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6th August 2013

John Rampton
Market Design
Electricity Authority
86 Customhouse Quay
Wellington

By email: submissions@ea.govt.nz

Dear John

Within Island Basis Risk

Thank you for the opportunity to submit on the *Within Island Basis Risk* consultation paper published by the Electricity Authority (The Authority) on 25th June 2013. We submit, as Transpower, alongside the submission of the Financial Transmission Rights (FTR) manager.

We support the Authority's preliminary view on the preferred option

We support the Authority's preliminary view that the preferred option is for multiple points (many nodes and or hubs) in the FTR market.

However, we think that all parties would benefit from greater clarity on the future governance and responsibilities for developing the FTR market over time. We consider the evolution of the future market design will be better facilitated by the FTR manager given its operational understanding and situational awareness, and in accordance with industry demand and Code policy. We support the FTR manager's hierarchy of FTR responsibilities as a sound framework which provides the appropriate delineation between regulatory policy matters and operational design. We also recognise that development via the allocation plan process and polices will provide a more efficient, dynamic and targeted mechanism while freeing up the Authority to focus on the higher level policy settings.

No further consideration of LRAs is required

We are concerned by the Authority's statement that the introduction of a multi-point FTR would not rule out Locational Rental Allocations (LRAs) in the future. We agree with the FTR manager that, under the design premise of a nodal energy market, there should be no further consideration of LRAs. The effect of an LRA allocation would be to dilute the nodal price, thereby muting the efficient price signal. We consider that the Authority has carefully considered and consulted on the choice between FTRs and LRAs and that it is appropriate to draw a line under the debate and move on.

We agree with the Authority that zonal pricing is not an option for further consideration in the FTR context but we suggest it is more appropriately contemplated as a fundamental market design issue. In addition, and as outlined in our submission to the WAG's discussion paper on P*ricing in Pivotal Supplier Situations*, another option for moderating within island basis risk could be to review the presumption that all nodes on the grid should be pricing nodes and to instead rationalise the pricing at the fringes of the grid.

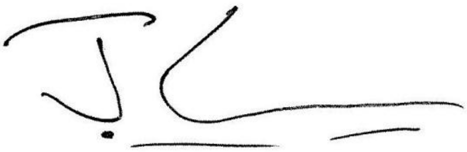
Support use of loss and constraint excess (LCE) to fund expanding FTR market

We support the current FTR / LCE framework – that the LCE is first used to fund the FTR market (revenue adequacy) and the residual LCE, returned independently from the pricing process, funds a reduction on transmission charges. As the FTR market expands the quantum of LCE will necessarily reduce.

Under the recently-consulted Transmission Pricing Methodology (TPM) the Loss and Constraint Excess (LCE) was proposed to be used to directly offset the transmission charges relating to the assets on which the LCE arises. The transmission charges would in part be derived from the market scheduling, pricing and dispatch (SPD) tool and the LCE would be offset against the charge for the assets causing the constraint. We did not support that element of the TPM proposal[1] for the same reason that we do not support the proposal for creating LRAs - because it would distort the nodal price signals.

We have not responded to the questions in this submission; we support the responses provided in the submission by Energy Market Services (EMS), as FTR manager. If you wish to clarify any of the points raised in this submission please contact me on 04 590 7544.

Yours sincerely



Jeremy Cain
Chief Regulatory Advisor

[1] Transpower submission to *TPM Issues and Proposal*, 3rd March 2013. http://www.ea.govt.nz/our-work/consultations/priority-projects/tpm-issues-oct12/submissions/