



MAJOR ELECTRICITY USERS' GROUP

16 May 2012

Richard Rowell
Energy Market Services
FTR Manager
Electricity Authority

By email to frmanager@ems.co.nz

Dear Richard

Proposed FTR allocation plan 2012

This is a submission by the Major Electricity Users' Group (MEUG) on the FTR Manager (EMS) proposed FTR allocation plan 2012, 10th April 2012¹. MEUG is focussed on three policy issues for implementing FTR:

1. The Electricity Authority actively monitors the FTR market as soon as it commences in case outcomes contrary to the long term benefit of consumers emerge requiring urgent remedial action. This is outside the scope of this consultation.
2. The FTR Grid and FTR prudential requirements do not lead to cross-subsidies from energy market participants relative to alternative more "optimal" FTR Grid and FTR prudential requirements. The former will be part of the FTR policies to be developed by the FTR Manager by November 2012². The latter is subject to a parallel consultation by the Clearing Manager, NZX.
3. FTR participants pay for the FTR market. MEUG believes this is within the scope of this consultation. MEUG welcomes the opening sentence in section A-VIII (p11) titled "A self-funding market" that states:

"In addition to delivering the requirements in the Code the Authority has asked the FTR Manager to develop a model for a self-funding FTR market."

We disagree with the balance of that section that states:

¹ <http://ems.co.nz/ftr>

² Refer section G of the plan, pp 108 to 115

"This matter is not developed in this consultation paper. It is desirable for such a move to be considered by FTR market participants and is likely to be considered as part of FTR Allocation Plan 2013."

Our disagreement has two bases. First, it isn't a matter for FTR market participants to consider the desirability of self-funding. Energy market participants are subsidising the commencement and initial operation of the FTR market. FTR participants need to clearly understand that this subsidy will come to an end and the earlier the better.

Second, inclusion in the FTR allocation plan 2012 that the FTR market will become self-funding will ensure that parties considering entering the market for the long term do so in the full knowledge that participation costs will increase as subsidies are removed.

MEUG recommend the FTR allocation plan 2012 make a clear statement that the FTR market will become self-funded. The implementation pathway towards self-funding should be considered in the FTR policies to be published in November 2012.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Matthes', with a stylized flourish at the end.

Ralph Matthes
Executive Director