



MAJOR ELECTRICITY USERS' GROUP

7 May 2012

Richard Harrow
Electricity Authority

By email to wag@ea.govt.nz

Dear Richard

Wholesale Market Information Project – WAG Discussion Paper

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Wholesale Advisory Group (WAG) discussion paper "Wholesale Market Information Project" dated 23rd March 2011¹. This project is referred to as the WMIP. MEUG members have been consulted in the preparation of this submission.
2. The paper notes in paragraph 4.2 "the quickly developing forward markets still had gaps which needed to be addressed". The paper then focuses on (paragraph 5.2.1) "information critical to forward price curve evaluation". This is unfortunate.
3. A robust spot market with prices that are efficient is essential for developing a robust derivatives market. The events of 26th March 2011 and 13th December 2011 demonstrate significant problems with information to ensure discovery of efficient spot prices and effective information to facilitate responses to spot price changes when the market is stressed. While WAG missed the opportunity to consider information for the spot and ancillary services, we have been reassured that work has since been picked up by the Authority directly.
4. Responses to the questions in the consultation paper follow:

Question	MEUG response
Q1. Can you suggest any other publicly available information that is missing from the data stocktake?	In some cases continuous disclosures to NZX and COMU will have a role.

¹ <http://www.ea.govt.nz/our-work/consultations/advisory-group/wholesale-market-information-wag-discussion-paper/>

Question	MEUG response
Q2. Do you have any other observations or comments to make about the wholesale market data available, or the data stocktake outcomes?	No.
Q3. What comments do you have on the set of information WAG has identified as being critical for wholesale market stakeholder evaluation of the forward price curve?	The list is useful.
Q4. Do you agree with the commentary on current availability/accessibility of this information and the "traffic light" assessment outcomes?	Table 3 helps identify the possible information gaps then analysed in the balance of the paper.
Q5. What comments do you have on the discussion of possible amendments to clause 13.2(3) set out in Table 6?	Agree worth considering a refresh of the drafting of cl. 13.2(3).
Q6. Who do you think the obligation to disclose should be on? (refer row 1 of Table 6)	Option 1 but subject to answer to Q9 below.
Q7. How do you think the test should be expressed for the information that relevant parties should be required to disclose under a revised clause 13.2? (refer row 2 of Table 6)	"Material impact on prices" needs to be defined.
Q8. Under what circumstances should relevant parties be excused from disclosing such information (ie what exclusions should apply to the disclosure obligation)? (refer row 6 of Table 6)	No comment.
Q9. To which markets should the obligation to disclose information apply? (refer row 3 of Table 6)	Could be a problem when market participants must disclose information on financial derivatives but other non-market entities operating in the same financial derivatives market are not bound by Code disclosure requirements.
Q10. What comments do you have on the indicative drafting for a revised clause 13.2 as set out here beginning at para 7.3.3? (refer Table 2A below for suggested format)	MEUG would like to see the yet to be undertaken "comprehensive legal review" (paragraph 7.3.2) before commenting.
Q11. Is there additional thermal fuel information you consider to be material to forward price curve evaluation? Please specify	Cannot form a view until "material" impact is defined (see also answer to Q7).

Question	MEUG response
Q12. Do you agree with the WAG's assessment of the current availability/accessibility of thermal fuel information? What additional comments would you make?	No surprise that thermal fuel information, particularly price information, is tightly held because of its commercial importance. However unless there is evidence thermal markets are uncompetitive, intervening to force disclosures should be considered very cautiously. It may be prudent to wait for the outcome of the Gas Industry Company Gas Transmission Investment Programme ² .
Q13. What comments do you have on the WAG's assessment of the costs and benefits of options to enhance thermal fuel quantity and deliverability information?	Appendix C assessment of upper bound benefits is not helpful as it does not differentiate the benefit due to enhanced thermal fuel information from other effects. Appendix C also appears to be related to the CBA for justifying the stress test. MEUG has comprehensively rebutted that analysis beforehand.
Q14. Do you agree with the WAG's proposed approach for enhancing thermal fuel quantity and deliverability information? If not, what alternative approach do you propose, and why?	Following on from answers to Q12 and Q13 above, MEUG has doubts about the analysis.
Q15. What comments do you have on the WAG's assessment of the costs and benefits of options to enhance thermal fuel price information?	See answer to Q14 above.
Q16. Do you agree with the WAG's proposed approach in relation to thermal fuel price information? If not, what alternative approach do you propose, and why?	Despite answers to Q 12 to 15 above, MEUG agrees with the proposal to retain the status quo and revisit this issue in 12 months.
Q17. What comments do you have on the draft facilitated disclosure regime for thermal fuel quantity information attached as Appendix D?	Put aside until review in 12 months.
Q18. Is there additional snowpack information you consider to be material to the forward price curve evaluation? Please specify	No.
Q19. Do you agree with the WAG's assessment of the current availability/accessibility of snowpack information? What additional comments would you make?	No comment.

² <http://gasindustry.co.nz/work-programme/gas-transmission-investment-programme>

Question	MEUG response
Q20. Do you agree with the WAG's assessment and proposed approach for enhancing snowpack information disclosure? If not, what alternative would you propose and why?	See answer to Q21 below for an alternative to be considered ahead of the proposal in Appendix D of the paper.
Q21. What comments do you have on the draft facilitated disclosure regime for snowpack information attached as Appendix D?	May be worth pursuing but better option may be market driven requirement on Meridian as part of having listed debt to keep the debt market more informed by voluntarily disclosing snow pack statistics. Meridian should be asked if they have considered continuous disclosure requirements with respect to snow pack levels.
Q22. Is there additional transmission and generation availability and outage information you consider to be material to forward price curve evaluation? Please specify.	Paragraph 8.4.1 lists physical asset capabilities. To assess the need for and price for a hedge, TOU consumers need to have an idea of price effects of planned outages.
Q23. Do you agree with the WAG's assessment of the current availability/accessibility of transmission and generation availability and outage information? What additional comments would you make?	<p>WAG acknowledges this is a complex issue (paragraph 8.4.4) and decides discussions between the EA and system operator on Hydro Risk Curves (HRC's) will help solve the issue. We disagree. Those discussions might help improve confidence in HRC's but those forecast physical resource availability (ie GWh) to achieve reliability objectives and not price effects affecting competition and market efficiency.</p> <p>There is an important gap in the knowledge of most TOU consumers about planned outages and possible effects on spot prices. The recent inquiry by the Authority into local net pivotal events highlights how critical information and understanding on planned outages can be.</p> <p>Without better information and understanding of planned outage risks it's difficult for TOU consumers to assess the value of cap products offered by suppliers and consider other strategies to manage risks over those events.</p> <p>WAG needs to reconsider how useable planned outage information in relation to spot price risk can be improved.</p>
Q24. Do you agree with the WAG's proposed approach regarding ASX contract trading prices? If not, what alternative would you propose and why?	Yes, agree with the proposal to retain the status quo. There are now many sources for summarised ASX futures curves available to interested parties.

Question	MEUG response
<p>Q25. Do you agree with the WAG's proposed approach regarding contract cover information? If not, what alternative would you propose and why?</p>	<p>No. MEUG does not expect the stress test will be a useful source of information. This was discussed in MEUG feedback on the stress test dated 30th March 2012³. The text of paragraph 8 bullet point four of that feedback follows:</p> <p><i>MEUG is concerned that the stress test regime might be seen as being a source of aggregate industry statistics beyond what is likely to be achieved. For example the Wholesale Advisory Group (WAG) discussion paper "Wholesale Market Information" in relation to information gathered under the stress test regime states⁴:</i></p> <p><i>"The results which would be publicly released from the regime would provide an indication of the hedge cover available under each stress test for each quarter for participants collectively and individually, but without identifying the results of any individual participant."</i></p> <p><i>Contrary to the Wholesale Advisory Group view, MEUG does not see any robust aggregate contract cover statistics either for the base case or any stress test being obtained from the stress test regime. There may be some aggregate data but because the stress test is only partial, many disclosures will effectively have nil returns (eg feedback points 4⁵ and 5⁶ above and companies that do not use minimum forward cover approaches⁷) and the date of audited financial statements will differ from company to company, then the aggregate results will not be robust or comparable from quarter to quarter. Having a consultation round on the format of the summary results will help flush out any untested expectations such as those by WAG.</i></p>

³ MEUG to EA, Feedback on draft spot price risk disclosure statement, 30th March 2012, refer <http://www.meug.co.nz/includes/download.aspx?ID=120656>

⁴ paragraph 8.6.5

⁵ Feedback point 4 stated "MEUG notes there will be "not applicable" answers to questions 2 to 8 of the draft SPRDS from disclosing participants where those parties do not have audited financial statements and are not the primary entity where risk management policies are set."

⁶ Feedback point 5 stated "MEUG notes that for disclosing participants that have an annual target ratio approach to risk management then while they will reply "yes" to question 7 in the draft SPRDS (ie do you have an explicit risk management policy?), the detailed analysis in the follow on question is only relevant for the immediate next quarter and therefore they will enter "not applicable" for question 8."

⁷ Refer Electricity Authority, Stress testing regime – stress tests: Base case, stress tests and application notes, 24th February 2012, refer paragraph 2.63 and 2.64 that discusses the situation "where a participant's risk management policy is not expressed in a form that sets a minimum or expected level of forward cover, it will not be feasible to calculate a meaningful target cover ratio".

Question	MEUG response
Q26. Do you agree with the WAG's proposed approach regarding hydro and climate outlook information? If not, what alternative would you propose and why?	Yes, agree with the proposal to retain the status quo.

5. We look forward to the WAG review of this submission.

Yours sincerely



Ralph Matthes
Executive Director