PULSE UTILITIES
NEW ZEALAND LIMITED

6 August 2013

Electricity Authority
PO Box 10041
Wellington 6143

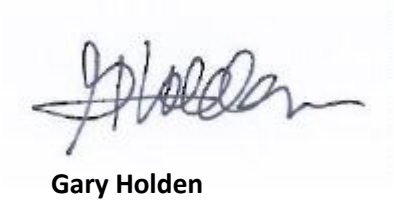
**Re: Consultation Paper: Within Island Basis Risk Consultation Paper – Proposed Approach**

To Whom it May Concern,

Pulse Utilities New Zealand Limited is pleased to provide feedback on the Electricity Authority's Within island Basis Risk consultation paper.

Pulse is in strong support of a multi-point FTR system as proposed. Within island basis risk remains a significant commercial risk to the industry as well as dampening competition and the Electricity Authority is encouraged to proceed with implementation as soon as possible.

Kind regards



**Gary Holden**
**Chief Executive Officer**

| | Question | Response |
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| Q1 | Do you agree that the Authority has characterised the problem of WIBR correctly? If not, how could the problem be better described? | The problem definition is accurate. Pulse would add the fact that there is no liquid hedge market at locations other than OTA and BEN and that this stifles competition in many parts of the country. |
| Q2 | Do you agree that these four options are an appropriate shortlist? If not, are there other options that should be considered? | The short list is adequate. |
| 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? | As per Q2 Pulse supports the Electricity Authority view that the short list is adequate and that the four options in table 2 be excluded for the reasons given. |
| Q4 | Do you agree that the two-node hybrid option has been characterised correctly? If not, how could it be better described? | Yes the option is adequately described |
| Q5 | Do you agree that the three-node FTR option has been characterised correctly? If not, how could it be better described? | Yes the option is adequately described. We do not concur with the statement that South Island within island basis risk is easier to manage and strongly encourage a solution which includes a GXP such as Cobb or Stoke. |
| Q6 | Do you agree that the three-node hybrid option has been characterised correctly? If not, how could it be better described? | Yes the option is adequately described |
| Q7 | Do you agree that the multi-node FTR option has been characterised correctly? If not, how could it be better described? | Yes the option is adequately described |

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| Q8 | Do you agree that all four high-level options are feasible? If not, why not | Pulse's view is that feasibility of each option is a second order issue to what is the option that should be selected. As this is clearly multi point FTRs the feasibility of the other options does not appear relevant. Multi-point FTRs are feasible, the most simple to implement and pre-determined by the choice to implement to current OTA and BEN FTR market. |
| Q9 | Do you agree that all four options would avoid distortion to price signals? If not, why not? | Pulse's view is that whether or not each option avoids distortion to price signals is a second order issue to what is the option that should be selected. As this is clearly multi point FTRs the ability of the other option to mitigate distortion in price signals does not appear relevant. The Multi-point FTR option has the potential to mitigate distortion in price signals but Pulse is uncertain of market participant behaviour. What is clear is that multi-point FTRs provide a much stronger basis of hedging against such risks. |
| 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 table is generally adequate although management of basis risk in the Upper South Island should be added. Whilst Upper South Island loads are not as high, as per the Lower North Island, it is very difficult to obtain competitive hedge products in this region. |
| 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? | Yes. Pulse strongly agrees. |
| Q12 | 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? | Yes. Pulse strongly agrees. |

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| 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? | Our view is that the benefits of implementing FTRs are highest in locations where the market pricing for hedging in that location is inefficient. This currently includes the lower north island, upper south island and potentially the Hawkes Bay/ East Cape. Importantly it excludes the need to have potentially three nodes covering locations that include Kawerau, Whakamaru and Wairakei.<br><br>Top five additions: Stoke, Islington, Haywards, Redfern (Gisborne too fringe), Wairakei<br><br>Next three: Stratford, Invercargill, Kawerau<br><br>Our strongest recommendation is to include a node that covers the upper south island which is currently excluded from recommendations. This could be achieved by going to 10 c.f. 9 nodes and don't believe that this would materially affect the implementation. |
| 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? | Pulse is uncertain of all the technical design issues around nodes vs hubs. A critical factor is that sufficient volume exists in the FTR grid to create liquidity and enable hedging of actual location risk. Thus Pulse's preference would be hubs if this increases the FTR grid volume available. Increasing the volumes also reduces the unwanted market behaviour and would assist particularly in the Upper South Island and Hawkes Bay/ East Cape<br><br>We also note suggested nodes are based on generator locations and not customer demand locations. Moving to a hub may also remove this anomaly as Pulse looks to hedge based on customer demand locations not generator locations. |
| 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? | Pulse strongly prefers a radial approach to FTRs. A fundamental of the design is its alignment with the futures market and this ensures generators have to compete with market participants using the future market instead of allowing them to by-pass the traded futures nodes. This creates simplicity and liquidity by increasing trading volume across the FTRs as well as the futures. |

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| 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? | Pulse is predominantly interested in obligations and supports a level of simplicty. If a trade-off is required between more nodes or more products including options and obligations our preference is to ensure more nodes. However we note there is also potential trade off between the decision between radial and point to point FTRs. Thus a reasonable balance point would appear to be 10 nodes, radial, obligations and options. |
| 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? | Yes |
| 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? | No. It is not as high a priority as proceeding to the implementation stage. |