

Electricity Authority
PO Box 10041
Wellington 6143

FTR Manager
PO Box 5563
Wellington 6145

22 August 2016

To whom it may concern,

Smartwin Energy Trading (SWET) supports proposed addition of WKM2201 node

The expansion of the FTR market from 2 nodes to 5 nodes in November 2014 has provided market participants with many additional options for hedging basis risk.

At the time of the expansion, it was intended that additional nodes (hubs) be added over time.

The Authority is currently consulting on a formal process to consider additional nodes, however this appears as though it may take some time.

Mercury have proposed the addition of a WKM2201 node prior to next winter, to assist with managing basis risk both for generators and substantial industrial load in the region.

WKM2201 was considered as part of the additional expansion, but was not rated as highly as the other nodes selected. However, since then we have seen decommissioning of two large thermal stations at or near OTA2201, and permanent retirement of two thermal units at Huntly. Without completing detailed analysis on this situation, it seems possible that these changes could have materially altered the risks and benefits associated with the WKM2201 node relative to OTA and HAY.

A stated goal of the FTR manager and the Authority is to encourage new FTR participants. It seems likely that the addition of WKM2201 could result in several new industrial participants, due to the proximity to their load. These could include Fonterra, Oji Fibre Solutions and Norske Skog.

Key criteria for new hubs will be an absence of market power, and sufficient connected volume for the node to work effectively as a trading hub. WKM2201 appears to meet these criteria by being very well connected and supplied by nearby generation from not less than three of the major generators. Further, WKM2201 has been commonly used as a hedge settlement node for many years, which does establish some precedent.

As an existing FTR participant, SWET would immediately participate in trading FTRs that linked to the additional hub at WKM2201. Costs to SWET of adding the additional hub to our systems would be moderate, and only slightly above existing business-as-usual system maintenance and evolution, and, of course, these costs will be entirely optional and incurred only if we choose to participate at the new node.

Best regards

Vince Smart
Trader
Smartwin Energy Trading Limited