

Proposed change to the settlement day payment process

Prepared by the Clearing Manager
9 January 2009

1. Introduction

Recently a market participant questioned the current settlement day payment process and proposed a possible change.

This document has been created to describe the current process, explain potential problems associated with it and finally suggest possible solutions.

Consultation between the Clearing Manager and the Electricity Commission has taken place regarding this proposal.

M-co in its role as Energy Clearing House is now seeking feedback from participants regarding the current settlement payments process and any proposed changes to this process.

2. The current settlement payment process

Currently payers are required under the rules to settle their invoice by paying in same day cleared funds by 4pm on the 20th of the month (or the next business day if the 20th falls on a public holiday or during the weekend). These payments are made directly to the Clearing Manager.

Once all payments have been received the Clearing Manager may then start the process of paying the payees. Payment from the Clearing Manager to the payees is not paid in same day cleared funds.

3. Concerns raised regarding the current process

While all markets participants must pay the Clearing Manager in same day cleared funds they do not receive payment from the Clearing Manager in same day cleared funds.

This current process has caused issues for a particular market participant and these issues have been forwarded to The Electricity Commission. The Commission has then forwarded these concerns to M-co in its role as the Energy Clearing House.

The main issue raised by the market participant was that payments received from the Clearing Manager can take several days to clear. This results in both an increase in the amount of working capital that the participant must fund and the overall cost of funding. The market participant says these funds can take several days to clear.

4. Payment times

For the Clearing Manager to make same day cleared funds payments to payees the Clearing Manager would need to receive payments from payers well before the current cut-off of 4pm.

Currently around half the participants who are payers make their payment to the Clearing Manager prior to 12pm on settlement day. Between the hours of 12pm and 2pm the majority of the remaining payers then make their payments. Usually there are always two or sometimes three payers who will make their payment to the Clearing Manager after 2pm.

Conservatively the Clearing Manager would need to receive all payments from payers by 12pm on settlement day in order to pay all payees in same day cleared funds.

It may however still be possible for the Clearing Manager to pay all payees in same day cleared funds if all payments from payers were received prior to 2pm on settlement day.

Any payment from a payer received after 2pm on settlement day would make it very difficult for the Clearing Manager to pay all payees in same day cleared funds.

5. Time requirements of the Clearing Manager

Once all payer payments have been received the Clearing Manager can then start the process of paying payees. This involves checking payer payments, creating payee payments, getting payment approval and arranging any alternative funds if default occurs.

In order for a same day cleared funds payment from the Clearing Manager to happen it must be transmitted prior to 4:30pm.

6. Possible changes to the current process

With this background information in mind there appears to be two options available in regards to any changes that could be made to the current settlement day payment process.

1. **No rule change.**

Payers would still have until 4pm to make payments to the Clearing Manager. If however all payer payments were received prior to 2pm the Clearing Manager would then attempt to pay all payees in same day cleared funds. There would be no obligation for the Clearing Manager to do this and if for any reason it could not be achieved (irrespective of when the cleared payments were received by the Clearing Manager) the Clearing Manager may choose not to pay in cleared funds and revert to the requirements set out in the rules.

While the Clearing Manager is under no obligation to pay in same day cleared funds certain performance standards could still exist for this process.

2. **Rule change required.**

A change to the deadline in the rules (probably 12pm) Payers must pay the Clearing Manager on settlement day. The Clearing Manager must then pay all payees in same day cleared funds. This places extra obligations on the payer and the Clearing Manager with the trade-off being there is now increased certainty in payees being paid in cleared funds on settlement day.

If this option is preferred further progress would happen via the Electricity Commission.

7. Questions you may want to answer

In regards to this proposal there are potentially some specific questions you may wish to answer:

1. Would a payment received as same day cleared funds be of benefit to you?
2. How long does it take under the current process for settlement payments from the Clearing Manager to clear?
3. Would it be difficult for you to pay in same day cleared funds prior to 12pm?
4. If you are unable to pay before 12pm are you able to pay prior to 2pm?
5. Is any increase in cost with making payments earlier outweighed by receiving payments as same day cleared funds?
6. Of the two options listed what would be your preference or do you have an alternative suggestion?

8. Submissions

Submissions on this proposal should be sent to the Clearing Manager preferably prior to 5pm Friday 20 February 2009.

The Clearing Managers preference would be to receive all submissions electronically and they should be sent via email to CManager@m-co.co.nz.

9. Next steps post submissions

After the submission closing date, the Clearing Manager will forward submissions to the Commission and these will be made available to the general public on the Commission's website. Therefore, submitters should clearly indicate any information that is provided to the Clearing Manager on a confidential basis. All submission information provided to the Commission is subject to the Official Information Act 1982.

If respondents indicate a clear preference for implementing a non-rule change based solution, then the Clearing Manager will follow up with Payers to discuss procedural changes to allow the Clearing Manager to pay in cleared funds. The Clearing Manager will also contact the Electricity Commission to discuss the introduction of a new Clearing Manager performance standard related to cleared funds payment.

If respondents are undecided regarding the benefits of Clearing Manager cleared funds payment or prefer a rules based solution, then the Electricity Commission will progress the proposal taking submissions to the Clearing Manager into account.