

Settlement and Prudential – Code Amendments and Changes to Levy Regulations

Consultation Paper

Submissions close: 5pm on Tuesday, 9 September 2014

23 July 2014

Executive summary

The *Electricity Industry Participation (Settlement and Prudential Security) Code Amendment 2013* (Code Amendment) comes into force on 24 March 2015. It establishes new arrangements for settlement and prudential security in the wholesale electricity market by amending the *Electricity Industry Participation Code 2010* (Code).

The Electricity Authority (Authority) proposes a number of amendments (Proposed Amendments) to the Code Amendment. The Proposed Amendments would make a number of corrections, clarifications and improvements to the Code Amendment.

The Proposed Amendments:

- 1) improve commencement and transitional provisions
 - certain administrative processes need to take effect before 24 March 2015 (commencement date)
 - any defaults that continue past the commencement date must be managed
- 2) improve and correct settlement provisions
 - a notice period is required for the clearing manager to action certain instructions required under the Code Amendment
 - the measurement units in hedge settlement agreement forms need to be standardised
 - definitions in three formulas relating to settlement shortfalls need to be corrected
- 3) refine and clarify prudential security provisions
 - the quarterly “adder” used to determine a participant’s exit period prudential requirement needs to be less volatile and more in line with the process envisaged during the development of the Code Amendment
 - the treatment of prepayments when calculating minimum security needs to be clarified
 - the treatment of wash-ups when calculating minimum security needs to be clarified
- 4) preserve the effect of previous Code amendments (so they are not overwritten by the Code Amendment)

The Authority is also notifying stakeholders that it intends to ask the Ministry of Business, Innovation and Employment (the Ministry) to seek to progress an amendment to the *Electricity Industry (Levy of Industry Participants) Regulations 2010* (Levy Regulations).

The need for the amendment arises because the Code Amendment will introduce a new numbered part (part 14A) into the Code. The Authority's costs relating to prudential security are currently recovered through the levy as "market operations" costs. The definition of "market operations" in regulation 4 of the Levy Regulations is not robust to the introduction of a new part number (part 14A).

The Authority will seek to have this fixed so that the Authority's costs relating to prudential security can continue to be recovered as they are now. The Authority regards this as a purely administrative change.

Contents

Executive summary	A
1. What you need to know to make a submission	1
1.1 What this consultation paper is about	1
1.2 How to make a submission	1
1.3 Deadline for receiving a submission	2
2. Issue the Authority would like to address	3
2.1 The existing arrangements	3
2.2 Issues with the existing arrangements	3
2.3 Why the Authority is addressing these issues now	4
3. Proposed Amendments	5
3.1 Introduction	5
3.2 Certain administrative processes need to be authorised before 24 March 2015	6
3.3 Any defaults that continue past the commencement date must be managed	8
3.4 A notice period is required for the clearing manager to action certain instructions	10
3.5 Measurement units should be standardised in hedge settlement agreement forms	13
3.6 Definition of XTOT in the formula for adjusting settlement of FTRs	19
3.7 Definition of P in the formula for scaling amounts payable	21
3.8 Change to formula for dealing with negative amounts payable when managing a default	23
3.9 Exit period adder should apply to a calendar year	25
3.10 Treatment of prepayments when calculating required security	27
3.11 Clarification of how wash-ups are treated when calculating outstandings	29
3.12 Preserve amendment to timeframes for advising retained loss and constraint excess	31
3.13 Preserve amendment to list of events of default	33
3.14 Preserve amendment to the term 'model data'	36
4. Regulatory Statement for the proposed amendment	38
4.1 Objectives of the proposed amendment	38
4.2 The proposed amendment	38
4.3 The proposed amendment's benefits are expected to outweigh the costs	39
4.4 The Authority has not identified any other means for addressing the objectives	39
4.5 The proposed amendment complies with section 32(1) of the Act	39

4.6	The Authority has given regard to the Code amendment principles	41
5.	Intended changes to Levy Regulations	42
5.1	Summary	42
5.2	Existing arrangements	42
5.3	Issues with existing arrangements	43
5.4	Intended administrative change to the Levy Regulations	43
	Glossary of abbreviations and terms	45
Appendix A	Proposed amendment	47
Appendix B	Format for submissions	59

1. What you need to know to make a submission

1.1 What this consultation paper is about

- 1.1.1 The Authority is proposing an amendment (Proposed Amendment) to the *Electricity Industry Participation (Settlement and Prudential Security) Code Amendment 2013* (Code Amendment), which will come into effect on 24 March 2015, to allow the new settlement and prudential security arrangements to operate effectively. The Proposed Amendment is attached as Appendix A.
- 1.1.2 The Authority is also proposing that the Ministry of Business, Innovation and Employment (MBIE) complete an amendment to the *Electricity Industry (Levy of Industry Participants) Regulations 2010* (Levy Regulations) to enable the Authority's costs relating to prudential security to continue to be recovered as they are now.
- 1.1.3 The purpose of this paper is to consult with participants and persons that the Authority thinks are representative of the interests of those likely to be affected by the Proposed Amendment and any related changes to the Levy Regulations.
- 1.1.4 Section 39(1)(c) of the Act requires the Authority to consult on any proposed amendment to the Code and corresponding regulatory statement. Section 39(2) provides that the regulatory statement must include a statement of the objectives of the proposed amendment, an evaluation of the costs and benefits of the proposed amendment, and an evaluation of alternative means of achieving the objectives of the proposed amendment. The regulatory statement is set out in chapter 3 of this paper.
- 1.1.5 The Authority invites you to make a submission on the regulatory statement and the Proposed Amendment.

1.2 How to make a submission

- 1.2.1 Your submission is likely to be made available to the general public on the Authority's website. If necessary, please indicate any documents attached in support of your submission and any information that is provided to the Authority on a confidential basis. However, you should be aware that all information provided to the Authority is subject to the Official Information Act 1982.
- 1.2.2 The Authority's preference is to receive submissions in electronic format (Microsoft Word) in the format shown in Appendix A. Submissions in electronic form should be emailed to submissions@ea.govt.nz with

“Consultation Paper – Settlement and Prudentials – Code Amendments and Changes to Levy Regulations” in the subject line.

- 1.2.3 Do not send hard copies of submissions to the Authority unless it is not possible to do so electronically. If you cannot or do not wish to send your submission electronically, you should post one hard copy of the submission to either of the addresses provided below or you can fax it to 04 460 8879. You can call 04 460 8860 if you have any questions.

Postal address

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

Physical address

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

1.3 Deadline for receiving a submission

- 1.3.1 Submissions should be received by **5pm on Tuesday 9 September 2014**. Please note that late submissions are unlikely to be considered.
- 1.3.2 The Authority will acknowledge receipt of all submissions electronically. Please contact the Submissions' Administrator if you do not receive electronic acknowledgement of your submission within two business days.

2. Issue the Authority would like to address

2.1 The existing arrangements

- 2.1.1 The *Electricity Industry Participation (Settlement and Prudential Security) Code Amendment 2013* (Code Amendment) comes into force on 24 March 2015. It establishes new arrangements for settlement and prudential security in the wholesale electricity market by amending the Electricity Industry Participation Code 2010 (Code).
- 2.1.2 The Authority's costs, including its costs relating to settlement and prudential security arrangements, are recovered through a levy. The levy is established by the *Electricity Industry (Levy of Industry Participants) Regulations 2010* (Levy Regulations).

2.2 Issues with the existing arrangements

- 2.2.1 The Authority has identified a number of separate issues with the Code Amendment and the Levy Regulations.
- 2.2.2 The issues relating to the Code Amendment are discussed in more detail in chapter 3. A regulatory statement covering the whole Code Amendment is set out in chapter 4.
- 2.2.3 The issues addressed in the Code Amendment relate to:
 - (a) commencement and transitional provisions:
 - (i) certain administrative processes need to take effect before the commencement date
 - (ii) any defaults that continue past the commencement date must be managed
 - (b) improvements and corrections to settlement provisions:
 - (i) a notice period is required for the clearing manager to action certain instructions required under the Code Amendment
 - (ii) the measurement units in HSA forms need to be standardised
 - (iii) definitions in three formulas relating to managing settlement shortfalls need to be corrected
 - (c) refinements and clarifications to prudential security provisions:
 - (i) the quarterly "adder" used to determine a participant's exit period prudential requirement needs to be less volatile and more in line with the process envisaged during the development of the Code Amendment

- (ii) the treatment of prepayments when calculating minimum security needs to be clarified
- (iii) the treatment of wash-ups when calculating minimum security needs to be clarified
- (d) preserving the effect of previous Code amendments (so they are not overwritten by the Code amendment).

2.2.4 The issues with the Levy Regulations are discussed in chapter 5. They relate to the recovery of the Authority's costs under the new part 14A (prudential security arrangements). They arise as an administrative effect of the introduction of a new part number (14A).

2.3 Why the Authority is addressing these issues now

2.3.1 The Authority is addressing these issues now so the Proposed Amendments and changes to the Levy Regulations can be in place before the Code Amendment comes into force on 24 March 2015.

Question 1 Do you agree that the proposed amendments should be put in place before 24 March 2015?

3. Proposed Amendments

3.1 Introduction

3.1.1 This chapter describes each of the proposed amendments to the Code Amendment and provides reasons for each such amendment.

3.1.2 Material is set out in the following order:

Commencement and transitional provisions

Section 3.2 Certain administrative processes need to take effect before 24 March 2015

Section 3.3 Defaults that continue past the commencement date must be managed

Settlement provisions

Section 3.4 A notice period is required for the clearing manager to action certain instructions

Section 3.5 Measurement units should be standardised in hedge settlement agreement forms

Correct definitions in formulas for allocation of settlement shortfall

Section 3.6 Definition of X_{TOT} in the formula for adjusting settlement of FTRs

Section 3.7 Definition of P in the formula for scaling amounts payable

Section 3.8 Management of negative amounts payable

Prudential security provisions

Section 3.9 Exit period adder should apply to a calendar year

Section 3.10 Clarify the treatment of prepayments when calculating minimum security

Section 3.11 Clarify treatment of wash-ups when calculating minimum security

Preserving effect of previous Code amendments*

Section 3.12 Preserve amendment to timeframes for advising retained loss and constraint excess

Section 3.13 Preserve amendment to list of events of default

Section 3.14 Preserve amendment to the term 'model data'

* = When two separate Code amendments are each made prior to the other coming into force, and where they amend the same provisions in the Code, the amendment that comes into force last may overwrite the changes made by the first. The last amendment to come into force may need to be amended to preserve the effect of the first.

3.1.3 A regulatory statement covering all the proposed amendments to the Code Amendment is set out in chapter 4.

3.2 Certain administrative processes need to be authorised before 24 March 2015

Summary

3.2.1 The Authority proposes to amend clause 2 of the Code Amendment to authorise certain processes to be carried out prior to 24 March 2015 in order to prepare for the commencement of the new settlement and prudential security regime.

Existing arrangements

3.2.2 The Code Amendment will implement a new regime for settlement and prudential security. Clause 2 of the Code Amendment provides

2 Commencement

 This amendment comes into force on 24 March 2015.

3.2.3 The following processes that are part of the new regime for settlement and prudential security need to be carried out before 24 March 2015, and should be authorised if carried out before that date:

- (a) the processes for lodging a hedge settlement agreement, set out in clause 14.8
- (b) the processes set out in Schedule 14.2, and in the clauses specified below, for formulating, publishing, consulting on and approving methodologies to determine:
 - (i) settlement retention amounts (clause 14.21)

- (ii) forward estimates for minimum security amounts (clause 14A.5)
 - (iii) the general prudential requirement (clause 8 of Schedule 14A.1)
 - (iv) the minimum security required in respect of FTRs (clause 12 of Schedule 14A.1).
- (c) the processes for determining, two months in advance, prices and amounts used to calculate exit period prudential margins, in particular for the 2015 calendar year. The relevant provisions requiring the clearing manager to determine these amounts are set out in clauses 10(4) and 10(6) of Schedule 14A.1.

Issues with existing arrangements

- 3.2.4 From the commencement date, the clearing manager will be expected to implement a number of methodologies that have been approved by the Authority. However, the process for approval itself doesn't come into force until the commencement date. Consequently, it will not be possible to formally approve the methodologies prior to commencement date.
- 3.2.5 There are also other processes that the clearing manager or participants may wish to carry out before the commencement date so they can come into effect on the commencement date. However, the Code Amendment does not provide formal powers for those processes to be carried out prior to the commencement date.

Proposed Amendment

- 3.2.6 The Authority proposes to amend clause 2 of the Code Amendment as follows:

2 Commencement

- (1) This amendment comes into force on 24 March 2015.
- (2) Despite subclause (1), any person may take any action or perform any obligation under any of the following before 24 March 2015, as if the new Part 14 and Part 14A in Schedule 1 of this amendment were in force:
- (a) clause 14.8:
 - (b) clause 14.21:
 - (c) Schedule 14.2:
 - (d) Schedule 14.4:
 - (e) clause 14A.5(2) and (3):
 - (f) Schedule 14A.1, clause 8:
 - (g) Schedule 14A.1, clause 10(4) and (6), as amended by clause [17] of the Electricity Industry Participation

(Settlement and Prudential Security) Code Amendment
2013, Amendment 2014:

(h) Schedule 14A.1, clause 12.

(3) Nothing that results from any action taken or obligation
performed in reliance on subclause (2) takes effect before 24
March 2015.

- 3.2.7 This amendment effectively brings forward the implementation date for the provisions that need to begin sooner than 24 March 2015. It authorises actions to be taken or obligations to be performed under the clauses listed.

Question 2 Do you agree that there is an issue with empowering certain administrative processes to be carried out before 24 March 2015? Is the Authority's proposed amendment to clause 2 of the Code Amendment appropriate?

3.3 Any defaults that continue past the commencement date must be managed

Summary

- 3.3.1 The Authority proposes to amend clause 28 of the Code Amendment to provide that:
- (a) where a settlement shortfall occurs prior to 24 March 2015, and where further funds are obtained from the defaulting participant after 24 March 2015, those additional funds should be allocated as if the Code Amendment had not been made
 - (b) where a default occurred prior to 24 March 2015 and is continuing at that date, the participant's post-default exit period runs from the date on which the default was notified.

Existing arrangements

- 3.3.2 If a settlement default leads to a settlement shortfall prior to 24 March 2015, the allocation of that shortfall will be determined in accordance with the existing Code ("old regime"). If further funds are received from the defaulting participant prior to 24 March 2015, those additional funds will also be allocated in accordance with the old regime.
- 3.3.3 The Code Amendment ("new regime") comes into force on 24 March 2015. The formulae for allocating a shortfall, or allocating additional funds received from a defaulting participant, are slightly different under the new regime compared with the old regime.
- 3.3.4 The new regime provides for certain actions to be taken by the clearing manager or the Authority at the expiry of a participant's post-default exit

period, which for a purchaser is typically 18 trading days after an event of default. For example, at the end of the post-default exit period, the clearing manager must cancel the defaulting participant's hedge settlement agreements (HSAs).

Issues with existing arrangements

- 3.3.5 If an event of default causes a settlement shortfall prior to 24 March 2015, and the defaulting participant provides further funds after 24 March 2015, it is not clear which regime would be used to allocate those further funds.
- 3.3.6 Transitional provisions were inserted by clause 28 of the Code Amendment (which inserts clauses 17.210A to 17.210O into the Code). If an event of default occurs prior to 24 March 2015 and is continuing at that date, the transitional provisions do not provide a way to determine which day would mark the start of the post-default exit period. Consequently it is not clear when, for example, the clearing manager must cancel the defaulting participant's HSAs.

Proposed Amendment

- 3.3.7 The Authority proposes to amend clause 28 of the Code Amendment to make the following clarifications to the transitional arrangements:
 - (a) Clarifying that, if a settlement shortfall is allocated under the old regime, the same old regime will be used to allocate any late payment that is received after 24 March 2015.
 - (b) Clarifying that, if the default began under the old regime and continues into the new regime, the post-default exit period is calculated from:
 - (i) for events of default relating to a retailer's use of system agreement with a distributor under 14.57(h), the date on which the Authority notifies the retailer under clause 2 of Schedule 11.5
 - (ii) for all other events of default (in clauses 14.57(a) to (g)), the date on which the clearing manager notifies the participant that it has committed an event of default under clause 14.57.
- 3.3.8 The Authority proposes to make the following amendment to clause 28 of the Code Amendment, and in particular to clause 17.210L which it inserts:

17.210L Defaults

- (1) An event of default under clause 14.55 that had occurred and was continuing immediately before the Electricity Industry Participation (Settlement and Prudential Security) Code Amendment 2013 came into force is deemed to be an event of default under clause 14.41.

- (2) Despite subclause (1), further funds constituting late payments received by the **clearing manager** in respect of any **billing period** that occurred before the Electricity Industry Participation (Settlement and Prudential Security) Code Amendment 2013 came into force must be dealt with as if the Electricity Industry Participation (Settlement and Prudential Security) Code Amendment 2013 had not been made.
- (3) Despite clause 14A.22(5), if an **event of default** was continuing in relation to a **participant** immediately before the Electricity Industry Participation (Settlement and Prudential Security) Code Amendment 2013 came into force, the **participant's** post default exit period begins—
- (a) for an **event of default** relating to a **retailer's use-of-system-agreement** with a **distributor** under clause 14.55(h), on the date on which the **Authority** gave notice to the **participant** under clause 2(1) of Schedule 11.5; or
- (b) for any other **event of default**, on the date on which the **clearing manager** notified the **participant** that it had committed an **event of default** under clause 14.57.

Question 3 Do you agree that there is an issue with managing any defaults that continue after the commencement date? Is the Authority's proposed amendment to clause 28 of the Code Amendment appropriate?

3.4 A notice period is required for the clearing manager to action certain instructions

Summary

3.4.1 The Authority proposes to amend Schedule 1 of the Code Amendment to require two business days' notice for instructions given by participants to the clearing manager to:

- (a) use a prudential cash deposit to contribute to a settlement payment to be made by the participant to the clearing manager
- (b) require the clearing manager to pay some or all of a settlement payment, which is to be made by the clearing manager to the participant, into the participant's prudential cash deposit.

Existing arrangements

3.4.2 Clause 20 of the Code Amendment replaces the existing part 14 of the Code with the new part 14 and part 14A set out in Schedule 1 of the Code Amendment. This replacement comes into force on 24 March 2015.

- 3.4.3 Schedule 1 includes a new clause 14.32 providing for a participant to pay its settlement invoice using prudential cash as follows:

Schedule 1 of the Code Amendment

14.32 Methods of payment

- (1) Subject to subclause (2), each **participant** must pay the **clearing manager** in **cleared funds** into the **operating account**.
- (2) A **participant** may instruct the **clearing manager** to pay all or part of an amount payable by the **participant** under clause 14.31 *[which establishes a deadline for settlement payments]* from a **cash deposit** held by the **clearing manager** in respect of the **participant** in accordance with clause 14A.13.

- 3.4.4 Clause 14A.13 provides that a participant's prudential cash deposit is held by the clearing manager on trust to be applied only for certain specified purposes. One of those purposes (in clause 14A.13(c)) is to satisfy an amount payable by the participant to the clearing manager "if the participant satisfies the clearing manager that, immediately following the application of the cash deposit, it will continue to comply with prudential requirements in this Part".

- 3.4.5 Clause 14.34 contains a related power for the participant to request that a settlement payment from the clearing manager to the participant be paid into its prudential cash account. It provides as follows:

Schedule 1 of the Code Amendment

14.34 Payments by clearing manager

- (1) Subject to subparts 7 and 8, the **clearing manager** must pay each **participant** the amount advised to the participant under subpart 4 as payable by the **clearing manager** to the **participant** by 1600 hours on the final **business day** for payment under clause 14.31.
- (2) [...]
- (3) A **participant** may instruct the **clearing manager** to treat all or part of an amount payable to the **participant** under this clause as a **cash deposit** under Part 14A.
- (4) [...]

Issues with existing arrangements

- 3.4.6 There is no particular notice period specified in clause 14.32(2). This means a participant could instruct the clearing manager minutes before settlement is due to use the participant's prudential cash deposit for settlement.

- 3.4.7 The clearing manager advises that it would need two business days' notice to implement such an instruction. The clearing manager notes that settlement day is a busy time for the clearing manager. As far as possible, administrative tasks should be completed prior to settlement day.
- 3.4.8 With this in mind, the clearing manager suggests it could implement the instructions in 14.32(2) with other banking batch jobs on the business day before settlement. If it receives two business days' notice, the clearing manager would have one clear business day to consider the instruction, and in particular to confirm that the instructed use of the prudential cash deposit falls within clause 14A.13(c).
- 3.4.9 The Authority considers that a notice period of two business days should not interfere with the practical usefulness to participants of this form of payment.
- 3.4.10 The clearing manager also suggests that a similar notice period could be applied to instructions issued under clause 14.34(3). Again, this would give sufficient time for the clearing manager to make robust administrative arrangements to implement the instruction.

Proposed Amendment

- 3.4.11 The Authority proposes to amend Schedule 1 of the Code Amendment to add a subclause (3) to clause 14.32, and to add a subclause (5) to clause 14.34:

Schedule 1 of the Code Amendment

Clause 14.32(3)

(3) The **clearing manager** is not required to comply with an instruction given under subclause (2) unless it is received at least 2 **working days** before the **participant** is required under clause 14.31 to pay the **clearing manager** the amount to which the instruction relates.

Clause 14.34(5)

(5) The **clearing manager** is not required to comply with an instruction given under subclause (3) unless it is received at least 2 **business days** before the **participant** is required under clause 14.31 to pay the **clearing manager** the amount to which the instruction relates.

Question 4 Do you agree that there is an issue with the notice period for the clearing manager to action certain instructions? Is the Authority's proposed amendment to Schedule 1 of the Code Amendment (amending clauses 14.32 and 14.34) appropriate?

3.5 Measurement units should be standardised in hedge settlement agreement forms

Summary

- 3.5.1 The Authority proposes to amend Schedule 1 of the Code Amendment to remove any potential confusion about the units of measurement used in the HSA forms in schedule 14.4.

Existing arrangements

- 3.5.2 Schedule 1 of the Code Amendment (inserted by clause 20 of the Code Amendment) inserts a new Schedule 14.4 into the Code, effective from 24 March 2015. That Schedule 14.4 sets out forms for hedge settlement agreements (HSAs) which are essentially contracts with space provided for the terms unique to the particular HSA. There are three forms:
- (a) Form 1: (untitled). This form is for an HSA that is a standard two-way contract for differences.
 - (b) Form 2: Cap/Floor Calculation Period Price. This form is for an HSA that achieves either a capped price or a floor price.
 - (c) Form 3: Cap/Floor Average Price. This form is for an HSA that achieves either a capped average price over a defined period or a floor average price over a defined period.
- 3.5.3 This is a significant change from the pre-24 March 2015 HSA arrangements.
- 3.5.4 Each form has its own schedule titled "terms of hedge settlement agreement". The schedule contains the terms that are unique to a specific HSA. Square bracketed items indicate the parts that each party must fill in. The relevant rows of the schedule to Form 1 are as follows:

Schedule 1 of the Code Amendment

Schedule 14.4: Forms of hedge settlement agreement

Form 1 (untitled)

Schedule: Terms of hedge settlement agreement

[...]

Notional Quantity	[insert number] MWhs [for each calculation period]
Fixed Price	\$(insert amount) [for each calculation period]

[...]

3.5.5 Note that a calculation period is a half hour trading period within the term of the HSA.

3.5.6 The relevant rows of form 2 are:

Schedule 1 of the Code Amendment

Schedule 14.4: Forms of hedge settlement agreement

Form 2: Cap/Floor Calculation Period Price

Schedule: Terms of hedge settlement agreement

[...]

Notional Quantity	[insert number] MWhs [for each calculation period]
Strike Price	\$(insert amount) [for each calculation period]
Calculation Period Premium	\$(insert amount) [for each calculation period]

[...]

3.5.7 The relevant rows of form 3 are:

Schedule 1 of the Code Amendment

Schedule 14.4: Forms of hedge settlement agreement

Form 3: Cap/Floor Average Price

Schedule: Terms of hedge settlement agreement

[...]

Calculation Period Notional Quantity	[insert number] MWhs [for each calculation period]
Strike Price	\$(insert amount) [for each option period]
Option Period Premium	\$(insert amount) [for each option period]

[...]

3.5.8 Note that an option period is a period within the term of the Form 3 HSA. It could be a period such as a day. In that case, the option would compare the average final price for the day against the average strike price for the day.

3.5.9 Each form contains a series of definitions in clause 2 of the form which show how the values specified in the schedules are used to determine settlement amounts under the HSA.

3.5.10 The Fixed Price value from Form 1, and the Strike Price value from Forms 2 and 3 are respectively compared with final spot prices specified in \$/MWh. For example, in the definitions in clause 2 of Form 2, the term “strike price differential” is defined for a put option as “the greater of the strike price minus the *[relevant final price in the spot market]* and zero”.

3.5.11 For the option HSAs (Forms 2 and 3), one party must pay to the other, for a billing period, an option premium. That option premium is calculated by summing the option premium for each calculation period (for Form 2) or option period (Form 3).

Issues with existing arrangements

3.5.12 Some confusion may result from allowing participants to specify notional quantities in the schedule either in:

- (a) MWh for each calculation period; or
- (b) MWh over the whole term of the HSA, or over an option period

3.5.13 This potential confusion could be avoided by requiring notional quantities to be specified in MWh for each calculation period.

- 3.5.14 Another source of confusion may arise from how parties specify the Fixed Price or Strike Price. Parties may express these prices either in:
- (a) Dollars for each calculation/option period; or
 - (b) Dollars over the whole term of the HSA, or over an option period.
- 3.5.15 The definitions in clause 2 of each Form treat these prices as being expressed in the same units as the final price: that is, in \$/MWh.
- 3.5.16 Potential confusion could be avoided by requiring the Fixed Price and Strike Price to be expressed in comparable \$/MWh units.
- 3.5.17 In Form 2, some confusion may arise from the fact that parties can specify the Calculation Period Premium either in:
- (a) dollars for each calculation period; or
 - (b) dollars (the Authority considers this means dollars over the whole term of the HSA).
- 3.5.18 Potential confusion could be avoided by requiring the Calculation Period Premium to be expressed in dollars for each calculation period.
- 3.5.19 The clearing manager has suggested that the clearing manager's systems for managing HSAs in Form 3 would work best if the premium was also specified by calculation period. This would not alter the risk management service provided by a Form 3 HSA. It would just change the technical way in which a Form 3 HSA is modelled in the clearing manager's systems.
- 3.5.20 It will also have implications for the definitions in clause 2 of Form 3.

Proposed Amendment

- 3.5.21 The Authority proposes to amend Schedule 1 of the Code Amendment to amend the schedules to Forms 1, 2 and 3 in schedule 14.4. The result is that all volumes are measured in MWh per trading period, all prices are measured in dollars per MWh, and all premiums are measured in dollars per trading period.

Schedule 1 of the Code Amendment**Schedule 14.4: Forms of hedge settlement agreement****Form 1 (untitled)****Schedule – Terms of hedge settlement agreement**

[...]

Notional Quantity	[insert number] MWh {for each calculation period }
Fixed Price	\$(insert amount) {for each calculation period} /MWh

[...]

Form 2: Cap/Floor Calculation Period Price**Schedule – Terms of hedge settlement agreement**

[...]

Notional Quantity	[insert number] MWh {for each calculation period }
Strike Price	\$(insert amount) {for each calculation period} /MWh
Calculation Period Premium	\$(insert amount) {for each calculation period}

[...]

Form 3: Cap/Floor Average Price**Clause 2****2 Definitions**

The following definitions apply in this document:

average floating price means, in relation to an **option period**, an amount calculated using the following formula:

$$\text{average floating price} = \frac{\text{option period floating amount}}{\text{option period notional quantity}}$$

...

calculation period floating amount means, in relation to a **calculation period**, an amount calculated using the following formula:

$$\text{calculation period floating amount} = \frac{\text{calculation period notional quantity} \times \text{floating price}}$$

~~calculation period notional quantity~~ means, in relation to a ~~calculation period~~, the number of ~~MWhs~~ specified as such in the schedule for that ~~calculation period~~

calculation period premium means, in relation to a **calculation period**, the amount specified as such in the schedule for that **calculation period**

...

floating price means, in relation to a **calculation period**, the **final price in dollars** per **MWh** for that **calculation period** by reference to the **hedge reference point**[, rounded to two decimal places]

...

~~notional quantity~~ means, in relation to an ~~option period~~, the sum of the ~~calculation period notional quantities~~ for each ~~calculation period~~ in that ~~option period~~

notional quantity means, in relation to a **calculation period**, the amount of **electricity** (measured in **MWh**) specified as such in the schedule for that **calculation period**

...

option period notional quantity means, in relation to an **option period**, the sum of the **notional quantities** for each **calculation period** in the **option period**

~~option period premium~~ means, in relation to an ~~option period~~, the amount specified as such in the schedule for that ~~option period~~

option period premium means, in relation to an **option period**, the sum of the **calculation period premium** for each **calculation period** in the **option period**

option period settlement amount means, in relation to an **option period**, an amount calculated using the following formula:

$$\text{option period settlement amount} = \text{option period notional quantity} \times \text{strike price differential}$$

...

Schedule – Terms of hedge settlement agreement

[...]

Option Period	Each day (from 00.00 hours until immediately before 00.00 hours on the
---------------	---

	next day) during the term.] <u>[Each day] [From 00.00 hours until immediately before 00.00 hours on the next day][first period being nn and last period being mm] [during the term.]</u>
Calculation Period Notional Quantity	[insert number] MWhs [for each calculation period] <u>[insert number MWh] - [Table of Notional Quantities (in MWh per calculation period) to be inserted]</u>
Strike Price	\$(insert amount) [for each option period] <u>\$(insert amount/MWh) - [Table of Strike Prices to be inserted]</u>
Calculation Option Period Premium	\$(insert amount) [for each option period] <u>\$(insert amount) for each calculation period of option period. [Table of Premiums to be inserted]</u>

[...]

Question 5 Do you agree that there is an issue with the measurement units in the HSA forms? Is the Authority's proposed amendment to Schedule 1 of the Code Amendment (amending schedule 14.4) appropriate?

3.6 Definition of X_{TOT} in the formula for adjusting settlement of FTRs

Summary

- 3.6.1 The Authority proposes to amend Schedule 1 of the Code Amendment to correct an editing error in the definition of the term X_{TOT} in clause 14.55.

Existing arrangements

- 3.6.2 Schedule 1 of the Code Amendment inserts clause 14.55, which provides for the allocation of a settlement shortfall. Subclause 14.55(4) sets the amount of the shortfall that must be allocated to adjust the settlement of financial transmission rights (FTRs).

Schedule 1 of the Code Amendment

Clause 14.55(4)

- (4) In respect of each defaulting **participant**, the amount of the shortfall that must be allocated to adjust the settlement of **FTRs** is determined in accordance with the following formula:

$$X_{\text{FTR}} = X_{\text{TOT}} * (O_{\text{FTR}}/O_{\text{TOT}})$$

where

X_{FTR} is the amount of the shortfall that must be allocated to adjust the settlement of **FTRs**

X_{TOT} is the total amount owing by the defaulting **participant** to the **clearing manager** as specified in clause 14.19 minus the amount of the shortfall

O_{FTR} is the total amount owing by the defaulting **participant** to the **clearing manager** in respect of **FTRs** as specified under clause 14.19(2)(g) and (h)

O_{TOT} is the total amount owing by the defaulting **participant** to the **clearing manager** as specified under clause 14.19(3)

Issues with existing arrangements

- 3.6.3 The definition given in 14.55(4) for X_{TOT} is simply a mistake. It should be “the amount of the total shortfall”.

Proposed Amendment

- 3.6.4 The Authority proposes to amend Schedule 1 of the Code Amendment to change the definition of X_{TOT} in clause 14.55(4) as follows:

Schedule 1 of the Code Amendment

Clause 14.55(4)

[...]

X_{TOT} ~~is the total amount owing by the defaulting **participant** to the **clearing manager** as specified in clause 14.19 minus the amount of the shortfall~~ is the amount of the total shortfall

[...]

Question 6 Do you agree that there is an issue with the definition of X_{TOT} in clause 14.55(4)? Is the Authority's proposed amendment to Schedule 1 of the Code Amendment (amending clause 14.55) appropriate?

3.7 Definition of P in the formula for scaling amounts payable

Summary

3.7.1 The Authority proposes to amend the Code Amendment to correct the definition of the term P in clause 14.58.

3.7.2 This would be an amendment to Schedule 1 of the Code Amendment.

Existing arrangements

3.7.3 Schedule 1 of the Code Amendment (inserted by clause 20 of the Code Amendment) inserts clauses to determine the scaled-back amounts payable by the clearing manager to participants when there is a settlement shortfall.

3.7.4 If there are no settlement defaults, the amount payable by the clearing manager to a participant (AP_{CM}) is calculated by clause 14.22(2) as:

The amount payable by the clearing manager to the participant (AP_{CM})	=	The amount owing by the clearing manager to the participant (AO_{CM})	-	The amount owing by the participant to the clearing manager (AOP)	+	The amount payable by the participant to the clearing manager (APP)
--	---	--	---	--	---	--

3.7.5 Clauses 14.55 to 14.58 set out the process for determining a scaled AP_{CM} ($AP_{CM(scaled)}$) when there is a default leading to a settlement shortfall:

- (a) 14.55: The settlement shortfall is split into two parts: a general part and an FTR part
- (b) 14.56: The funds available in the general pool are allocated to different notional items in a priority order. This allows the calculation of revised amounts owing by the clearing manager from the general pool.
- (c) 14.57: The funds available in the FTR pool are allocated to different notional items in a priority order. This allows the calculation of revised amounts owing by the clearing manager from the FTR pool.
- (d) 14.58: The $AP_{CM(scaled)}$ is determined using the revised amounts owing from the general and FTR pools (clauses 14.56 and 14.57).

3.7.6 Clause 14.58 sets out the calculation of $AP_{CM (scaled)}$ as follows:

Schedule 1 of the Code Amendment

14.58 Calculation of scaled amount payable

The **clearing manager** must calculate the scaled amount payable for each **participant** to whom an amount is payable by the **clearing manager** under subpart 5 in accordance with the following formula:

$$AP_{CM (scaled)} = AO_{CM (revised)} - AO_P + P$$

where

$AP_{CM (scaled)}$ is the scaled amount payable by the **clearing manager** to the **participant**

$AO_{CM (revised)}$ is the sum of the revised amounts owing by the **clearing manager** to the **participant**, calculated under clauses 14.56 and 14.57

AO_P is the sum of the amounts owing by the **participant** to the **clearing manager**, calculated under clause 14.19

P is any amount paid by the **participant** under clause 14.31 and, in the case of a defaulting **participant**, any amount recovered or set-off under clause 14.44

Issues with existing arrangements

3.7.7 The definition of P in clause 14.58 is not correct. The correct result is achieved by defining P as the amount payable by the participant minus any setoff.

Proposed Amendment

3.7.8 The Authority proposes to amend Schedule 1 of the Code Amendment to change the definition of P in clause 14.58 as follows:

Schedule 1 of the Code Amendment

Clause 14.58

[...]

P is any amount payable paid by the **participant** under clause 14.31 and, in the case of a defaulting **participant**, that amount minus any amount ~~recovered or set-off~~ under clause 14.44(1)(c)

[...]

Question 7 Do you agree that there is an issue with the definition of P in clause 14.58? Is the Authority's proposed amendment to Schedule 1 of the Code Amendment (amending clause 14.58) appropriate?

3.8 Change to formula for dealing with negative amounts payable when managing a default

Summary

- 3.8.1 The Authority proposes to amend Schedule 1 of the Code Amendment to correct an editing error in the formula in clause 14.59(4), and to add a missing word to clause 14.59(2)

Existing arrangements

- 3.8.2 Schedule 1 of the Code Amendment sets out a new Part 14. This includes provisions addressing how a settlement shortfall is allocated among participants.
- 3.8.3 Clause 14.58 (discussed in section 3.7 above) calculates scaled amounts payable by the clearing manager. One feature of that calculation is that some scaled amounts payable by the clearing manager may be negative. The clearing manager could implement this only by asking those participants due to receive negative amounts payable from the clearing manager to in fact provide more funds to the clearing manager. This is considered impractical to achieve on settlement day because of the limited time available.
- 3.8.4 Clause 14.59(4) sets out the treatment of any negative amounts payable during the scaling process. Negative amounts payable are managed by reducing the amounts payable by the clearing manager to other participants that will receive positive amounts payable from the clearing manager.
- 3.8.5 Clause 14.59(4) provides as follows:

Schedule 1 of the Code Amendment

Clause 14.59(4)

- (4) If the application of the formula in clause 14.58 (as adjusted by subclause (3)) results in a scaled amount payable that is negative for 1 or more **participants** to whom an amount is payable by the **clearing manager**, the **clearing manager** must calculate the revised amount payable by the **clearing manager** under clause 14.60 as follows:

- (a) for each **participant** for whom the scaled amount payable is negative, set the revised amount payable for the **participant** to 0:
- (b) for each **participant** for whom the scaled amount payable is positive, calculate the revised amount payable to the **participant** in accordance with the following formula:

$$AP_{CM \text{ (revised)}} = AP_{CM \text{ (scaled)}} + AO_{\text{negative}} (AO_{CM \text{ (revised)}} / AO_{\text{positive}})$$

where

$AP_{CM \text{ (revised)}}$ is the revised amount payable by the **clearing manager** to the **participant**

$AP_{CM \text{ (scaled)}}$ is the scaled amount payable by the **clearing manager** to the **participant**, calculated under clause 14.58

AO_{negative} is the sum of all revised amounts owing by the **clearing manager** to a **participant** for every **participant** for whom the scaled amount payable is negative

$AO_{CM \text{ (revised)}}$ is the sum of the revised amounts owing by the **clearing manager** to the **participant**, calculated under clauses 14.56 and 14.57

AO_{positive} is the sum of all revised amounts owing by the **clearing manager** to a **participant** for every **participant** for whom the scaled amount payable is positive

Issues with existing arrangements

- 3.8.6 The use of the term AO_{negative} is a mistake. That term should be AP_{negative} . It should refer to the sum of all the negative *scaled amounts payable* by the clearing manager to a participant. It will be a negative number.
- 3.8.7 In addition, the word “must” is missing from clause 14.59(2) (see below).

Proposed Amendment

- 3.8.8 The Authority proposes to amend Schedule 1 of the Code Amendment to change clause 14.59(4)(b) as follows:

Schedule 1 of the Code Amendment

Clause 14.59(4)(b)

(b) [...]

$$AP_{CM \text{ (revised)}} = AP_{CM \text{ (scaled)}} + \frac{AO_{\text{negative}}}{AO_{\text{positive}}} \frac{AP_{\text{negative}}}{AP_{\text{negative}}} (AO_{CM \text{ (revised)}})$$

where

[...]

AO_{negative} $\frac{AO_{\text{negative}}}{AO_{\text{negative}}}$ is the sum of all scaled amounts payable ~~revised amounts owing~~ by the **clearing manager** to ~~at~~ the **participant** for every **participant** for whom the scaled amount payable is negative

[...]

- 3.8.9 The Authority proposes to amend Schedule 1 of the Code Amendment to change clause 14.59(2) as follows:

Schedule 1 of the Code Amendment

Clause 14.59(2)

- (2) If the application of the formula in clause 14.58 results in a scaled amount payable that is negative for a defaulting **participant**, the **clearing manager** must seek to recover the absolute value of that amount by exercising its powers under clause 14.44 by 1530 hours before applying subclause (4).

Question 8 Do you agree that there is an issue with the formula for managing negative amounts payable? Is the Authority's proposed amendment to Schedule 1 of the Code Amendment (amending clause 14.59) appropriate?

3.9 Exit period adder should apply to a calendar year

Summary

- 3.9.1 The Authority proposes to amend Schedule 1 of the Code Amendment to make the exit period prudential "adder" an amount that applies to a calendar year, rather than four separate amounts applying to each of the four quarters in a calendar year. The exit period prudential "adder" is an input into determining minimum security for a participant.

Existing arrangements

- 3.9.2 The Code Amendment sets out the methodology for calculating minimum security ("the minimum amount for which security is to be provided by a

participant”) in a new Schedule 14A.1, beginning at clause 6 of that schedule.

3.9.3 Part of the methodology is to determine the “exit period prudential margin for the participant”. This is set out in clause 10 of that schedule.

3.9.4 Clause 10(2) sets out how to determine the contribution to the exit period prudential margin from sales and purchases of electricity. This is essentially the net quantities of electricity that the clearing manager expects the participant to purchase over the participant’s prudential exit period, multiplied by a price. The price is the projected price for the exit period plus an amount we refer to as an “add”.¹

3.9.5 The add is defined in clause 10(5) as a non-negative amount:

“...determined on the basis that the exit period prudential margin for a hypothetical purchaser who purchases a constant proportion of total electricity purchased from the clearing manager for every trading period is greater than the general exit period exposure for the purchaser on 75% of the days in the relevant quarter in a modelling period of 3 to 10 years selected by the clearing manager.

3.9.6 Clause 10(6) provides:

(6) The clearing manager must determine the [add]—

(a) for each quarter in a calendar year; and

(b) no later than 2 months before the beginning of each calendar year.

3.9.7 This means that, by the end of October each year, the clearing manager must determine (and publish) four separate adds: one for each quarter of the following calendar year.

Issues with existing arrangements

3.9.8 When the Code Amendment was being developed, the Authority considered whether four different adds should be applied during a calendar year (one for each quarter of the year) or whether a single add should apply to the whole calendar year. The first approach was adopted in the Code Amendment.

3.9.9 The advantage of having four different adds was considered to be that *seasonality in price volatility* could be recognised. If prices tended to be more volatile in the June quarter (for example) than in the December quarter, a higher add could be applied when calculating the exit period prudential margin for a participant in that quarter.

3.9.10 The advantage of having a single add is that prudential requirements are more stable over time. The seasonality in electricity spot prices can be recognised through different projected prices for each quarter, determined based on ASX futures prices, rather than through different adds. This

approach also appears to be more consistent with information given to the Wholesale Advisory Group and Settlement and Prudential Security Technical Group during the policy development phase of the project.

- 3.9.11 The Authority has reviewed this decision and now considers it more appropriate to adopt the second approach, with a single adder value being used for the whole calendar year.

Proposed Amendment

- 3.9.12 The Authority proposes to amend Schedule 1 of the Code Amendment to change clauses 10(5) and 10(6) in the new Schedule 14A.1 as follows:

Schedule 1 of the Code Amendment

Schedule 14A.1, clauses 10(5) and (6)

- (5) The amount determined under subclause (2)(c)(ii) must—
 - (a) be an amount expressed in \$/MWh of not less than \$0/MWh; and
 - (b) be determined on the basis that the exit period prudential margin for a hypothetical purchaser who purchases a constant proportion of total electricity purchased from the clearing manager for every trading period is greater than the general exit period exposure for the purchaser on 75% of the days in the relevant quarter in a modeling period of 3 to 10 years selected by the clearing manager.
- (6) The clearing manager must determine the amount under subclause (2)(c)(ii) *[that is, the adder]*—
 - (a) once for each ~~quarter~~ in a calendar year; and
 - (b) no later than 2 months before the beginning of each calendar year.

Question 9 Do you agree that there is an issue with the duration over which the exit period “adder” applies? Is the Authority’s proposed amendment to Schedule 1 of the Code Amendment (amending clause 10 of schedule 14A.1) appropriate?

3.10 Treatment of prepayments when calculating required security

Summary

- 3.10.1 The Authority proposes to amend Schedule 1 of the Code Amendment to provide that only those prepayments that genuinely reduce the clearing manager’s exposure to a participant can be taken into account when setting that participant’s minimum security.

Existing arrangements

- 3.10.2 Schedule 14A.1 is inserted by clause 20 of the Code Amendment. It sets out how the clearing manager is to determine, for a particular participant, the minimum amount for which security is to be required.
- 3.10.3 Clause 6(1) of the schedule sets out the framework for determining minimum security:

Schedule 1 of the Code Amendment

Schedule 14A.1, clause 6

6 Determining minimum security

- (1) The minimum amount for which security is required to be provided by a participant under clause 14A.6 is—
- (a) the sum of the following amounts:
 - (i) the general prudential requirement calculated in accordance with clause 7;
 - (ii) the FTR prudential requirement calculated in accordance with clause 11; minus
 - (b) any amount prepaid by the participant under clause 14.30.
- 3.10.4 Clause 14.30(2) places an obligation on a participant when it makes a prepayment

Schedule 1 of the Code Amendment

Clause 14.30(2)

- (2) If a participant prepays an amount to the clearing manager under subclause (1),—
- (a) the participant must advise the clearing manager of 1 or more billing periods to which the payment relates; and
 - (b) [...]

Issues with existing arrangements

- 3.10.5 Under clause 14.30(2), participants will specify which prepayments apply to which billing periods. The clearing manager must apply them to settlement of the billing period specified by the participant.
- 3.10.6 At present, clause 6 appears to state that *any* prepayment made by a participant will reduce its minimum security. This is not appropriate because some prepayments will not reduce the clearing manager's exposure to the participant. An example will illustrate the point.
- 3.10.7 A prepayment made by a purchaser for a billing period several months in the future does not reduce the clearing manager's exposure to a purchaser. This is because, if the purchaser became insolvent today and exited from the market, the prepayment would have to be returned to the

purchaser (since there would never be any purchases for the billing period to which the prepayment applied).

- 3.10.8 This suggests that only prepayments for billing periods relating to the 'prudential period' (meaning the 'outstandings' period covered by clause 9 of the new schedule 14A.1, plus the prudential exit period) should be used to reduce the participant's minimum security.

Proposed Amendment

- 3.10.9 The Authority proposes to amend Schedule 1 of the Code Amendment to change clause 6(1) of schedule 14A.1 as follows:

Schedule 1 of the Code Amendment

Schedule 14A.1, clause 6

6 Determining minimum security

- (1) The minimum amount for which security is required to be provided by a participant under clause 14A.6 is—
- (a) the sum of the following amounts:
 - (i) the general prudential requirement calculated in accordance with clause 7:
 - (ii) the FTR prudential requirement calculated in accordance with clause 11; minus
 - ~~(b) any amount prepaid by the participant under clause 14.30.~~
 - (b) any amount prepaid by the participant under clause 14.30 that is specified by the participant as being for a billing period—
 - (i) that has commenced but remains unsettled on the day for which the minimum security is being determined; or
 - (ii) any part of which falls within the prudential exit period for the participant (if any).

Question 10 Do you agree that there is an issue with the treatment of prepayments when calculating minimum security? Is the Authority's proposed amendment to Schedule 1 of the Code Amendment (amending clause 6 of schedule 14A.1) appropriate?

3.11 Clarification of how wash-ups are treated when calculating outstandings

Summary

- 3.11.1 The Authority proposes to amend Schedule 1 of the Code Amendment to be more specific about which wash-ups are to be taken into account when

calculating the clearing manager's outstanding financial exposure to a participant.

Existing arrangements

3.11.2 Schedule 1 of the Code Amendment inserts a new part 14A. Clause 9 of Schedule 14A.1 provides for the calculation of the clearing manager's outstanding financial exposure to participant. This is determined by estimating the unsettled amounts owing by the participant, including amounts relating to purchases, generation and ancillary services.

3.11.3 Subclause 9(3) provides:

Schedule 1 of the Code Amendment

Schedule 14A.1, clause 9(3)

- (3) The **clearing manager** must take **washup** amounts that have been calculated by the **clearing manager** into account in estimating the amounts described in this clause.

Issues with existing arrangements

3.11.4 The clearing manager may calculate and recalculate wash-up amounts throughout a billing period. The existing drafting of clause 9(3) needs to be clearer about exactly which wash-ups must be taken into account.

3.11.5 A clearer approach would be to refer to wash-ups that have been advised as owing under Part 14.

Proposed Amendment

3.11.6 The Authority proposes to amend Schedule 1 of the Code Amendment to change clause 9(3) of schedule 14A.1 as follows:

Schedule 1 of the Code Amendment

Schedule 14A.1, clause 9(3)

- (3) The **clearing manager** must take **washup** amounts that have been advised as owing under Part 14 ~~calculated by the clearing manager~~ into account in estimating the amounts described in this clause.

Question 11 Do you agree that there is an issue with the treatment of wash-ups when calculating minimum security? Is the Authority's proposed amendment to Schedule 1 of the Code Amendment (amending clause 9 of schedule 14A.1) appropriate?

3.12 Preserve amendment to timeframes for advising retained loss and constraint excess

Summary

- 3.12.1 The Authority proposes to amend Schedule 1 of the Code Amendment to preserve the effect of the *Electricity Industry Participation (Time Frames for Invoicing) Code Amendment 2014* on the time frame for the FTR Manager to advise the clearing manager of retained loss and constraint excess when final prices are delayed.

Existing arrangements

- 3.12.2 Prior to 15 May 2014, clause 14.73(2A) of the Code provided:

Schedule 14A.1, clause 14.73(2A)

(2A) The **FTR manager** must—

- (a) determine the amount of **loss and constraint excess** that must be retained by the **clearing manager** and paid into the **FTR account** in accordance with Schedule 14.6; and
- (b) advise the **clearing manager** of that amount no later than 1600 hours on the 7th **business day** of the month following the relevant **billing period**.

- 3.12.3 On 15 May 2014, the *Electricity Industry Participation (Time Frames for Invoicing) Code Amendment 2014* came into force. It replaced clause 14.73(2A)(b) with the following:

Schedule 14A.1, clause 14.73(2A)

- (b) advise the **clearing manager** of that amount no later than—
 - (i) 1600 hours on the 7th **business day** of the month following the relevant **billing period**; or
 - (ii) if **publication of final prices** is delayed for any **trading period** in the relevant **billing period**, so that **final prices** for a **trading period** in the **billing period** are **published** later than 1600 hours on the 6th **business day** of the month following the relevant **billing period**, 1 **business day** after all **final prices** for the **billing period** are **published**.

- 3.12.4 The Code Amendment was made on 9 December 2013 (before the above amendment came into force) and comes into force on 24 March 2015 (after the above amendment came into force). The Code Amendment replaces clause 14.73(2A) with the following equivalent provision in the new clause 14.16(2):

Schedule 1 of the Code Amendment

Clause 14.16(2)

- (2) The **FTR manager** must—
- (a) determine the amount of **loss and constraint excess** that must be applied to the settlement of **FTRs** in accordance with Schedule 14.3; and
 - (b) advise the **clearing manager** of that amount no later than 1600 hours on the 7th **business day** of the month following the relevant **billing period**.

Issues with existing arrangements

- 3.12.5 The Code Amendment will overwrite the effect of the *Electricity Industry Participation (Time Frames for Invoicing) Code Amendment 2014* which came into force on 15 May 2013. This effect was not intended. It arises because both amendments were made prior to the other coming into force.

Proposed Amendment

- 3.12.6 The Authority proposes to amend Schedule 1 of the Code Amendment to change clause 14.16(2) as shown below to preserve the effect of the *Electricity Industry Participation (Time Frames for Invoicing) Code Amendment 2014*.

Schedule 1 of the Code Amendment

Clause 14.16(2)

- (2) The **FTR manager** must—
- (a) determine the amount of **loss and constraint excess** that must be applied to the settlement of **FTRs** in accordance with Schedule 14.3; and
 - ~~(b) advise the **clearing manager** of that amount no later than 1600 hours on the 7th **business day** of the month following the relevant **billing period**.~~
 - (b) advise the **clearing manager** of that amount no later than—
 - (i) 1600 hours on the 7th **business day** of the month following the relevant **billing period**; or
 - (ii) if **publication of final prices** is delayed for any **trading period** in the relevant **billing period**, so that **final prices** for a **trading period** in the **billing period** are **published**

later than 1600 hours on the 6th **business day** of the month following the relevant **billing period**, 1 **business day** after all **final prices** for the **billing period** are **published**.

Question 12 Do you agree that there is an issue with preserving the effect of the amendment about timeframes for the FTR manager to advise the clearing manager about retained loss and constraint excess? Is the Authority's proposed amendment to Schedule 1 of the Code Amendment (amending clause 14.16) appropriate?

3.13 Preserve amendment to list of events of default

Summary

- 3.13.1 The Authority proposes to amend Schedule 1 of the Code Amendment to preserve the effect of the *Electricity Industry Participation (Managing Retailer Default Situations) Code Amendment 2013* on the list of circumstances that constitute an event of default.

Existing arrangements

- 3.13.2 Prior to 16 December 2013, clause 14.55 of the Code provided for seven different circumstances that constitute an event of default. Those circumstances were listed in paragraphs (a) to (g) of clause 14.55.
- 3.13.3 The *Electricity Industry Participation (Managing Retailer Default Situations) Code Amendment 2013* came into force on 16 December 2013. It added an additional circumstance that could constitute an event of default. This was added as clause 14.55(h) as follows:

Clause 14.55(h)

- (h) termination of a **retailer's use-of-system agreement** with a **distributor** because of a **serious financial breach** if—
 - (i) the **retailer** continues to have a **customer** or **customers** on the **distributor's local network**; and
 - (ii) there are no unresolved disputes between the **retailer** and the **distributor** in relation to the termination; and
 - (iii) the **distributor** has not been able to remedy the situation in a reasonable time; and
 - (iv) the **distributor** gives notice to the **Authority** that this clause applies.

- 3.13.4 The *Electricity Industry Participation (Managing Retailer Default Situations) Code Amendment 2013* also amended clause 14.57 as follows (the addition is marked with underlining for convenience):

Clause 14.57 Procedure upon event of default

- (1) Upon an **event of default** under paragraphs (a) to (g) of clause 14.55 occurring, the **clearing manager** must, without prejudice to its rights under clause 14.58, notify the person in default that it has committed an **event of default**.
- (2) Without prejudice to its rights under clause 14.58, the **clearing manager** must refer an issue concerning an **event of default** to the **Authority**.

- 3.13.5 This amendment to clause 14.57 recognised that the clearing manager may not be aware of a default under clause 14.55(h) relating to termination of a retailer's use of system agreement. Consequently it would not be appropriate to require the clearing manager to have a notification obligation.
- 3.13.6 The Code Amendment was made on 9 December 2013 (before the above amendment came into force) and comes into force on 24 March 2015 (after the above amendment came into force).
- 3.13.7 The Code Amendment replaces clause 14.55 with an equivalent provision in the new clause 14.41. The new clause 14.41 recognises only the original seven circumstances that could constitute an event of default. It does not include an event of default relating to termination of a retailer's use of system agreement.
- 3.13.8 In addition, the Code Amendment provides as follows for the clearing manager to notify other parties of an event of default:

Schedule 1 of the Code Amendment

14.43 Procedure upon event of default

...

- (4) If the **clearing manager** becomes aware that an **event of default** has occurred and is continuing in relation to a **participant** and the **participant** has not advised the **clearing manager** of the **event of default**, the **clearing manager** must advise the defaulting **participant** that the **event of default** has occurred.
- (5) The **clearing manager** must advise the **Authority** of an **event of default**.

Issues with existing arrangements

- 3.13.9 The Code Amendment will overwrite the effect of the *Electricity Industry Participation (Managing Retailer Default Situations) Code Amendment 2013* which came into force on 16 December 2013. This effect was not

intended. It arises because both amendments were made prior to the other coming into force.

- 3.13.10 The overwriting would mean that the termination of a retailer's use of system agreement would not be included in the definition of "event of default" from 24 March 2015.
- 3.13.11 Once the termination of a retailer's use of system agreement is added as an event of default, another issue arises. The new clause 14.43(5) (in Schedule 1 of the Code Amendment) would require the clearing manager to advise the Authority of an event of default arising from termination of a retailer's use of system agreement, even though the clearing manager may not be aware of that event of default.

Proposed Amendment

- 3.13.12 The Authority proposes to amend Schedule 1 of the Code Amendment to add clause 14.41(h) as shown below to preserve the effect of the *Electricity Industry Participation (Managing Retailer Default Situations) Code Amendment 2013*.

Schedule 1 of the Code Amendment

Clause 14.41(h)

- (h) termination of a **retailer's use-of-system agreement** with a **distributor** because of a **serious financial breach** if—
 - (i) the **retailer** continues to have a **customer** or **customers** on the **distributor's local network**; and
 - (ii) there are no unresolved disputes between the **retailer** and the **distributor** in relation to the termination; and
 - (iii) the **distributor** has not been able to remedy the situation in a reasonable time; and
 - (iv) the **distributor** gives notice to the **Authority** that this clause applies.

- 3.13.13 As a further consequence, the Authority also proposes to amend Schedule 1 of the Code Amendment to amend clause 14.43 as follows:

Schedule 1 of the Code Amendment

Clause 14.43

[...]

- (4) If the **clearing manager** becomes aware that an **event of default** under paragraphs (a) to (g) of clause 14.41 has occurred and is continuing in relation to a **participant**, the **clearing manager** must—
 - (a) advise the Authority that the event of default has occurred;
 - and

- (b) ~~and if~~ the participant has not advised the **clearing manager** of the **event of default**, ~~the clearing manager~~ must advise the defaulting **participant** that the **event of default** has occurred.
- (5) ~~The clearing manager must advise the Authority of an event of default.~~

- 3.13.14 Amendments to a number of cross references are also required for the following provisions of the Code:
- (a) clause 11.15C
 - (b) Schedule 11.5, clauses 1, 2, 4(1)(b)(i), and 5(1)(a).
- 3.13.15 Those cross references will be corrected by inserting the clauses 8A to 8E into the Code Amendment, as shown in Appendix A.

Question 13 Do you agree that there is an issue with preserving the effect of the amendment relating to the list of events of default? Are the Authority's proposed amendments to Schedule 1 of the Code Amendment (amending clause 14.43) and to clauses 8A to 8E appropriate?

3.14 Preserve amendment to the term 'model data'

Summary

- 3.14.1 The Authority proposes to amend Schedule 1 of the Code Amendment to preserve the effect of the *Electricity Industry Participation (Minor Amendments) Code Amendment 2014* which changed the term "model data" to "information" in the schedule about the calculation of retained loss and constraint excess.

Existing arrangements

- 3.14.2 Schedule 14.6 of the existing Code is titled "Calculation of amount of loss and constraint excess to be paid into FTR account". Clauses 57 and 58 of the *Electricity Industry Participation (Minor Amendments) Code Amendment 2014* amended the following three provisions in that schedule with effect from 15 May 2014.
- (a) Schedule 14.6, clause 4(3)
 - (b) Schedule 14.6, clause 4(5)
 - (c) Schedule 14.6, clause 5(6)(a)
- 3.14.3 Each amendment involved replacing the term "model data" with the term "information".

- 3.14.4 Clause 20 of the Code Amendment replaces part 14 with two new parts: a new part 14 and a new part 14A. The new part 14 includes a new schedule 14.3 titled “Calculation of amount of loss and constraint excess to be applied to the settlement of FTRs”. This is the equivalent schedule to the old schedule 14.6 mentioned above.
- 3.14.5 The Code Amendment uses the term “model data” in the following provisions:
- (a) Schedule 14.3, clause 4(3)
 - (b) Schedule 14.3, clause 4(5)
 - (c) Schedule 14.3, clause 5(4)(a)
- 3.14.6 These provisions are essentially identical to the provisions mentioned in the existing schedule 14.6 above.

Issues with existing arrangements

- 3.14.7 The Code Amendment will overwrite the effect of the *Electricity Industry Participation (Minor Amendments) Code Amendment 2014* which came into force on 15 May 2014. This effect was not intended. It arises because both amendments were made prior to the other coming into force.

Proposed Amendment

- 3.14.8 The Authority proposes to amend Schedule 1 of the Code Amendment to change clauses 4(3), 4(5) and 5(4)(a) in schedule 14.3 to preserve the effect of the *Electricity Industry Participation (Minor Amendments) Code Amendment 2014*, which replaced the term “model data” with the term “information”.

Question 14 Do you agree that there is an issue with preserving the effect of the amendment relating to the term “model data”? Is the Authority’s proposed amendment to Schedule 1 of the Code Amendment (amending clauses 4 and 5 in schedule 14.3) appropriate?

4. Regulatory Statement for the proposed amendment

4.1 Objectives of the proposed amendment

4.1.1 The objective of the proposed amendment to the *Electricity Industry Participation (Settlement and Prudential Security) Code Amendment 2013* (Code Amendment) is consistent with the Authority's statutory objective:

- (a) **Competition.** The proposal may have a positive impact on retail competition to the extent that it makes prudential requirements smoother over time, which will be one result of setting the prudential "add-on" once for each calendar year rather than for each quarter (refer to the amendment to Schedule 1 of the Code Amendment to change clause 10 in schedule 14A.1)
- (b) **Reliability.** The proposal would have no impact on reliability of electricity supply to consumers
- (c) **Efficiency.** The proposal would improve administrative efficiency by clarifying and correcting the Code Amendment in several respects.

4.2 The proposed amendment

4.2.1 The proposed amendment will:

- (a) improve commencement and transitional provisions
 - (i) certain administrative processes need to take effect before 24 March 2015
 - (ii) any defaults that continue past the commencement date must be managed
- (b) improve and correct settlement provisions
 - (i) a notice period is required for the clearing manager to action certain instructions
 - (ii) the measurement units in hedge settlement agreement forms need to be standardised
 - (iii) definitions in three formulas relating to managing settlement shortfalls need to be corrected
- (c) refine and clarify prudential security provisions
 - (i) the quarterly "add-on" used to determine a participant's exit period prudential requirement needs to be less volatile and more in line with the process envisaged during the policy development process

- (ii) the treatment of prepayments when calculating minimum security needs to be clarified
- (iii) the treatment of wash-ups when calculating minimum security needs to be clarified
- (d) preserve the effect of previous Code amendments (so they are not overwritten by the Code amendment)

4.2.2 The drafting of the proposed amendment is contained in Appendix A.

4.3 The proposed amendment's benefits are expected to outweigh the costs

4.3.1 The benefits of the proposed amendment are expected to outweigh the costs. Each of the proposed amendments (which have been developed separately and placed together into a package) produces benefits from greater administrative efficiency through clarifying or correcting the Code Amendment.

4.3.2 The amendment relating to clause 10 in schedule 14A.1, which changes the prudential "adder" from a quarterly figure to an annual figure, will improve retail competition by smoothing a purchaser's minimum prudential security requirements over time. Smoother prudential requirements are more predictable and make it easier for small retailers to meet their prudential obligations.

4.3.3 The costs of the change to clause 10 in schedule 14A.1 are expected to be minimal. Generators will still be protected by prudential security levels that deliver the same probability of covering a settlement shortfall caused by default. The only difference is that the days for which prudential security will be sufficient will be spread differently throughout the year.

4.4 The Authority has not identified any other means for addressing the objectives

4.4.1 The Authority has not identified any other means for addressing the objectives.

4.5 The proposed amendment complies with section 32(1) of the Act

4.5.1 Table 1 (below) demonstrates how the proposal complies with section 32(1) of the Act.

Table 1: How proposal complies with section 32(1) of the Act

Requirement	Comment
The proposed amendment is consistent with the Authority's objective under section 15 of the Act, which is to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.	The proposal promotes competition in, and the efficient operation of, the electricity industry for the long-term benefit of consumers as described in the discussion below.
The proposed amendment is necessary or desirable to promote any or all of the following:	
(a) competition in the electricity industry;	The proposal may have a positive impact on retail competition to the extent that it makes prudential requirements smoother over time, which will be one result of setting the prudential "adder" once for each calendar year rather than for each quarter
(b) the reliable supply of electricity to consumers;	The proposed amendment will not materially affect this matter.
(c) the efficient operation of the electricity industry;	The proposed amendment will have a minor impact on efficiency through ensuring the new arrangements operate as intended.
(d) the performance by the Authority of its functions;	The proposed amendment will improve the ability for the Authority to perform a range of functions such as: • administer the Electricity Industry Participation Code 2010 (Code) • monitor and enforce compliance with the Code • contract for market operation services
(e) any other matter specifically referred to in this Act as a matter for inclusion in the Code.	The proposed amendment will not materially affect any other matter specifically referred to in the Act for inclusion in the Code

4.6 The Authority has given regard to the Code amendment principles

- 4.6.1 When considering amendments to the Code, the Authority is required by its Consultation Charter¹ to have regard to the following Code amendment principles, to the extent that the Authority considers that they are applicable. **Table 2** (below) describes the Authority's regard for the Code amendment principles in the preparation of the proposal.

Table 2: Regard for Code amendment principles

Principle	Comment
1. Lawful	The proposal is lawful, and is consistent with the statutory objective (see section 4.5) and with the empowering provisions of the Act.
2. Provides clearly identified efficiency gains or addresses market or regulatory failure	The efficiency gains are set out in the evaluation of the costs and benefits (section 4.3).
3. Net benefits are quantified	The extent to which the Authority has been able to estimate the efficiency gains is set out in the evaluation of the costs and benefits (section 4.3).

Question 15 Do you agree with this regulatory statement relating to the proposed amendments to the Code Amendment?

¹ The consultation charter is one of the Authority's foundation document and is available at: <http://www.ea.govt.nz/about-us/documents-publications/foundation-documents/>

5. Intended changes to Levy Regulations

5.1 Summary

- 5.1.1 The Authority will work with the Ministry of Business, Innovation and Employment (MBIE) to progress an amendment to regulation 4 of the *Electricity Industry (Levy of Industry Participants) Regulations 2010* (Levy Regulations). A change to the Levy Regulations is needed to allow the Authority's costs incurred in relation to the new part 14A of the Code (costs relating to prudential security arrangements, including costs of the clearing manager's activities) to continue to be recovered.
- 5.1.2 The Authority's costs incurred in relation to the new part 14A of the Code will be allocated to generators and purchasers, as is the case for costs in relation to Part 14 under the current levy arrangements.
- 5.1.3 The need for a change to the Levy Regulations arises because the existing Part 14 of the Code will be replaced with two new parts, including a new Part 14A. The existing regulations are not robust to the introduction of a new numbered part (Part 14A).
- 5.1.4 The Authority considers a change to the Levy Regulations is merely an administrative consequence of the introduction of new part numbering.

5.2 Existing arrangements

- 5.2.1 Each generator, purchaser, and distributor is liable to pay a monthly levy to the Authority, on behalf of the Crown. The levy covers a range of costs including the Authority's costs (refer to section 128(3) of the *Electricity Industry Act 2010*).
- 5.2.2 Regulation 4 of the *Electricity Industry (Levy of Industry Participants) Regulations 2010* (Levy Regulations) defines the term "market operations" as follows:

Regulation 4

[...]

market operations means the activities of the Authority that relate to the following parts of the Code:

- (a) Part 5, regime for dealing with undesirable trading situations:
- (b) Part 10, metering arrangements:
- (c) Part 13, trading arrangements:
- (d) Part 14, clearing and settlement:
- (e) Part 15, reconciliation

[...]

- 5.2.3 Regulation 7(2) of the Levy Regulations provides that the Authority's estimated costs relating to market operations must be allocated half to generators and half to purchasers.
- 5.2.4 So at present the Authority's costs for settlement and prudential security arrangements, including the clearing manager's costs, are recovered half from generators (based on MWh share of generation) and half from purchasers (based on MWh share of purchases).
- 5.2.5 There are a number of other cost categories that are allocated in different ways. Finally, there is a residual "other activities" cost category that is allocated one third to generators, one third to purchasers and one third to distributors.

5.3 Issues with existing arrangements

- 5.3.1 The Code Amendment which comes into force on 24 March 2015 will replace the existing Part 14 of the Code covering settlement and prudential security arrangements. It will replace it with two new parts: a new Part 14 covering settlement arrangements, and a new Part 14A covering prudential security arrangements.
- 5.3.2 This will have a consequential effect that expenses relating to prudential arrangements in Part 14A would no longer be classified as "market operations" under the Levy Regulations, since Part 14A is not mentioned in the definition of "market operations" in regulation 4.
- 5.3.3 This suggests that a change is required to regulation 4 of the Levy Regulations to allow the Authority's costs relating to prudential arrangements to continue to be recovered as "market operations" costs.

5.4 Intended administrative change to the Levy Regulations

- 5.4.1 It is the role of the MBIE to advise the Government on possible changes to regulations.
- 5.4.2 The Authority proposes to request that the MBIE review the Levy Regulations to ensure that costs associated with the new Part 14A can be recovered as market operations costs.
- 5.4.3 The Authority considers the proposed amendment to the Levy Regulations is a technical amendment only and would not require a separate round of consultation. Consequently, the Authority is advising levy payers and other stakeholders of its intention to request an amendment to the Levy Regulations, although the Authority is also providing an opportunity for stakeholders to raise any concerns about this approach.

- 5.4.4 However, the Authority is consulting on whether the costs associated with the new Part 14A should be recovered as market operations costs, half from generators (based on MWh share of generation) and half from purchasers (based on MWh share of purchases. This is the same basis on which they are recovered now.
- 5.4.5 The Authority will consider submissions on this issue and discuss the matter with MBIE. MBIE may, as it considers appropriate, undertake further consultation and advise the Minister. If an amendment is to be made to the Levy Regulations, the Minister would need to recommend the amendment to Cabinet. Amendments to regulations are made by the Governor General by Order in Council.
- 5.4.6 Whether the Levy Regulations are amended would be a decision for the Government of the day. The speed with which an amendment to regulations could be progressed would depend on the priorities of the Government of the day.

Question 16 Should the Authority's costs in relation to Part 14A to be recovered 50 percent from generators and 50 percent from purchasers as they currently are?

Glossary of abbreviations and terms

Act	Electricity Industry Act 2010
AO _{CM}	Amount owing by the clearing manager
AO _P	Amount owing by the participant
AP _{CM}	Amount payable by the clearing manager
AP _P	Amount payable by the participant
Authority	Electricity Authority
Code	Electricity Industry Participation Code 2010
Code Amendment	Electricity Industry Participation (Settlement and Prudential Security) Code Amendment 2013
FTR	Financial transmission right
GST	Goods and services tax
HSA	Hedge settlement agreement
Levy Regulations	Electricity Industry (Levy of Industry Participants) Regulations 2010
MWh	Megawatt-hour
Proposed Amendment	The amendment proposed in this paper, which is an amendment to the Code Amendment

Appendix A Proposed amendment

Changes to the Electricity Industry Participation (Settlement and Prudential Security) Code Amendment 2013

...

2 Commencement

- (1) This amendment comes into force on 24 March 2015.
- (2) Despite subclause (1), any person may take any action or perform any obligation under any of the following before 24 March 2015, as if the new Part 14 and Part 14A in Schedule 1 of this amendment were in force:
- (a) clause 14.8:
 - (b) clause 14.21:
 - (c) Schedule 14.2:
 - (d) Schedule 14.4:
 - (e) clause 14A.5(2) and (3):
 - (f) Schedule 14A.1, clause 8:
 - (g) Schedule 14A.1, clause 10(4) and (6), as amended by clause 17 of the Electricity Industry Participation (Settlement and Prudential Security) Code Amendment 2013, Amendment 2014:
 - (h) Schedule 14A.1, clause 12.
- (3) Nothing that results from any action taken or obligation performed in reliance on subclause (2) takes effect before 24 March 2015.

...

8A Clause 11.15C amended (Process for retailer events of default)

In clause 11.15C(1), replace "14.55" with "14.41".

8B Schedule 11.5, clause 1 amended

In Schedule 11.5, clause 1, replace "14.55" with "14.41".

8C Schedule 11.5, clause 2 amended

In Schedule 11.5, clause 2(1), replace "14.55" with "14.41".

8D Schedule 11.5, clause 4 amended

In Schedule 11.5, clause 4(1)(b)(i),—
(a) replace "14.55(b)" with "14.41(b)"; and
(b) replace "14.64" with "14.25".

8E Schedule 11.5, clause 5 amended

In Schedule 11.5, clause 5(1)(a),—
(a) replace "14.55(b)" with "14.41(b)"; and
(b) replace "14.64" with "14.25".

...

28 New clauses 17.210A to 17.210O inserted

After clause 17.210, insert:

...

"17.210L Defaults

- (1) An **event of default** under clause 14.55 that had occurred and was continuing immediately before the Electricity Industry Participation (Settlement and Prudential Security) Code Amendment 2013 came into force is deemed to be an **event of default** under clause 14.41.
- (2) Despite subclause (1), further funds constituting late payments received by the **clearing manager** in respect of any **billing period** that occurred before the Electricity Industry Participation (Settlement and Prudential Security) Code Amendment 2013 came into force must be dealt with as if the Electricity Industry Participation (Settlement and Prudential Security) Code Amendment 2013 had not been made.
- (3) Despite clause 14A.22(5), if an **event of default** was continuing in relation to a **participant** immediately before the Electricity Industry Participation (Settlement and Prudential Security) Code Amendment 2013 came into force, the **participant's** post default exit period begins—
 - (a) for an **event of default** relating to a **retailer's use-of-system-agreement** with a **distributor** under clause 14.55(h), on the date on which the **Authority** gave notice to the **participant** under clause 2(1) of Schedule 11.5; or
 - (b) for any other **event of default**, on the date on which the **clearing manager** notified the **participant** that it had committed an **event of default** under clause 14.57.

...

Schedule 1 Part 14 replaced

...

14.16 Calculation of loss and constraint excess

...

- (2) The **FTR manager** must—
 - (a) determine the amount of **loss and constraint excess** that must be applied to the settlement of **FTRs** in accordance with Schedule 14.3; and
 - ~~(b) advise the **clearing manager** of that amount no later than 1600 hours on the 7th **business day** of the month following the relevant **billing period**.~~
 - (b) advise the **clearing manager** of that amount no later than—
 - (i) 1600 hours on the 7th **business day** of the month following the relevant **billing period**; or
 - (ii) if **publication of final prices** is delayed for any **trading period** in the relevant **billing period**, so that **final prices** for a **trading period** in the **billing period** are **published** later than 1600 hours on the 6th **business day** of the month following the relevant **billing period**, 1 **business day** after all **final prices** for the **billing period** are

published.

...

14.32 Methods of payment

- (1) Subject to subclause (2), each **participant** must pay the **clearing manager** in **cleared funds** into the **operating account**.
- (2) A **participant** may instruct the **clearing manager** to pay all or part of an amount payable by the **participant** under clause 14.31 from a **cash deposit** held by the **clearing manager** in respect of the **participant** in accordance with clause 14A.13.
- (3) The **clearing manager** is not required to comply with an instruction given under subclause (2) unless it is received at least 2 **business days** before the **participant** is required under clause 14.31 to pay the **clearing manager** the amount to which the instruction relates.

...

14.34 Payments by clearing manager

- (1) Subject to subparts 7 and 8, the **clearing manager** must pay each **participant** the amount advised to the **participant** under subpart 4 as payable by the **clearing manager** to the **participant** by 1600 hours on the final **business day** for payment under clause 14.31.
- (2) The **clearing manager** must pay each **participant** in **cleared funds**.
- (3) A **participant** may instruct the **clearing manager** to treat all or part of an amount payable to the **participant** under this clause as a **cash deposit** under Part 14A.
- (4) The **clearing manager** is not required to pay a **participant** under this clause if a **settlement default** is continuing in relation to the **participant**.
- (5) The **clearing manager** is not required to comply with an instruction given under subclause (3) unless it is received at least 2 **business days** before the **participant** is required under clause 14.31 to pay the **clearing manager** the amount to which the instruction relates.

...

14.41 Definition of an event of default

...

- (g) a holder of a security interest or other encumbrancer taking possession of, or a receiver, manager, receiver and manager, liquidator, provisional liquidator, trustee, statutory or official manager or inspector, administrator or similar officer being appointed in respect of the whole or any part of the assets of a **participant** that is required to comply with Part 14A or if the **participant** requests that such an appointment be made;
- (h) termination of a **retailer's use-of-system agreement** with a **distributor** because of a **serious financial breach** if—
 - (i) the **retailer** continues to have a **customer** or **customers** on the **distributor's local network**; and
 - (ii) there are no unresolved disputes between the **retailer** and the **distributor** in relation to the termination; and

- (iii) the **distributor** has not been able to remedy the situation in a reasonable time; and
- (iv) the **distributor** gives notice to the **Authority** that this clause applies.

...

14.43 Procedure upon event of default

...

- (4) If the **clearing manager** becomes aware that an **event of default** under paragraphs (a) to (g) of clause 14.41 has occurred and is continuing in relation to a **participant**, the **clearing manager** must—
 - (a) advise the **Authority** that the **event of default** has occurred; and
 - (b) and if the **participant** has not advised the **clearing manager** of the **event of default**, the ~~clearing manager~~ must advise the defaulting **participant** that the **event of default** has occurred.
- ~~(5) The **clearing manager** must advise the **Authority** of an **event of default**.~~

...

14.55 Allocation of shortfall to settlement of general amounts and FTRs

...

- (4) In respect of each defaulting **participant**, the amount of the shortfall that must be allocated to adjust the settlement of **FTRs** is determined in accordance with the following formula:

$$X_{\text{FTR}} = X_{\text{TOT}} * (O_{\text{FTR}}/O_{\text{TOT}})$$

where

X_{FTR} is the amount of the shortfall that must be allocated to adjust the settlement of **FTRs**

~~X_{TOT} is the total amount owing by the defaulting **participant** to the **clearing manager** as specified in clause 14.19 minus the amount of the shortfall—is the amount of the total shortfall~~

O_{FTR} is the total amount owing by the defaulting **participant** to the **clearing manager** in respect of **FTRs** as specified under clause 14.19(2)(h) and (i)

O_{TOT} is the total amount owing by the defaulting **participant** to the **clearing manager** as specified under clause 14.19(3)

...

14.58 Calculation of scaled amount payable

The **clearing manager** must calculate the scaled amount payable for each **participant** to which an amount is payable by the **clearing manager** under subpart 5 in accordance with the following formula:

$$AP_{\text{CM (scaled)}} = AO_{\text{CM (revised)}} - AO_{\text{P}} + P$$

where

$AP_{\text{CM (scaled)}}$ is the scaled amount payable by the **clearing manager** to the **participant**

$AO_{CM (revised)}$ is the sum of the revised amounts owing by the **clearing manager** to the **participant**, calculated under clauses 14.56 and 14.57

AO_P is the sum of the amounts owing by the **participant** to the **clearing manager**, calculated under clause 14.19

P is any amount ~~paid~~ payable by the **participant** under clause 14.31 and, in the case of a defaulting **participant**, that amount minus any amount ~~recovered~~ or set-off under clause 14.44(1)(c)

14.59 Calculation of revised amount payable

...

(2) If the application of the formula in clause 14.58 results in a scaled amount payable that is negative for a defaulting **participant**, the **clearing manager** must seek to recover the absolute value of that amount by exercising its powers under clause 14.44 by 1530 hours before applying subclause (4).

...

(4) If the application of the formula in clause 14.58 (as adjusted by subclause (3)) results in a scaled amount payable that is negative for 1 or more **participants** to which an amount is payable by the **clearing manager**, the **clearing manager** must calculate the revised amount payable by the **clearing manager** under clause 14.60 as follows:

(a) for each **participant** for which the scaled amount payable is negative, set the revised amount payable for the **participant** to 0:

(b) for each **participant** for which the scaled amount payable is positive, calculate the revised amount payable to the **participant** in accordance with the following formula:

$$AP_{CM (revised)} = AP_{CM (scaled)} + AO_{negative} (AO_{CM (revised)} / AO_{positive})$$

where

$AP_{CM (revised)}$ is the revised amount payable by the **clearing manager** to the **participant**

$AP_{CM (scaled)}$ is the scaled amount payable by the **clearing manager** to the **participant**, calculated under clause 14.58

$AO_{negative}$ is the sum of all ~~revised scaled amounts owing payable~~ by the **clearing manager** to a the **participant** for every **participant** for which the scaled amount payable is negative

$AO_{CM (revised)}$ is the sum of the revised amounts owing by the **clearing manager** to the **participant**, calculated under clauses 14.56 and 14.57

$AO_{positive}$ is the sum of all revised amounts owing by the **clearing manager** to a **participant** for every **participant** for which the scaled amount payable is positive

...

Schedule 14.3

Calculation of amount of loss and constraint excess to be applied to the settlement of FTRs

...

4 Grid owner must determine normal grid configuration

...

- (3) Each **grid owner** must provide to the **FTR manager** the ~~model data~~ information describing the normal **grid** configuration for the **grid owner's grid** determined under subclause (1).

...

- (5) Each **grid owner** must provide new ~~model data~~ information to the **FTR manager** if the **grid owner** determines a new normal **grid** configuration for the **grid owner's grid** under subclause (4), unless otherwise agreed with the **FTR manager**.

5 FTR manager must determine FTR injection patterns

...

- (4) The **FTR manager** must determine a new set of **balanced** extreme **FTR injection patterns** if—
- (a) a **grid owner** provides the **FTR manager** with new ~~model data~~ information under clause 4(5) that results in a change to the **feasible region** of **FTR injection patterns**; or
 - (b) there is a change to the **hubs** or set of **hubs** specified in the **FTR allocation plan**.

...

Schedule 14.4 Forms of hedge settlement agreement

Form 1

...

SCHEDULE TERMS OF HEDGE SETTLEMENT AGREEMENT

Hedge settlement agreement terms	
Commencement Date	[Insert date]
Expiry Date	[Insert date]

Fixed Price Payer	[Party A] [Party B]
Floating Price Payer	[Party A] [Party B]
Notional Quantity	[insert number] MWh {for each calculation period }
Fixed Price	\$(insert amount) {for each calculation period} <u>/MWh</u>
Hedge Reference Point	[insert grid exit point]

...

Form 2: Cap/Floor Calculation Period Price

...

SCHEDULE TERMS OF HEDGE SETTLEMENT AGREEMENT

Hedge settlement agreement terms	
Commencement Date	[Insert date]
Expiry Date	[Insert date]
Option Buyer	[Party A] [Party B]
Option Seller	[Party A] [Party B]
Option Type	[Call Option] [Put Option]
Notional Quantity	[insert number] MWh {for each calculation period }
Strike Price	\$(insert amount) {for each calculation period} <u>/MWh</u>
Calculation Period Premium	\$(insert amount) {for each calculation period}
Hedge Reference Point	[insert grid exit point]

...

Form 3: Cap/Floor Average Price

...

2 Definitions

The following definitions apply in this document:

average floating price means, in relation to an **option period**, an amount calculated using the following formula:

$$\text{average floating price} = \frac{\text{option period floating amount}}{\text{option period notional quantity}}$$

...

calculation period floating amount means, in relation to a **calculation period**, an amount calculated using the following formula:

$$\text{calculation period floating amount} = \text{calculation period notional quantity} \times \text{floating price}$$

~~calculation period notional quantity~~ means, in relation to a **calculation period**, the number of **MWhs** specified as such in the schedule for that **calculation period**

calculation period premium means, in relation to a **calculation period**, the amount specified as such in the schedule for that **calculation period**

...

floating price means, in relation to a **calculation period**, the **final price** in dollars per **MWh** for that **calculation period** by reference to the **hedge reference point**[, rounded to two decimal places]

...

~~notional quantity~~ means, in relation to an **option period**, the sum of the ~~calculation period notional quantities~~ for each **calculation period** in that **option period**

notional quantity means, in relation to a **calculation period**, the amount of **electricity** (measured in **MWh**) specified as such in the schedule for that **calculation period**

...

option period notional quantity means, in relation to an **option period**, the sum of the **notional quantities** for each **calculation period** in the **option period**

~~option period premium~~ means, in relation to an **option period**, the amount specified as such in the schedule for that **option period**

option period premium means, in relation to an **option period**, the sum of the **calculation period premium** for each **calculation period** in the **option period**

option period settlement amount means, in relation to an **option period**, an amount calculated using the following formula:

$$\text{option period settlement amount} = \frac{\text{option period notional quantity} \times \text{strike price differential}}{\text{price differential}}$$

...

SCHEDULE TERMS OF HEDGE SETTLEMENT AGREEMENT

Hedge settlement agreement terms	
Commencement Date	[Insert date]
Expiry Date	[Insert date]

Option Buyer	[Party A] [Party B]
Option Seller	[Party A] [Party B]
Option Type	[Call Option] [Put Option]
Option Period	[Each day (from 00.00 hours until immediately before 00.00 hours on the next day) during the term.] [Each day] [From 00.00 hours until immediately before 00.00 hours on the next day][first period being nn and last period being mm] [during the term.]
Calculation Period Notional Quantity	[insert number] MWhs [for each calculation period] [insert number MWh] -[Table of Notional Quantities (in MWh per calculation period) to be inserted]
Strike Price	\$(insert amount) [for each option period] [\$[insert amount/MWh] - [Table of Strike Prices to be inserted]
<u>Calculation</u> Option Period Premium	\$(insert amount) [for each option period] \$(insert amount) for each calculation period of option period. [Table of Premiums to be inserted]
Hedge Reference Point	[insert grid exit point]

...

Schedule 14A.1 Acceptable security

...

6 Determining minimum security

- (1) The minimum amount for which security is required to be provided by a **participant** under clause 14A.6 is—
 - (a) the sum of the following amounts:
 - (i) the general prudential requirement calculated in accordance with clause 7;
 - (ii) the **FTR** prudential requirement calculated in accordance with clause 11; minus
 - ~~(b) any amount prepaid by the **participant** under clause 14.30.~~
 - (b) any amount prepaid by the **participant** under clause 14.30 that is specified by the **participant** as being for a **billing period**—
 - (i) that has commenced but remains unsettled on the day for which the minimum security is being determined; or
 - (ii) any part of which falls within the prudential exit period for the **participant** (if any).
- (2) If the sum of the amounts under subclause (1) is negative, the minimum amount for which security is required to be provided is 0.

...

9 Calculating clearing manager's outstanding financial exposure to participant

...

- (3) The **clearing manager** must take **washup** amounts that have been advised as owing under Part 14 ~~calculated by the **clearing manager**~~ into account in estimating the amounts described in this clause.

10 Exit period prudential margin

...

- (5) The amount determined under subclause (2)(c)(ii) must—
 - (a) be an amount expressed in \$/MWh of not less than \$0/MWh; and
 - (b) be determined on the basis that the exit period prudential margin for a hypothetical purchaser who purchases a constant proportion of total electricity purchased from the clearing manager for every trading period is greater than the general exit period exposure for the purchaser on 75% of the days ~~in the relevant quarter~~ in a modeling period of 3 to 10 years selected by the clearing manager.
- (6) The **clearing manager** must determine the amount under subclause (2)(c)(ii)—
 - (a) ~~for each quarter in a~~ once for each calendar year; and
 - (b) no later than 2 months before the beginning of each calendar year.

...

Question 17 Do you have any comments on the drafting of the proposed amendment?

Appendix B **Format for submissions**

Submitter	
------------------	--

Question	Comment
Question 1 Do you agree that the proposed amendments should be put in place before 24 March 2014?	
Question 2 Do you agree that there is an issue with empowering certain administrative processes to be carried out before 24 March 2015? Is the Authority's proposed amendment to clause 2 of the Code Amendment appropriate?	
Question 3 Do you agree that there is an issue with managing any defaults that continue after the commencement date? Is the Authority's proposed amendment to clause 28 of the Code Amendment appropriate?	
Question 4 Do you agree that there is an issue with the notice period for the clearing manager to action certain instructions? Is the Authority's proposed amendment to Schedule 1 of the Code Amendment (amending clauses 14.32 and 14.34) appropriate?	
Question 5 Do you agree that there is an issue with the measurement units in the HSA forms? Is the Authority's proposed amendment to Schedule 1 of the Code Amendment (amending schedule 14.4) appropriate?	
Question 6 Do you agree that there is an issue with the definition of X_{TOT} in clause 14.55(4)? Is the Authority's proposed amendment to Schedule 1 of the Code Amendment (amending clause 14.55) appropriate?	

Question 7 Do you agree that there is an issue with the definition of P in clause 14.58? Is the Authority's proposed amendment to Schedule 1 of the Code Amendment (amending clause 14.58) appropriate?	
Question 8 Do you agree that there is an issue with the formula for managing negative amounts payable? Is the Authority's proposed amendment to Schedule 1 of the Code Amendment (amending clause 14.59) appropriate?	
Question 9 Do you agree that there is an issue with the duration over which the exit period "adder" applies? Is the Authority's proposed amendment to Schedule 1 of the Code Amendment (amending clause 10 of schedule 14A.1) appropriate?	
Question 10 Do you agree that there is an issue with the treatment of prepayments when calculating minimum security? Is the Authority's proposed amendment to Schedule 1 of the Code Amendment (amending clause 6 of schedule 14A.1) appropriate?	
Question 11 Do you agree that there is an issue with the treatment of washups when calculating minimum security? Is the Authority's proposed amendment to Schedule 1 of the Code Amendment (amending clause 9 of schedule 14A.1) appropriate?	
Question 12 Do you agree that there is an issue with preserving the effect of the amendment about timeframes for the FTR manager to advise the clearing manager about retained loss and constraint excess? Is the Authority's proposed amendment to Schedule 1 of the Code Amendment (amending clause 14.16) appropriate?	

Question 13 Do you agree that there is an issue with preserving the effect of the amendment relating to the list of events of default? Are the Authority's proposed amendments to Schedule 1 of the Code Amendment (amending clause 14.43) and to clauses 8A to 8E appropriate?	
Question 14 Do you agree that there is an issue with preserving the effect of the amendment relating to the term "model data"? Is the Authority's proposed amendment to Schedule 1 of the Code Amendment (amending clauses 4 and 5 in schedule 14.3) appropriate?	
Question 15 Do you agree with the contents of this regulatory statement relating to the proposed amendments to the Code Amendment?	
Question 16 Should we request that the Levy Regulations be amended to enable the Authority's costs in relation to Part 14A to be recovered 50 percent from generators and 50 percent from purchasers as they currently are?	
Question 17 Do you have any comments on the drafting of the proposed amendment?	