



meridian

31 October 2017

Submissions
Electricity Authority
Level 7, ASB Bank Tower
2 Hunter Street
Wellington

Issues and Options Paper – Treatment of prudential offsets in the wholesale market

Meridian appreciates the opportunity to provide feedback on the Authority's paper 'Treatment of prudential offsets in the wholesale market.'

Meridian agrees with the Authority's conclusion that further developments appear to have limited benefits and that those developments would come at high cost and risk and that, for these reasons, there is no compelling case that the long-term benefit of consumers would be advanced by better integrating clearing and settlement requirements for exchange-traded products and wholesale market transactions. We agree the Authority should not pursue such developments at this time. In the light of this our responses to the various consultation questions, as set out in the attached appendix, are brief.

Please contact me if you have any questions.

Yours faithfully

Jason Woolley
Regulatory Affairs Manager
Meridian Energy

FORMAT FOR SUBMISSIONS

Question	Comment
Q1. Do you agree with our decision to investigate ways to make it easier to meet separate clearing and settlement requirements with ASX and the clearing manager, as a potential source of efficiency? Are there other areas we should focus on?	Meridian agrees the Authority needs to pursue potential sources of efficiency in the market.
Q2. Is there good reason why the Authority should revisit any of the decisions that arose from its 2011-13 Settlement and Prudential Security Review?	Meridian remains of the view that there may be significant benefits from moving to weekly settlement. We also consider that the costs are likely to have reduced since 2013 and will reduce further in future. We suggest there would be merit in the Authority reassessing in a 2017 context the costs and benefits of moving to weekly settlement.
Q3. With consideration of the discussion in subsequent sections, do you have any comments on the Authority's preliminary evaluation?	We agree with the Authority's preliminary evaluation.
Q4. What savings do you estimate are available to you from each of the existing approaches in Table 1?	Meridian considers there are limited savings available from the approaches in Table 1, namely: <ul style="list-style-type: none"> - Using positive variation margins from ASX contracts to meet prudential security obligations with the clearing manager. - Having intermediaries repackage ASX contracts into hedge settlement agreements. - Flexible bank guarantees (based on a fixed megawatt amount and implemented as a \$0/MWh hedge settlement agreement).
Q5. What do you see as the greatest barriers to using each of the existing approaches in Table 1 to minimise your overall cash and collateral requirements? What features must any arrangement have, or not have, for it be of value to participants in meeting separate clearing and settlement requirements?	Meridian agrees with the Authority's assessment in Table 1 of the 'practical limitations' associated with each approach.
Q6. How could these existing arrangements be improved?	Meridian considers there are no reasonably practical means of improving the existing arrangements.
Q7. What are your views on our characterisation of the potential efficiencies and resulting benefits from better integrating clearing and settlement for exchange-traded products and other wholesale market transactions, as summarised	Meridian broadly agrees with the Authority's summary.

in Table 2?	
Q8. How significant would the flow-on benefits of more integrated clearing and settlement arrangements be, in terms of retail competition and hedge market development? What could more integrated clearing and settlement arrangements mean for your business?	Meridian does not consider the benefits would be significant.
Q9. Do you have any comments on the options we have identified, including the feasibility of those options? Are there other options that we haven't identified?	Meridian considers the Authority has identified most if not all of the options. We do not consider any of the options to be reasonably feasible.
Q10. Do you agree that supporting the existing mechanisms may be the most practical way to help participants meet separate clearing and settlement requirements? What support could we most usefully provide?	Yes. Meridian does not have strong views on what support the Authority could most usefully provide.
Q11. What, if any, are the barriers to more proactive management of collateral? How would a reduction in your prudential security requirements affect your costs of providing collateral to the clearing manager?	Meridian does not consider there are any material barriers. Reduction in prudential security requirements would inevitably reduce to some extent the costs of providing collateral. However Meridian supports the current arrangements and considers they strike the appropriate balance. We would not support a further reduction in prudential security requirements.
Q12. Are there any drivers of over-collateralisation that we should seek to address? Do you agree with the issues the Authority has identified?	Meridian does not consider that the Authority needs to take action. We agree with the issues the Authority has identified.