



29 September 2016

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Dear Richard

**Support for WKM FTR node**

We are writing to support the request that you have recently received from Mercury to introduce a Central North Island node. Specifically, we support the introduction of a node at WKM2201.

We appreciate that the Authority is currently consulting on a process for introducing new FTR nodes, but believe that the market would benefit from the introduction of a WKM2201 FTR node ahead of that.

**Increasing the availability of risk management products at OTA**

Since the recent retirement of Auckland-based generation, there are less natural hedge providers in the Auckland area, partially due to the risk of price differences between the Central North Island and Auckland. These risks of price difference are exacerbated by the Upper North Island Thermal Limitation implemented by the System Operator. Our view is that the introduction of the WKM\_OTA FTR branch would allow participants to better manage the risk of prices differences into Auckland and therefore allow for more competitively priced risk management instruments in Auckland. Either Central North Island-based generators could buy WKM\_OTA FTRs and offer hedges at OTA (with basis risk managed – so no need for a basis risk premium) or participants could buy hedges from Central North Island generation and buy WKM\_OTA FTRs to manage the residual OTA price risk.

The current limitation on buying FTRs with OTA as the sink (e.g. HAY\_OTA) are the limitations of the Lower North Island transmission system. The WKM\_OTA branch will allow a greater number of OTA sink FTRs to be purchased by participants, which will lead to improved retail competition in the Auckland region.

Yours Sincerely

Paul Morrison  
Financial Trading Manager