

Settlement and Prudential Security Technical Group ::: Meeting number 3

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

Time and date ::: 0930 ::: 11 December 2012

Minutes

Present

::: Stuart Innes (Chair)

Members

::: Shane Adams (TrustPower)

::: David Chan (Contact Energy)

::: Micky Cave (Transpower)

::: Lawrence Cogan (Genesis Energy - alternate for Ken Gibb)

::: Jennifer Hickson (Meridian Energy)

::: Erich Livengood (NZX)

::: Craig Parker (Pulse Utilities)

::: Stephen Peterson (Simply Energy)

::: Tim Thompson (Mighty River Power – alternate for Patrick Hoerler)

::: Steve Torrens (NZX)

Apologies

::: Paula Checketts (NZAS)

::: Ken Gibb (Genesis Energy)

::: Patrick Hoerler (Mighty River Power)

In attendance

::: Tim Street (Electricity Authority, Director Wholesale)

::: Barbara Sole (Electricity Authority, Senior Legal Counsel)

::: Richard Harrow (Electricity Authority, Adviser Wholesale)

::: Andrew Jefferies (Jefferies Consulting) (by telephone)

::: Tony Dellow (Buddle Findlay)

::: Anna Parker (Buddle Findlay)

Description of action

Morning coffee

Members met each other informally from 09:15.

1 Welcome

The formal part of the meeting began at 09:35.

Apologies were received from Patrick Hoerler, Paula Checketts and Ken Gibb.

Those present briefly introduced themselves as some were attending an SPSTG meeting for the first time.

2 Interest Register (Item 1)

The Interests Register was reviewed with no changes required by members.

3 Minutes of the previous meeting (Item 1)

The draft minutes of the SPSTG's previous meeting were adopted by the meeting.

4 Correspondence

No correspondence was received.

5 Project Update

The current state of various aspects of the project were updated for the group by those most involved with them, and a more thorough discussion on them was signalled for later in the meeting.

6 Weekly Settlement Presentation

A presentation on Weekly Settlement was made by Andrew Jefferies. The Group was broadly in favour of retaining monthly settlement on the 20th of the month. The reasons for this approach were (a) the cost of implementing weekly settlement, and (b) the idea that pre-payment could achieve similar outcomes to the outcomes that weekly settlement was designed to achieve.

The Group suggested that pre-payment could have the advantages of (1) reducing the risk of claw back of settlement payments, and (2) allowing parties who would otherwise post cash as prudential security to avoid having to post prudential cash, and therefore (assuming that the clearing manager will register a security interest over that cash) to avoid the necessity of negotiating with their bank to give the clearing manager a first priority registered security interest over the prudential cash in the prudential trust account.

7 Update on Calculating Required Prudential Level

Andrew Jefferies provided an update on the work done in this area since the previous meeting of the SPSTG.

Regarding the issue of static, dynamic prices for prudential calculations, the group could not reach consensus with some members concerned about the lack of cover in dry winters caused by a static approach, and others concerned that dynamic margins may in fact increase the risk of default of some parties.

There was a discussion about whether different options could be specified in the consultation paper. Some members considered that the wholesale advisory group (the WAG) had already consulted on that issue, so the Authority's upcoming consultation paper should not re-cover issues that have already been thoroughly considered. Others considered that the issue of whether the exit period prudential margin was 'static' or 'dynamic' was a critical issue, and that putting forward a dynamic approach as an alternative would assist submitters. Some members questioned whether there is a defined process for making this decision (whether to present alternatives).

The Group discussed whether outstandings should be calculated for prudential purposes for periods in which

final prices had not yet been published. The Group considered that interim prices, if published, could be used. The Group discussed the possibility of using 5 minute prices, possibly with a cap to remove any effects of infeasibilities, in the event that interim prices were not available. The Group was generally 'relaxed' about using 5 minute prices for that purpose. There were mixed views about whether a price cap should be applied in the prudential calculation (in the absence of final prices) and, if so, what the cap should be.

The Group noted the importance of increasing the types of hedging arrangements that can be recognised by an HSA.

The Group noted that the required prudential level for a payer could be lower if they could commit to exiting the market more quickly. The Authority would have to be convinced of the feasibility of exiting the payer within that shorter timeframe.

The Group held different views about whether the exit period used for calculating the prudential requirement should recognise the possibility that some customers of a retailer may switch away from the defaulting retailer before the Authority carried out mandatory switching.

The Authority undertook to seek legal advice on the level of risk that exit period revenue from generation and HSAs would not be available to the clearing manager to set off against a payer's purchases.

8 **Update on Partial Net Settlement**

Andrew Jefferies introduced a presentation and led a discussion on the work done in this area since the previous meeting. Erich Livengood and Steve Torrens provided further detail and comment on the current system and how a proposed system might work. The group broadly agreed that Partial Net Settlement seemed like an appropriate approach, although this is somewhat dependent on the 'package' as a whole.

9 **Next meeting**

Members agreed that the next meeting of the SPSTG would be held on 16 January 2013.

The meeting closed at 14:55.
