



MAJOR ELECTRICITY USERS' GROUP

9 May 2017

Dr John Rampton
General Manager Market Design
Electricity Authority
By email to submissions@ea.govt.nz

Dear John

Issues and Options Paper – Financial Transmission Rights development

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority (EA) issues and options paper "Financial Transmissions Rights development", 28 March 2017.¹
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. MEUG responses to the questions in the issues and options paper follow:

Question	MEUG response
1. Do you agree that further enhancing the FTR market could support the issues identified by the Authority, and provide benefits to the wider hedge market?	Agree.
2. Are there other issues with the current arrangements for FTRs that we have not identified?	None that MEUG members are aware of.
3. Do you have any comments on the drafting of the proposed changes?	No comments.
4. What are your views on the relative merits or priority of these twelve potential developments? Could some of them complement or substitute for others?	The discussion in section 5 and summary table 1 is well explained. There are no proposals that would not pass the broad test of being worth further investigation.

¹ URL <http://www.ea.govt.nz/dmsdocument/21993> at <http://www.ea.govt.nz/development/work-programme/risk-management/hedge-market-development/consultations/#c16389>.

Question	MEUG response
	<p>There are investigation, implementation and operational costs associated with each option. In this response, these costs are collectively called development costs and they refer only to the EA administered part of the FTR market.</p> <p>A shortcoming with the current regulatory framework is the inability for the EA to set fees for targeted activities such as FTR development costs being paid by FTR market participants. The possibility of an amendment to the Electricity Industry Act 2010 to allow the EA to set fees in such cases was discussed in the MEUG submission to the EA on changes to the FTR Allocation Plan, 13 September 2016.²</p> <p>MEUG suggests the question of who pays for FTR development costs is relevant to this consultation.</p> <p>If the costs of improving the FTR market are paid by FTR market participants, then that will incentivise those parties to ensure development and implementation work is well targeted and executed.</p> <p>If the pool of parties that can be an FTR market participant is broadened there is a risk some of those new parties may not contribute to FTR development costs because they do not pay directly or indirectly EA levies. A targeted fee regime rather than current cost recovery of the EA total costs through a levy should be considered.</p>
<p>5. Do you agree the Authority should provide policy direction on the four developments in Group 1, but that service providers can lead further assessment of the developments in Group 2?</p>	<p>The split of options into Group 1 to be further considered by the EA and Group 2 to be considered by the FTR Service Provider is reasonable.</p>
<p>6. What are your views on the merits of extending direct participation in the FTR market to parties based in Australia?</p>	<p>Having more purchasers of FTR by opening-up the market to parties overseas starting with Australia would, we expect, increase the discovery of the "efficient" price as discussed in paragraph 6.5 of the paper. It is not clear that opening-up the market need be conditional on simultaneously implementing other options to improve supply; or at least the option of a staggered implementation shouldn't be ruled out.</p>

² URL http://www.meug.co.nz/system/files_force/MEUG%20to%20EA%2C%20FTR%20Allocation%20Plan%2C%2013-Sep-16.pdf?download=1 at <http://www.meug.co.nz/node/800>

Question	MEUG response
	A factor to consider, not discussed in the paper, is the question of who should pay as discussed in response to Qu. 4 above.
7. What are your views on the merits and practicality of allowing parties other than the FTR manager to originate FTRs?	Refer response to Qu. 6 above.
8. What are your views on the merits and practicality of developing an FTR derivative product?	No view at this stage.
9. What are your views on the merits of developing a bulletin board?	Parties using the bulletin board should pay and thereby the board will be designed to meet the needs of the users'. A privately-owned bulletin board would achieve this whereas a bulletin board provided by the FTR Service Manager could not apply a user pay approach unless the Act were amended as discussed in response to Qu. 4 above.
10. Of the two approaches to overcoming the inherent limitations in the supply of FTRs that have been discussed (allowing parties to originate or develop a derivative product), which do you consider preferable and why?	No view at this stage.
11. Are there other approaches to overcoming the inherent limitations in the supply of FTRs that the Authority has not identified?	Refer response to Qu. 2 above.
12. What are your views on how these developments would complement each other? To what extent might they be dependent on each other?	No view at this stage.

Yours sincerely



Ralph Matthes
Executive Director