

think differently



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Submission
Electricity Authority
PO Box 10041
Wellington 6143

By email: submissions@ea.govt.nz

Dear Sirs

Re: Consultation Paper – Within-island basis risk: proposed approach

Thank you for the opportunity to provide feedback on the discussion paper on within island basis risk.

Our detail response to the discussion paper is appended to this letter. Please feel free to contact me if you wish to discuss our views further.

Yours sincerely

A handwritten signature in purple ink, appearing to read "Paul Baker".

Paul Baker
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Number	Question	Response
Q1	Do you agree that the Authority has characterised the problem of WIBR correctly? If not, how could the problem be better described?	Nova is comfortable with the description.
Q2	Do you agree that these four options are an appropriate shortlist? If not, are there other options that should be considered?	The options are largely appropriate, although Nova has made a suggestion to simplify option iv) below.
Q3	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?	Agreed.
Q4	Do you agree that the two-node hybrid option has been characterised correctly? If not, how could it be better described?	Acceptable.
Q5	Do you agree that the three-node FTR option has been characterised correctly? If not, how could it be better described?	Acceptable
Q6	Do you agree that the three-node hybrid option has been characterised correctly? If not, how could it be better described?	Acceptable
Q7	Do you agree that the multi-node FTR option has been characterised correctly? If not, how could it be better described?	Acceptable
Q8	Do you agree that all four high-level options are feasible? If not, why not	Yes, they seem feasible.
Q9	Do you agree that all four options would avoid distortion to price signals? If not, why not?	The options would appear to avoid systemic distortion to price signals as long as the potential for net pivotal suppliers is well managed.
Q10	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?	The criteria and their priority seem reasonable.
Q11	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?	The multi-point FTR option largely satisfies the criteria, but does create a risk of having so many market products that only the largest generator / retailers have the specialist resources to manage a portfolio of products. Even the smaller retailers now have to have a wide geographic spread to capture a significant client base, but they do not have the same resources to manage a proliferation of FTR products.
Q12	Do you agree that the multi-point FTR would	Nova agrees that the multi-point FTR is likely

	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?	to produce the greatest net benefit.
Q13	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?	Because Nova advocates defining FTR points as hubs, the selection of points should take in the aggregate gross demand of regions represented by each node. On this basis it would seem that the upper SI should be represented by a node covering Marlborough, Tasman and Buller. Nominally this could be designated KIK.
Q14	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?	No. Given that the objective is to improve retail competition, hubs provide a more representative spread of retailer's exposure across regions than single nodes. <ul style="list-style-type: none"> • Nodes at key generation points give generators at those points a competitive advantage when offering products adjusted for price risk over generators not closely aligned to those nodes. • Retailers are generally exposed across all nodes in a region and a demand weighted hub within the region will help retailers' better manager their risk exposure across the region. • Significant price differences can occur between two nodes within a region. A single node offers no protection from regional spikes, whereas a hub can reflect the overall exposure to the region.
Q15	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?	Yes, but on the basis that only options are traded between all points excepting BEN and OTA, otherwise the proliferation of products becomes excessive.
Q16	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?	No. Nova is in favour of having a spread of multi-point FTRs, but has concerns over the complexity of managing a multitude of slightly different products to achieve a same objective. <ol style="list-style-type: none"> 1. FTRs between BEN and OTA should continue to include the full selection of options and obligations. They should continue to be nodes. 2. All other FTR points should be hubs, and be traded with options only. The marginal benefit of running both obligations and options across all FTR nodes would seem to be minimal against using

		options only. A primary benefit of options is that they reduce the complications of tracking and calling for prudential payments on obligations.
Q17	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?	Nova believes that nodes set up to manage WIBR (excl. OTA & BEN) should be designated as hubs in the first instance. If this was done it would seem inappropriate to add LRAs to the mix. The key question would be to review over time the definition of regions covered by each hub, for example, the appropriate split of nodes south and east of BPE.
Q18	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?	Yes. The value of an FTR is determined by the extent that it helps manage risk. Risk can be defined as a) \$ value deviation from the mean, or b) percentage deviation from the mean. While a) has the most market impact, b) can have high significance for a small region of demand. It would be useful to take both elements into account when determining criteria for nodes.