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Domestic retail electricity contracts – monitoring voluntary principles and minimum terms and conditions

The Authority is currently in the process of assessing the extent to which electricity retailers' domestic contracts align with the Authority's set of voluntary, good-practice, contracting principles and minimum terms and conditions for domestic retail contracts.

The Authority intends to provide retailers that are subject to the alignment review with their respective individual reviews for comment in the week commencing 5 September 2011, with responses due by Friday 16 September.

Retailers will have the opportunity to meet Authority representatives during this time to discuss the draft reviews.

The voluntary principles document is available at:

- <http://www.ea.govt.nz/our-work/programmes/market/consumer-rights-policy/domestic-electricity-retail-contracts/>

Financial transmission rights

The Authority will shortly be publishing a market outline of financial transmission rights (FTRs). The document provides a high-level overview of the FTR market and explains key concepts to parties with limited knowledge of the subject.

The FTR market outline will be available at:

- <http://www.ea.govt.nz/our-work/programmes/priority-projects/locational-hedges/>

More Standardisation consultation paper: Submissions deadline extended

Following requests from participants, the Authority has decided to extend the consultation deadline for the Model Use of System Agreements (MUoSA) components of the Standardisation Consultation Paper. The deadline for these parts has been extended by four weeks to 5pm Thursday 6 October 2011.



The deadline has not been extended for the parts of the Standardisation Consultation Paper where Code amendments are proposed. Specifically, responses to questions 5 to 23 are still required to be provided by 5pm Thursday 8 September 2011.

Extending the deadline for the MUoSA components of the Standardisation Consultation Paper reduces the amount of material for consideration and response by 8 September from approximately 440 pages to around 110 pages.

Updated Smart Meter FAQs

Updated information for consumers about smart meters has been published and is available at:

- <http://www.ea.govt.nz/footer-elements/faqs/consumers/>

Current consultations

- Scarcity pricing arrangements – proposed Code amendments
The Authority has published a second consultation paper containing its revised proposal for scarcity pricing measures, including proposed amendments to the Electricity Industry Participation Code 2010 (Code).
The paper is available at:
<http://www.ea.govt.nz/our-work/consultations/priority-projects/scarcity-pricing-proposed-code-amendments/>
Starting: 26/07/2011, Ending: 26/08/2011 4:00pm
- Consultation on improving the opportunities to hedge New Zealand electricity prices
This consultation paper presents and seeks feedback on the Authority's proposals aimed at improving the opportunities to use financial hedge contracts to manage the price risks of movements in New Zealand electricity prices.
The paper is available at:
<http://www.ea.govt.nz/our-work/consultations/priority-projects/-improving-opportunities-hedge-electricity-prices/>
Starting: 01/08/2011, Ending: 29/08/2011 5:00pm
- Standardisation: Model use-of-system agreements and proposed Code amendments
The deadline for the MUoSA components of this consultation has been extended by four weeks to 5pm 6 October 2011, however, responses to questions 5 to 23 are still required by 5pm 8 September 2011.
The paper is available at:
<http://www.ea.govt.nz/our-work/consultations/priority-projects/standardisation-muosa-and-proposed-code/>

Subscription

To subscribe or unsubscribe please email:

info@ea.govt.nz

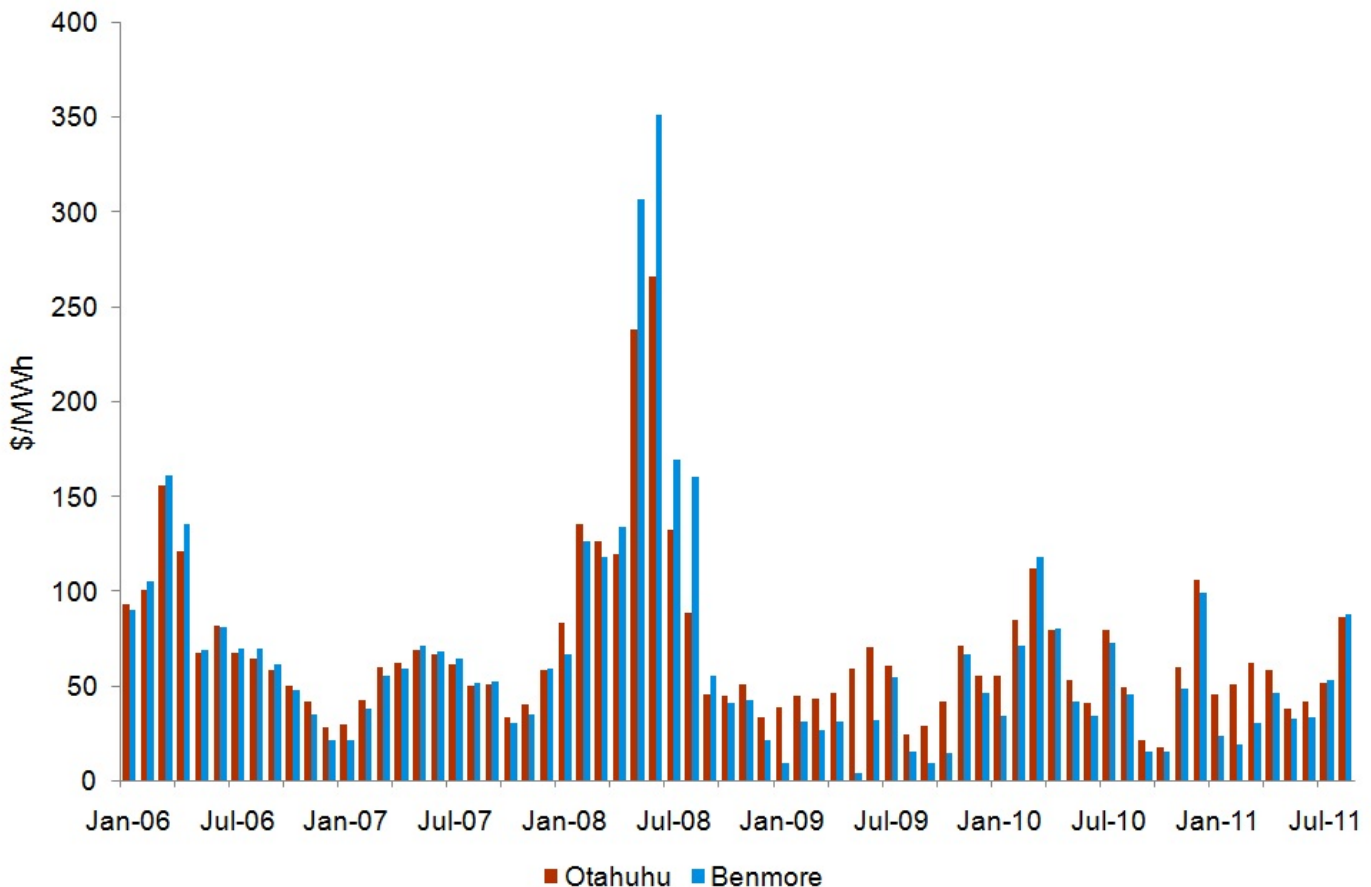


FTRs and prices at Otahuhu versus Benmore

The Authority recently gazetted Code amendments to provide for the introduction of an FTR market in October 2012. The initial plan is to offer FTRs of one-month duration covering price differences between Otahuhu and Benmore. The intention is to issue FTRs via monthly auctions, run by an FTR manager contracted to the Authority.

The following graphs show spot market prices for Otahuhu and Benmore for the last 5 years. Figure 1 shows monthly average spot prices at Otahuhu and Benmore, excluding spot prices on 26 March 2011. The monthly average price divergence between these two nodes was particularly large in June 2008.

Figure 1: Monthly average spot prices at Otahuhu vs. Benmore (excl. 26 March)



As FTRs are a monthly product, a holder of an FTR is completely protected from half-hourly or daily variations in prices between Otahuhu and Benmore. Figure 2 shows daily average spot prices at Otahuhu and Benmore for the same period as in Figure 1, excluding spot prices on 26 March 2011.

Figure 2: Daily average spot prices at Otahuhu vs. Benmore (excl. 26 March)

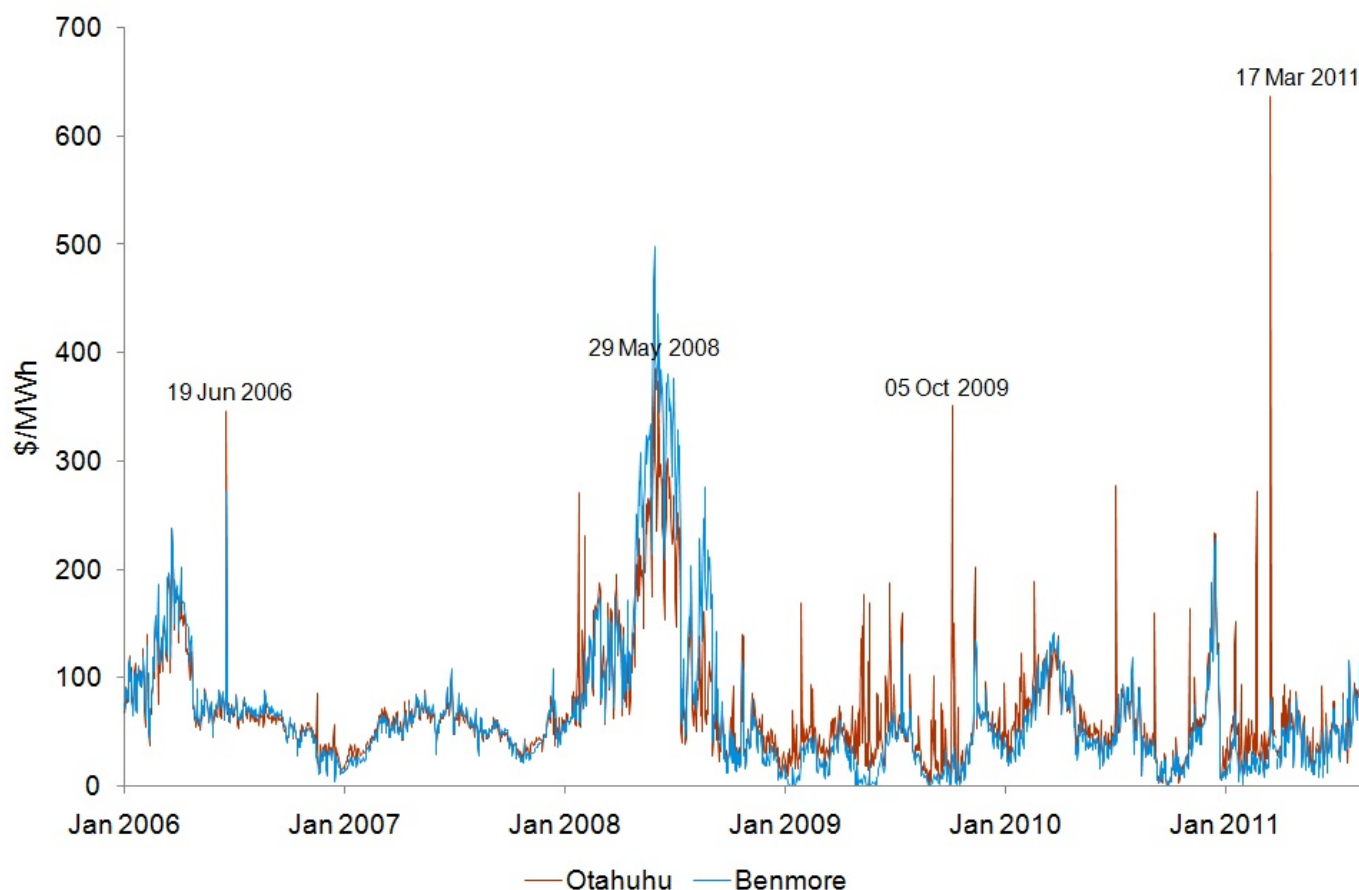
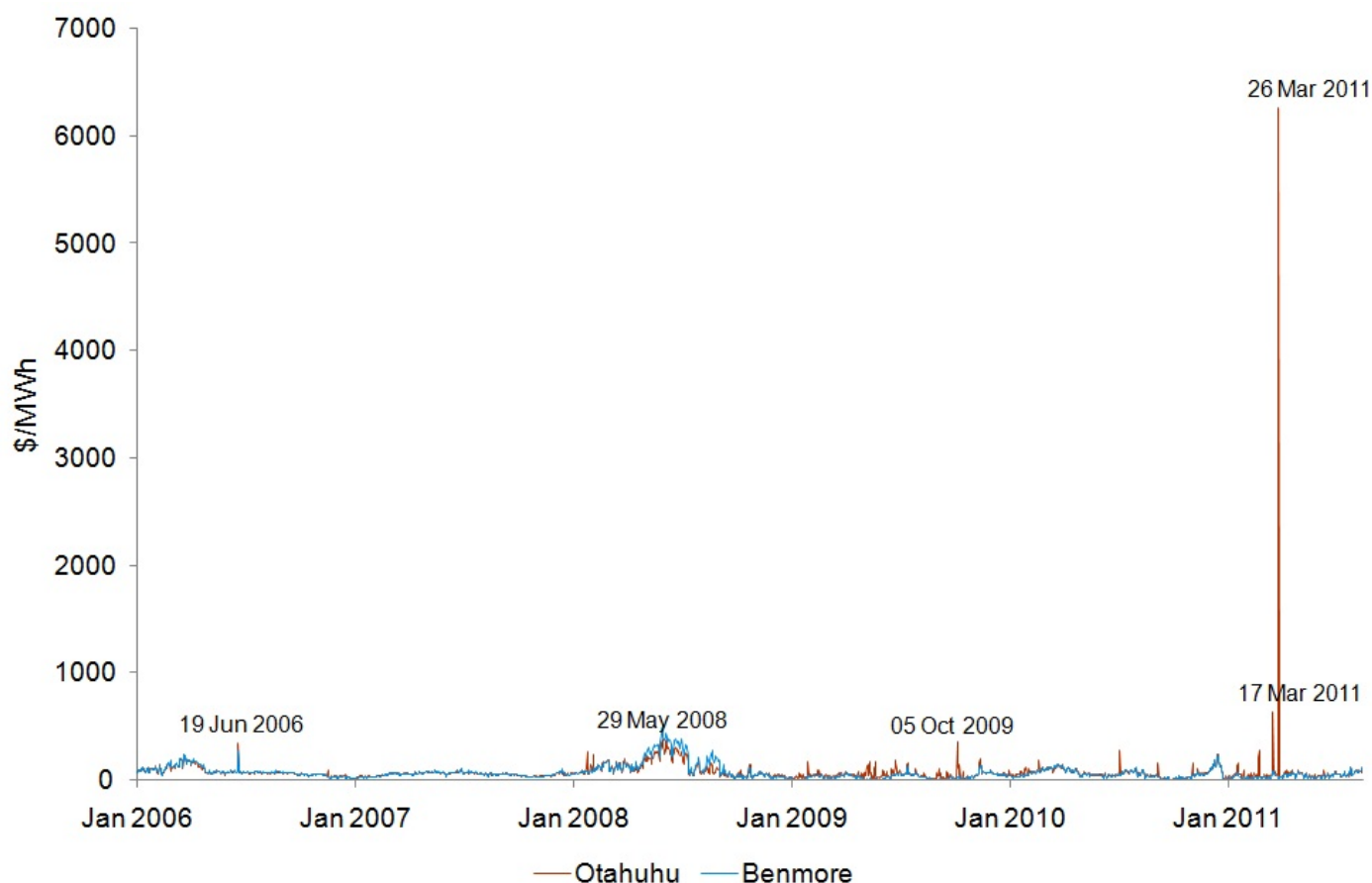


Figure 3 presents the same data but this time includes the interim prices of 26 March 2011. Interim prices on 26 March 2011 reached approximately \$20,000 per MWh at Otahuhu, which translate to about \$6,000 per MWh when averaged with the spot prices for the remaining trading periods on 26 March 2011.

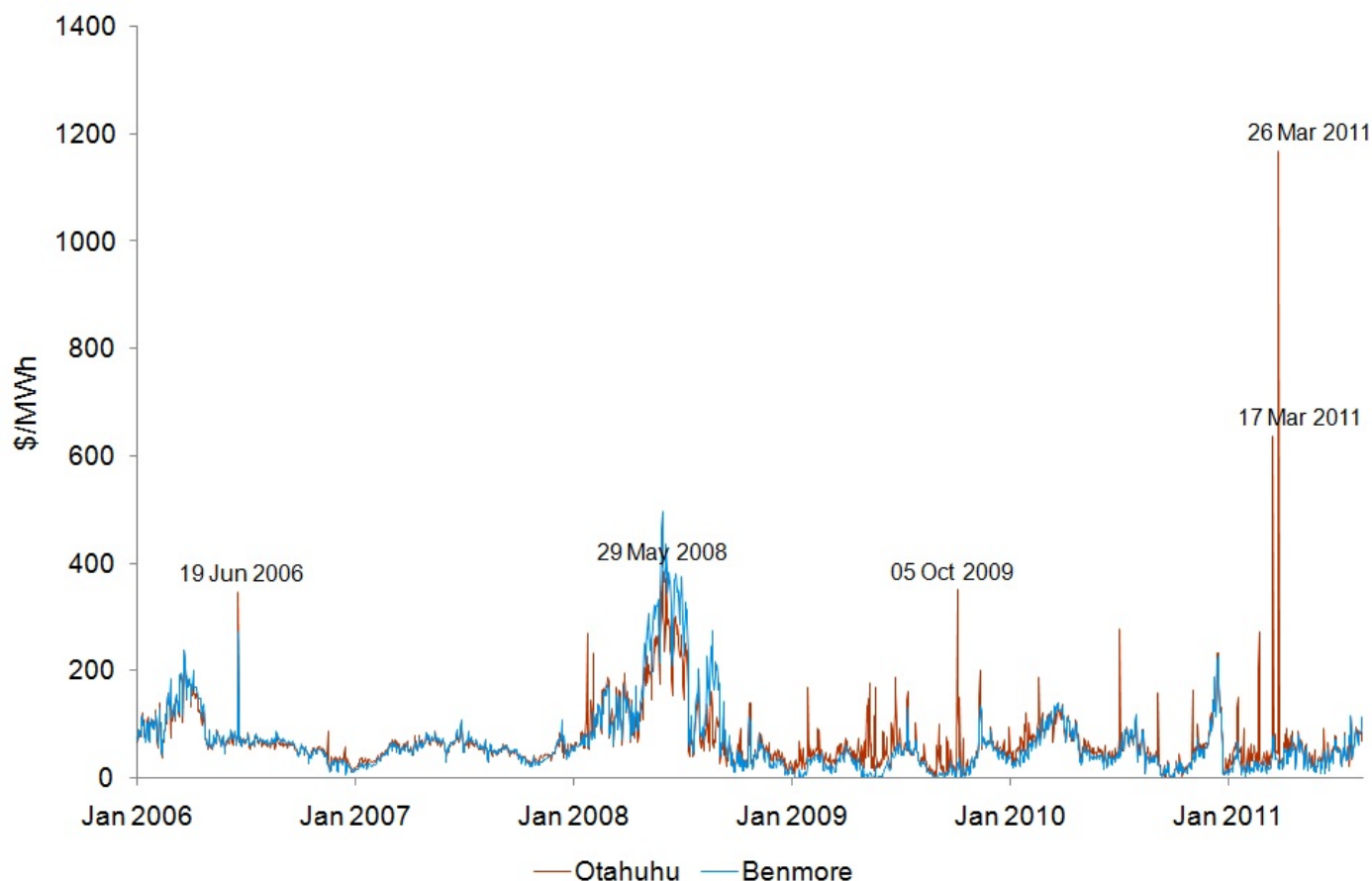
Figure 3: Daily average spot prices at Otahuhu vs. Benmore (incl. 26 March interim prices)



The impact of the interim prices on 26 March is clearly very significant in regard to the pattern of daily average prices, and shows that holding FTRs could provide market participants with valuable protection against such large price movements.

Figure 4 presents the same data as Figure 3, but with the interim prices for 26 March replaced by the remedial prices set by the Authority. The remedial prices were approximately \$3,000 per MWh, which translate to a daily average price of \$1,200 per MWh at Otahuhu. Figure 4 shows the Authority's remedial prices would still result in far larger spot price differences between Otahuhu and Benmore than has occurred anytime in the last five years.

Figure 4: Daily average spot prices at Otahuhu vs. Benmore (incl. 26 March remedial prices)



Looking forward, participants in the FTR market will be able to 'lock in' price differences between Otahuhu and Benmore by purchasing FTRs relating to months potentially two years out from the date of the auction.

