



# MAJOR ELECTRICITY USERS' GROUP

22 October 2010

Lisa DuFall  
Electricity Commission  
By email to [submissions@electricitycommission.govt.nz](mailto:submissions@electricitycommission.govt.nz)

Dear Lisa

## Submission on Managing locational price risk proposal

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Commission (EC) consultation paper "Managing locational price risk proposal" published 13<sup>th</sup> September 2010<sup>1</sup>.
2. Several MEUG members are making separate more detailed submissions. MEUG response to selected questions in the consultation paper follow:

Question No.	Response
Q1 Are there any other issues relating to the background, previous analysis and consultations that are relevant to consideration of the Commissions locational price risk management proposal?	No.
Q4 Do you agree that locational price risk is, and will continue to be, a serious impediment to retail competition?	It's important but we have no data to assess if it is the most important factor inhibiting retail competition. Once Pole 3 is completed and other approved AC network investments, locational price risk may become less of a problem.
Q5 What other issues do you consider are materially impeding retail electricity competition and what priority should be attached to addressing them?	Some distribution terms and conditions may be an impediment, eg prudential requirements reputedly were a factor in e-gas becoming insolvent.

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<sup>1</sup> Refer <http://www.electricitycommission.govt.nz/consultation/lpr-management-proposal/view>

Question No.	Response
<p>Q7 Do you agree with the proposal to minimise the amount of detailed specification of the FTR in the Code, and using the FTR service provider contract to manage future development of the product? If not why not?</p>	<p>Agree.</p>
<p>Q9 Do you agree that the proposal for an Inter-island FTR only locational hedge does not limit the design options of a scarcity pricing regime for the electricity market? If not why not?</p>	<p>No comment because we are unsure what the scarcity pricing proposal will finally look like. Based on the material published to date we are sceptical as to how it can be effectively implemented.</p>
<p>Q10 Do you agree or disagree or have any comments on the FTR design details, and in particular on:</p> <p>(a) the proposed use of virtual GWAP hubs rather than nodes?</p>	<p>At the ASX information briefing on 29<sup>th</sup> September in Auckland there was a large proportion of attendees in favour of using the futures and options nodes for FTR.</p>
<p>Q11 Do you agree with the view that the inter-island FTR sufficiently concentrates competition for FTRs to limit the ability of Participants to abuse market power? If not why not?</p>	<p>No. There is less risk than having say FTR between 200+ nodes, but there is never zero risk. Market monitoring should be implemented no matter how few FTR nodes are used.</p>
<p>Q12 Do you agree with the proposal's other means of dealing with the issue of potential abuse of market power? If not why not?</p>	<p>Agree.</p>
<p>Q13 Do you agree that the market monitoring regime should include full transparency of the FTR contract information? If not why not?</p>	<p>Agree.</p>
<p>Q14 Do you agree with the proposed role of the FTR service provider in developing the locational hedge over time? If not why not?</p>	<p>Agree.</p>
<p>Q15 Do you agree with the proposal to not charge a fee for provision of FTR services, but to fund those cost through the Electricity Industry Levy? If not why not?</p>	<p>No. Those using FTR to manage locational price risk should pay. Those using other options, such as building generation in constrained areas, should not have to subsidise FTR market participants. A user pays model is preferable for both the initial FTR product and any future new products, ie the FTR service provider should be</p>

Question No.	Response
	charging the incremental costs of new products to those that use them.
<p>Q17 Do you agree with the content of the risk analysis undertaken by the Commission and the conclusion that the proposal includes sufficient strategies to manage the risks involved? If not why not?</p>	<p>There will probably be a benefit in waiting while other changes to the market and grid are completed and then making a decision. This option needs to be analysed.</p>
<p>Q18 Do you agree that the proposed Inter-island FTR is the best immediate solution for the New Zealand market, and in particular that it:</p> <ul style="list-style-type: none"> <li>• will significantly contribute to improved retail electricity competition?</li> <li>• fits well with energy hedge market developments? and</li> <li>• could be readily adapted to future possible needs of the market?</li> </ul>	<p>No. As noted in response to Q17 above we think there will be a benefit in delaying timing and final design pending bedding in of futures and options market and commissioning of Pole 3. There are two aspects to be considered:</p> <ul style="list-style-type: none"> <li>• A more liquid hedge market coupled with a less constrained grid from as early as 2012 onwards may lead to a different design of FTR than that needed now; and</li> <li>• MEUG has concerns at the capacity of the market to implement the large number of changes already underway over 2011 and 2102, plus the introduction of an FTR market. It may be that the market decides additional futures and options products (eg cap options) have a higher priority than FTR products.</li> </ul>

3. This submission is not confidential.

Yours sincerely



Ralph Matthes  
Executive Director