



6 August 2013

Submissions
Electricity Authority
By email: submissions@ea.govt.nz

Within-island basis risk: proposed approach

Meridian welcomes the opportunity to provide feedback on the Authority's consultation paper 'Within-island basis risk: proposed approach'.

We agree that multi-point FTRs should be the preferred mechanism for managing within-island basis risk. We support the addition of the 5 'recommended' and 2 'possible' nodes as identified in Figure 1 in the consultation paper. However, we consider WKM may be a more appropriate node to include than WRK following completion of the Wairakei to Whakamaru line replacement project later this year. We also consider that ISL and GIS should be included in the set of 'recommended' nodes, given the size of load serviced (ISL) and the potential price risk (GIS) at these nodes. Meridian considers current price risk at GIS is likely to be higher than indicated in the historical analysis due to recent participant behaviour.

In moving to multi-point FTRs, Meridian considers there are pros and cons with both a point-to-point and a radial FTR approach. We view the key benefit of point-to-point FTRs as the ability to secure cover between any two points with a single product. The key benefits of radial FTRs are the fewer number of FTR products (for an equivalent number of nodes), which may make the product simpler to use, and the alignment with ASX trading nodes. Note, if a radial FTR system were adopted, Meridian would support the 'Radial 1' approach (as described in the consultation paper) and would support the 'hub' nodes being at Otahuhu (OTA) and Benmore (BEN).

Meridian considers that whichever multi-point approach is adopted should continue to be used, even with the subsequent addition of further nodes. Moving between a point-to-point and radial approach in the future would be confusing (particularly considering that FTRs will be sold over a 24 month horizon) and require further changes to participants' analytical tools. Hence, if there is a clear intention to add nodes beyond the 7 already suggested at some point in the future, and if this would be seen as creating too much complexity under a point-to-point approach, Meridian suggests it may be preferable to adopt a radial system immediately.

Lastly, we do not consider that 'ease of implementation' with respect to FTR software should be a determining factor in deciding between a point-to-point and radial approach. Any decision between these two approaches should be based on the usefulness and usability of the resulting FTR product.

If multi-point FTRs are progressed, Meridian supports paying all loss and constraint excess into the FTR account to fund FTR payments. This would significantly simplify the process for determining FTR rentals (eliminating the need to undertake the calculations in Schedule 14.6) and would enhance the firmness of FTRs.

Our specific responses to the consultation questions are attached as Appendix 1.

Please contact me if you have any questions regarding this submission.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Matthew Hall', is positioned above the printed name.

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Appendix 1: Meridian responses to consultation questions

	Question	Meridian Response
1	Do you agree that the Authority has characterised the problem of WIBR correctly? If not, how could the problem be better described?	Yes.
2	Do you agree that these four options are an appropriate shortlist? If not, are there other options that should be considered?	Meridian agrees this is an appropriate shortlist, subject to our response below to Question 3.
3	Do you agree that the four options in Table 2 need not be considered at this stage? If not, which of them should be considered and why and what other options should be considered and why?	<p>Meridian considers there would be merit in further assessing a full-nodal FTR regime (referred to in the table as Full FTR coverage).</p> <p>We agree such a regime may be complex, but we also consider it could provide the most comprehensive and flexible response to managing within-island basis risk. There may be potential to manage complexity, for instance, by adopting a radial approach and/or only offering an obligation (or option) product.</p> <p>While we may not ultimately support a full-nodal FTR regime against the other shortlisted options, we consider it is worth having a greater understanding of the potential pros and cons of such an approach.</p>
4	Do you agree that the two-node hybrid option has been characterised correctly? If not, how could it be better described?	Yes.
5	Do you agree that the three-node FTR option has been characterised correctly? If not, how could it be better described?	Yes.
6	Do you agree that the three-node hybrid option has been characterised correctly? If not, how could it be better described?	Yes.
7	Do you agree that the multi-node FTR option has been characterised correctly? If not, how could it be better described?	Yes.
8	Do you agree that all four high-level options are feasible? If not, why not?	Yes.

9	Do you agree that all four options would avoid distortion to price signals? If not, why not?	Meridian considers that LRAs carry a higher risk of distorting price signals than FTRs.
10	Do you agree that the criteria in Table 7 are reasonable and roughly equal in priority? If not, why not? Should other criteria relating to competition, reliability or efficiency be considered?	Meridian considers the criteria to generally be reasonable.
11	Do you agree that the multi-point FTR would promote the Authority's statutory objective most effectively? If not, why not, and which option do you think would most support the statutory objective?	<p>Meridian agrees the multi-point FTR should be the preferred option for the reasons set out by the Authority, namely:</p> <ul style="list-style-type: none"> • The product is tradable; • Flexibility would be retained for future developments; • It could be implemented relatively quickly; and • It would provide more comprehensive cover than a 3-node FTR (or the status quo).
12	Do you agree that the multi-point FTR would produce a greater net benefit than any of the other options? If not, why not, and which option do you consider would produce the greatest net benefit?	Meridian agrees the multi-point FTR would produce the highest net benefit.
13	If the decision is to proceed with the multi-point FTR, which FTR points do you consider should be added at this point, and why?	<p>Meridian supports adding the nodes as identified by the Authority:</p> <ul style="list-style-type: none"> • Haywards (HAY); • Invercargill (INV); • Kawerau (KAW); • Stratford (SFD); • Wairakei (WRK) (although we consider WWhakamaru may be a more appropriate node following completion of the Wairakei to Whakamaru line replacement project later this year) • Islington (ISL); and • Gisborne (GIS).

		<p>Meridian considers that ISL and GIS should be “recommended” (rather than “possible”) nodes given the size of load serviced (ISL) and the potential price risk (GIS) at these nodes. Meridian considers current price risk at GIS is likely to be higher than indicated in the historical analysis due to recent participant behaviour.</p>
14	<p>Do you agree that, if the decision is to proceed with the multi-point FTR, the new FTR points should generally be nodes rather than hubs? If not, why not?</p>	<p>Yes, Meridian supports using nodes for new FTR points as they are conceptually easier to understand and consistent with New Zealand’s nodal pricing system.</p>
15	<p>Do you agree that, if the decision is to proceed with the multi-point FTR, the new FTRs should be point-to-point rather than radial? If not, why not?</p>	<p>Meridian considers there are pros and cons with both a point-to-point and a radial FTR approach.</p> <p>We view the key benefit of point-to-point FTRs as the ability to secure cover between any two points with a single product. The key benefits of radial FTRs are the fewer number of FTR products (for an equivalent number of nodes), which may make the product simpler to use, and the alignment with ASX trading nodes.</p> <p>Note, if a radial FTR system were adopted, Meridian would support the ‘Radial 1’ approach (as described in the consultation paper) and would support the ‘hub’ nodes being at Otahuhu (OTA) and Benmore (BEN).</p> <p>Meridian considers that whichever multi-point approach is adopted should continue to be used, even with the subsequent addition of further nodes. Moving between a point-to-point and radial approach in the future would be confusing (particularly considering that FTRs will be sold over a 24 month horizon) and require further changes to participants’ analytical tools. Hence, if there is a clear intention to add nodes beyond the 7 already suggested at some point in the future, and if this would be seen as creating too much complexity under a point-to-point approach, Meridian suggests it may be preferable to adopt a radial system immediately.</p> <p>Lastly, we do not consider that ‘ease of implementation’ with respect to FTR software should be a determining factor in deciding between a point-to-point and radial approach. Any decision between these two approaches should be based on the usefulness and usability</p>

		of the resulting FTR product.
16	Do you agree that, if the decision is to proceed with the multi-point FTR, the new FTR products should include a full selection of options and obligations? If not, why not?	Yes. It is sensible to offer the same range of products as is available for inter-island FTRs.
17	Do you agree that, if the decision is to proceed with the multi-point FTR, the Authority should proceed according to the roadmap set out in Figure 7? If not, how should the Authority proceed?	Yes, although once a commitment is made to add additional FTR points, we consider it would be preferable to continue with expansion of the FTR regime rather than moving to a hybrid LRA approach at some later point.
18	Do you agree that, if the decision is to proceed with the multi-point FTR, the Authority should develop objective criteria for adding and removing FTR nodes in future years? What should be taken into account in developing these criteria?	Meridian considers developing criteria would be useful. However, we think it is important that FTR participants (and potential FTR participants) are consulted on any decisions to add (or remove) FTR nodes. An approach similar to the ASX User Group providing advice on new ASX products would be appropriate. Ultimately, any addition of new FTR nodes should be based firmly on an identified need by FTR participants.