545,000
Nov-12	E	Payer	9	700,000	-30,000	27,000,000	500,000	-10,000	-6	-400,000	-2,000	4,163,699	0	-8,000	31,913,693
Nov-12	E	Payee	10	-1,000,000	50,000	-20,000,000	-400,000	0	0	-50,000	0	-3,210,000	-60,000	-5,000	-24,675,000
Nov-12	F	Payer	11	400,000	-20,000	25,000,000	300,000	500	-67	-200,000	4,000	3,822,665	-70,000	-20	29,237,078
Nov-12	F	Payee	12	-2,000,000	3,000	-22,000,000	-100,000	0	0	10,000	500	-3,612,975	0	200	-27,699,275
Nov-12	G	Payer	13	70,000	-3,000	3,000,000	40,000	0	0	2,000	-100	466,335	0	200	3,575,435
Nov-12	H	Payer	14	500,000	0	0	0	0	0	0	0	75,000	0	0	575,000
Nov-12	Н	Payee	15	-1,000,000	0	0	0	0	0	0	0	-150,000	0	0	-1,150,000
Nov-12	I	Payee	16	-1,480,000	0	0	0	0	0	0	0	-222,000	0	0	-1,702,000
Nov-12	T	M	17	2,000,000	0	-10,000,000	0	-100,000	0	9,000	0	-1,213,650	0	0	-9,304,650
				0	0	0	0	0	0	0	0	0	0	0	0



FTR data

List of Re	egistered FTRS	maturing in	November	2012

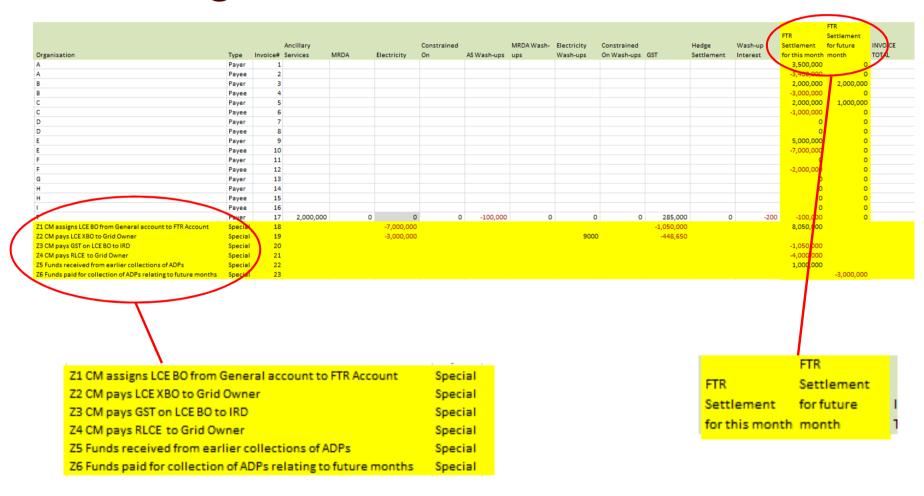
			FTR Hedge				
F	TR#	Holder	Value	FTR Acquisition Cost	Amount	On Invoice	
	1	Α	3,400,000	2,000,000	-1,400,000	Payee	
	2	Α	-1,000,000	2,500,000	3,500,000	Payer	
	3	В	1,000,000	-2,000,000	-3,000,000	Payee	
	4	В	-2,000,000	0	2,000,000	Payer	
	5	C	0	-1,000,000	-1,000,000	Payee	
	6	C	2,000,000	3,000,000	1,000,000	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 difference							
			payment (Positive	Maturity month for						
		Date	amounts are	assigned FTR (Amount						
		Assignment	payments from	belongs to account for						
Assignment	Assignment Assignor Occurred		assignor to CM)	that month)	On Invoice					
1	Α	Sep-12	-2,000,000	Nov-12	Payee					
2	В	Nov-12	2,000,000	Jun-13	Payer					
3	C	Nov-12	1,000,000	Mar-13	Payer					
4	С	Nov-12	1,000,000	Nov-12	Payer					
5	E	Nov-12	-3,000,000	Nov-12	Payee					



Adding FTRs to settlement data



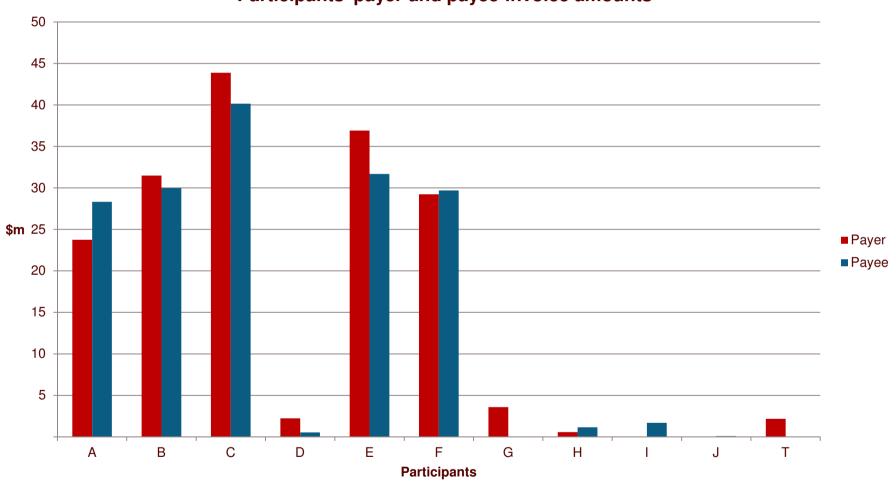


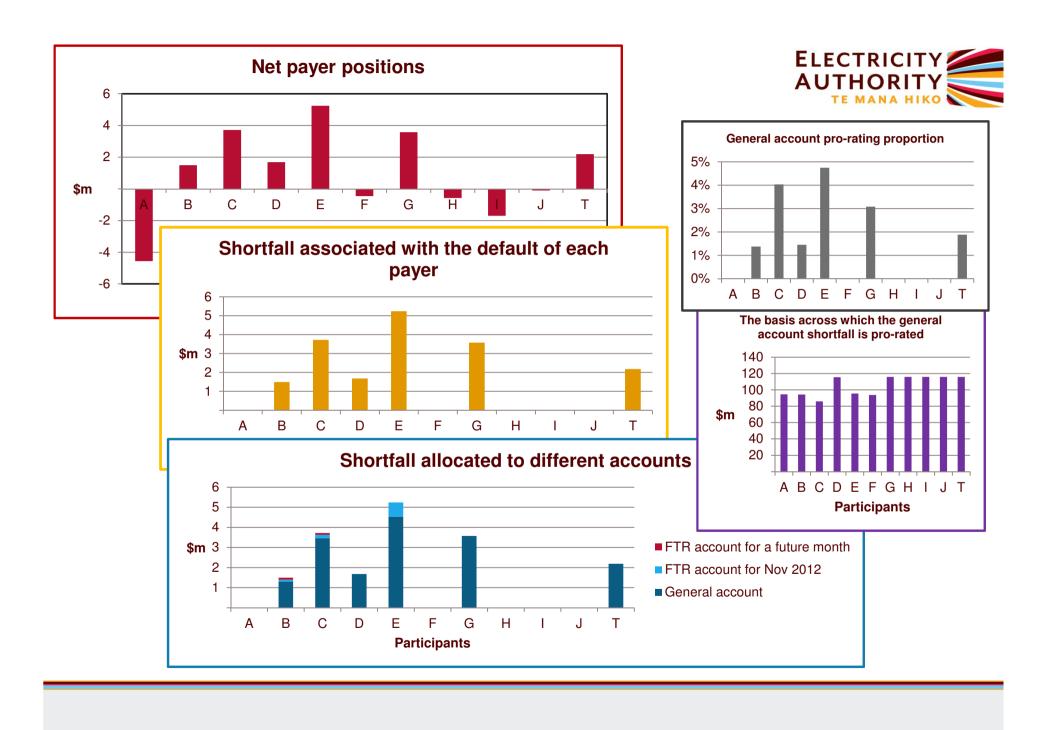
Settlement summary (after FTRs)

Nov-12																		
Name																FTR	FTR settlements	
Nov-12 A Peyer 1 300,000 -10,000 15,00,000 100,000 500 2 20,000 300 2,808 20 2,000,000 -380 3,500,000 0 2,375,10 Nov-12 B Peyer 3 5,000,000 -20,000 20,000,000 -00 0 0,000 0 0 0,000 0 0 0 0,000 0 0 0	Clearing							Constrained		MRDA	Electricity	Constrained		Hedge	Wash-up	settlements	for future	
Nov-12 A	Month	Organisation	Type	Invoice#	Ancillary Services	MRDA	Electricity	On	AS Wash-ups	Wash-ups	Wash-ups	On Wash-ups	GST	Settlement	Interest	for this period	periods	INVOICE TOTAL
Nov-12 S	Nov-12	A	Payer	1	300,000	-10,000	15,500,000	100,000	500	-2	-20,000	300	2,380,620	2,000,000	-380	3,500,000	0	23,751,038
Nov-12 B Payer 4 -2,000,000 40,000 -20,000,000 -900,000 0 0 1,000 0 -3,428,850 -700,000 0 -3,000,000 0 -2,987,8 Nov-12 C Payer 5 5,000,000 -20,000 300,000 0 0 0 0 0 0 0 0 0 0 0 0 0	Nov-12	A	Payee	2	-500,000	800	-20,000,000	-70,000	0	C	-50,000	0	-3,092,880	-1,200,000	-4,000	-3,400,000	0	-28,316,080
Nov-12 C	Nov-12	В	Payer	3	3,000,000	-20,000	20,000,000	300,000	-90,000	C	688,000	2,000	3,582,000	0	20,000	2,000,000	2,000,000	31,482,000
Nov-12 C Payer 6 -4,000,000 10,000 -30,000,000 -80,000 0 0 -5,107,500 0 1,000 -1,000,000 0 -40,156,5 Nov-12 D Payer 7 10,000 -50 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	Nov-12	В	Payee	4	-2,000,000	40,000	-20,000,000	-900,000	0	C	1,000	0	-3,428,850	-700,000	0	-3,000,000	0	-29,987,850
Nov-12 D Payer 7 10,000 -800 2,000,000 10,000 -1,000 5 80,000 -700 290,626 0 -2,000 0 0 2,226,1 Nov-12 E Payer 9 700,000 -30,000 270,000 50,000 -10,000 -6 400,000 -2,000 4,636,99 0 -8,000 5,000,000 0 -6,613,6 Nov-12 E Payer 10 -1,000,000 50,000 -20,000,000 -10,000 -6 400,000 -2,000 4,636,99 0 -8,000 5,000,000 0 -6,000 -3,613,6 Nov-12 F Payer 11 400,000 -20,000 0 -20,000,000 -400,000 0 -6 -50,000 0 -3,210,000 -60,000 -5,000 -7,000,000 0 -3,613,6 Nov-12 F Payer 11 400,000 -20,000 0 -20,000,000 -400,000 0 -6 -70,000 0 -6,000 -5,000 -7,000,000 0 -7,	Nov-12	С	Payer	5	5,000,000	-20,000	30,000,000	300,000	200,000	70	70,000	-4,000	5,331,911	0	-2,000	2,000,000	1,000,000	43,875,981
Nov-12 D Payee 8 0 0 0 -550,000 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	Nov-12	С	Payee	6	-4,000,000	10,000	-30,000,000	-80,000	0	C	20,000	0	-5,107,500	0	1,000	-1,000,000	0	-40,156,500
Nov-12 E Payer 9 700,000 -30,000 27,000,000 500,000 -10,000 -2,000 4,163,699 0 -8,000 5,000,000 0 36,913,6 Nov-12 F Payer 10 -1,000,000 50,000 -20,000,000 -400,000 0 0 -50,000 4,000 500 -67,000 4,000 500 -67,000 -20,000,00	Nov-12	D	Payer	7	10,000	-800	2,000,000	10,000	-1,000	9	-80,000	-700	290,626	0	-2,000	0	0	2,226,131
Nov-12 E Payer 10 -1,000,000 50,000 -20,000 -400,000 0 0 -5,000 0 -3,210,000 -60,000 5,000 7,000,000 0 -3,675,00	Nov-12	D	Payee	8	0	0	-500,000	0	0	C	0	0	-75,000	30,000	0	0	0	-545,000
Nov-12 F Payer 11 400,000 -20,000 25,000,000 500 -67 -200,000 4,000 3,822,665 -70,000 -20 0 0 29,237,0 Nov-12 F Payer 12 -20,000,000 3,000 -20,000,000 0 0 10,000 500 -3,612,975 0 200 -2,000,000 0 -29,699,2 Nov-12 G Payer 13 70,000 -3,000 3,000,000 40,000 0 0 0 2,000 -100 466,335 0 200 0 0 3,575,4 Nov-12 H Payer 14 500,000 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	Nov-12	E	Payer	9	700,000	-30,000	27,000,000	500,000	-10,000	-6	-400,000	-2,000	4,163,699	0	-8,000	5,000,000	0	36,913,693
Nov-12 F Payee 12 -2,000,000	Nov-12	E	Payee	10	-1,000,000	50,000	-20,000,000	-400,000	0	C	-50,000	0	-3,210,000	-60,000	-5,000	-7,000,000	0	-31,675,000
Nov-12 G Payer 13 70,000 -3,000 3,000,000 40,000 0 0 2,000 -100 466,335 0 200 0 0 3,575,4 Nov-12 H Payer 14 500,000 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	Nov-12	F	Payer	11	400,000	-20,000	25,000,000	300,000	500	-67	-200,000	4,000	3,822,665	-70,000	-20	0	0	29,237,078
Nov-12 H Payer 14 500,000 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	Nov-12	F	Payee	12	-2,000,000	3,000	-22,000,000	-100,000	0	C	10,000	500	-3,612,975	0	200	-2,000,000	0	-29,699,275
Nov-12 H	Nov-12	G	Payer	13	70,000	-3,000	3,000,000	40,000	0	C	2,000	-100	466,335	0	200	0	0	3,575,435
Nov-12 I	Nov-12	Н	Payer	14	500,000	0	0	0	0	C	0	0	75,000	0	0	0	0	575,000
Nov-12 J Payer 17 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	Nov-12	Н	Payee	15	-1,000,000	0	0	0	0	C	0	0	-150,000	0	0	0	0	-1,150,000
Nov-12 T Massigns LCE BO from General account Special 19 0 0 0 -100,000 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	Nov-12	I .	Payee	16	-1,480,000	0	0	0	0	C	0	0	-222,000	0	0	0	0	-1,702,000
Nov-12	Nov-12	J	Payee	17	0	0	0	0	0	C	0	0	0	0	0	-100,000	0	-100,000
to FTR Account Nov-12 22 CM pays LCE XBO to Grid Owner Special 20 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	Nov-12	T	Payer	18	2,000,000	0	0	0	-100,000	C	0	0	285,000	0	-200	0	0	2,184,800
Nov-12			Special	19	0	0	7 000 000						4 050 000			0.050.000		0
Nov-12			Special	20	0	0												_
Nov-12 Z4 CM pays RLCE to Grid Owner Special 22 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0									_					_			_	
Nov-12									_	_	-						_	
of ADPs 0 0 0 0 0 0 0 0 0 1,000,000 0 1,000,000			-		-	0			0		,		0		0	-4,000,000	0	-4,000,000
relating to future months 0 0 0 0 0 0 0 0 0 0 0 -3,000,000 -3,000,00	1404-12		Special	23	0	0	0	0	0	c	0	0	0	0	0	1,000,000	0	1,000,000
	Nov-12	Z6 Funds paid for collection of ADPs	Special	24	0	0												
		relating to future months					0	0	0	C	0	0	0	0	0	0	-3,000,000	-3,000,000
					0	0	0	0	0	C	0	0	0	0	0	0	0	0



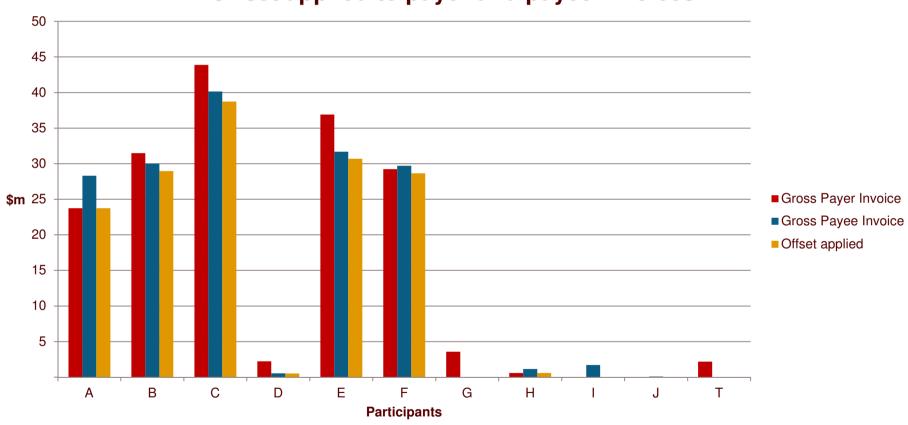
Participants' payer and payee invoice amounts







Offset applied to payer and payee invoices





Any questions/comments?