



Clearing and Settlement Prudential Security

Background

As electricity is consumed up to 50 days before payment is required, purchasers are required to provide security to cover their net exposure to the market. This enables the clearing manager to pay generators if a purchaser defaults on an invoice payment on settlement day. Payers of ancillary services are also required to provide security.

Electricity Industry Participant Code 2010
Rules governing prudential security are in Part 14A of the Code.

Forms of security able to be provided:

Cash deposit

Must be paid into the clearing manager's cash deposit account in cleared funds.

The clearing manager has two interest bearing accounts in the name of "Energy Clearing House Limited" with ANZ and ASB Bank, held equally in trust.

All cash provided for prudential security must be covered by an acceptable participant's security agreement. The Electricity Authority has approved the template Specific Security Deed as published on the clearing manager's webpage.

Letter of Credit/Bank Guarantee/Bond

The format must be set out as per schedule's 14.A2, 14.A3, 14.A4 and 14.A5 of the Code.

Hedge Settlement Agreement

Must be in the format set out in forms 1, 2 or 3 of schedule 14.4 of the Code and must be between two market participants. The clearing manager must validate and approve each HSA before the effective date. The hedge related regime is set out in Part 14 clause 14.8 of the Code.

Acceptable Credit Rating

Either A3 (Moody's), A- (Standard and Poor's), B+ (AM Best) or A- (Fitch Ratings) are the acceptable long-term credit ratings required before a participant is not required to provide prudential security.

Monitoring of security levels

Amounts are re-estimated on a daily basis by using a combination of inputs as they become available (refer to prudential security calculations sheet for further detail).

On each business day the clearing manager will publish an estimate of the amount of prudential security required from a participant on that day and each of the next 3 business days. Participants are required to meet the lowest of those estimates but 1600 hours on that day.

Reductions and releases

Participants may choose to reduce their security if their lodgement exceeds their exposure amount. Participants may also change the type of security provided after notifying the clearing manager of their intention to do this.

If you require any further information regarding prudential security calculations please email cm@nzx.com

