

25 October 2013

Richard Rowell
Energy Markets Manager
Energy Market Services

Dear Richard

Development of FTR market

1. The Authority, with the assistance of the Locational Price Risk Technical Group, has reviewed options for managing locational price risk. Following consultation, the Board has reached a decision that:
 - (a) three additional FTR points should be added as soon as reasonably possible to the FTR allocation plan
 - (b) objective criteria for adding and removing FTR points should then be developed and applied.
2. Accordingly, under clause 13.241(1) of the Electricity industry Participation Code 2010, the Authority proposes the following variations to the FTR allocation plan are made:
 - (a) include three new FTR points at Haywards, Islington and Invercargill
 - (b) specify that the new FTRs are to follow a point-to-point design (i.e. every pair of existing and/or proposed new points should be connected by FTRs)
 - (c) specify that both option and obligation FTRs will be offered between every pair of hubs
 - (d) specify that until a more comprehensive criteria is developed, the FTR manager may only add further FTR points (other than the three listed in subparagraph (a)), if it can demonstrate that doing so:
 - (i) will not prevent the deadlines specified in paragraph 3 below from being met
 - (ii) will give rise to a net economic benefit, taking particular account of the level of complexity faced by participants.
3. If these proposed amendments are made, the Authority expects the FTR manager to publish a final updated technical specification (contained in the relevant FTR policies) by March 2014. The Authority also expects that the FTR manager to hold the first auction of the proposed new FTR products by September 2014, but not sooner than six months after publishing the final technical specification.
4. The Authority would also like to work with the FTR manager to develop more comprehensive criteria for adding new FTR points and removing existing FTR points. One

of the criteria should be that any such change must yield a net economic benefit. Once developed, the criteria should be included in the FTR allocation plan.

5. Please contact Tim Street on (04) 460 8851 if you wish to discuss this letter.

Yours sincerely



Carl Hansen
Chief Executive