

The Authority's Changes to the 2016 FTR Allocation Plan

Summary of submissions Information paper

15/10/2016



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1 Introduction and purpose of this paper

Introduction

- 1.1 In April 2016 the FTR manager consulted on a proposed variation to the FTR Allocation plan that considered changes to auction frequency and criteria for adding new hubs.
- 1.2 In May 2016, after considering submissions and feedback, the FTR manager submitted its proposed variation to the FTR Allocation plan to the Authority which
 - (a) introduced a mechanism to allow FTR participants to propose new FTR hubs
 - (b) increased the number of FTR periods auctioned each month from nine to 12.
- 1.3 The Authority agreed with the majority of the FTR manager's proposal but, in August 2016, proposed additional changes via a consultation paper to:
 - (a) allow the FTR manager to take into account the Authority's existing work plan and appropriations as part of the process when considering new hubs
 - (b) allow non-FTR participants to propose new hubs
- 1.4 This paper provides a summary of the submissions received on the consultation paper. This paper does not contain an exhaustive list of the points made in submissions, instead it summarises the key themes that arose.
- 1.5 For more information, please refer to the submissions themselves at <http://www.ea.govt.nz/development/work-programme/operational-efficiencies/changes-to-the-ftr-allocation-plan/consultation/#c16152>.

2 Summary of submissions and the Authority's responses

Overview of submitters

- 2.1 The Authority received eight submissions and one cross-submission from the FTR manager on the consultation paper. No submitters flagged their submissions as confidential.
- 2.2 The organisations and individuals that provided submissions on the consultation paper are listed in Table 1.

Table 1: List of submitters

FTR Participants	Other
Contact Energy Limited	Major Electricity Users' Group
Smartwin Energy Trading Limited	Energy Market Services Ltd
Meridian Energy Limited	Transpower New Zealand Limited

FTR Participants	Other
Mercury Energy Limited	Pioneer Energy Limited
Trustpower Limited	

Source: Electricity Authority

Structure of the summary of submissions

2.3 This summary presents the submissions in three key areas:

- (a) Section 3: A summary of the general feedback within introductory comments.
- (b) Section 4: A summary of the submissions relating to the proposed variations.
- (c) Section 5: A summary of the responses regarding other means for addressing the objectives.

3 Other general feedback

Introductory comments

3.1 Submitters made the following salient points in their introductory comments:

- (a) Non-FTR participants should have their views considered when assessing new hubs without giving disproportionate weight to their proposals.
- (b) It was not clear how creating a separate process for non-participants to suggest new hubs would benefit the FTR market.
- (c) If there are to be separate processes, they should be equally rigorous and one should not be able to undermine the other.
- (d) Submitters had differing views on non-participants' eligibility criteria for voting, including:
 - (i) requiring registration with the FTR manager
 - (ii) meeting some kind of participation criteria
 - (iii) all parties should be allowed.
- (e) The ability to remove or replace a hub should be considered, in conjunction with a process to assess current hubs.
- (f) There may need to be a well-defined process for the urgent consideration of new hubs.
- (g) The number of auctions and hubs should be restricted and the market should not be expanded.
- (h) Having regard to the appropriation constraints of the Authority is an appropriate way to manage expectations around the cost of additional hubs.
- (i) The market is being observed by potential FTR participants who are actively considering it as a way to manage their risks.
- (j) Each hub that is added to the market generates additional complexity and cost.

- (k) Publishing a list of viable and previously invalidated potential hubs could reduce requests for additional hubs that are not viable.
- (l) There are risks of unexpected outcomes with the proposed process.

4 The Authority proposed two variations to the FTR manager's change to the FTR Allocation Plan

4.1 The Authority proposed the following variations to the FTR Allocation Plan:

- provide a process for adding new hubs that includes input from potential FTR participants
- require the FTR manager to have regard to the Authority's existing work plan and available appropriations.

4.2 The proposal sought to:

- allow for broader participation in the FTR market by considering hubs that would benefit potential FTR traders and not just current participants
- prevent the Authority from exceeding its approved appropriations.

4.3 Feedback on this proposal can be found in **Table 2**.

Support for the proposed variations

4.4 In the consultation paper, the Authority stated it considers that:

- (a) the FTR Allocation plan's criteria for adding new hubs needs to consider potential FTR traders
- (b) when proposing new FTR hubs, the FTR manager should have regard to the Authority's existing work plan and available appropriations.

Table 2: Response to question 1

Issue	Question	Summary of submissions
Support for the proposed variations	Question 1: Do you agree the proposed variation to the FTR Allocation Plan should be changed to address the issues identified by the Authority in paragraphs 2.7 to 2.12?	<p>The general theme from submitters was that the Authority's proposed variation should be considered.</p> <p>Submitters raised the following points:</p> <ul style="list-style-type: none"> • The barriers to becoming an FTR participant are relatively low. • There could be undesired outcomes from allowing non-participants to propose hubs. • The Authority should ensure that appropriations are available before allowing the FTR manager to carry out a hub nomination process. • Disagree that non-participants should

Issue	Question	Summary of submissions
		<p>be allowed to contribute.</p> <ul style="list-style-type: none"> There should be a single process for participants and non-participants.

Source: Electricity Authority

Objectives and drafting of proposed changes

4.5 The objectives of the proposed changes are to:

- enable the FTR manager to consider requests from non-FTR participants when finalising the proposed new FTR hubs for consideration for inclusion in the FTR Allocation Plan
- require the FTR manager to take into consideration the Authority's work plan and appropriation when determining the maximum number of FTR hubs to be included in the FTR Allocation Plan
- make the proposed changes without altering the underlying process already consulted on by the FTR manager.

Table 3: Response to questions 2 and 3 regarding regulatory statement

Issue	Question	Summary of submissions
Objectives of proposed changes	Question 2: Do you agree with the objectives of the proposed changes? If not, why not?	<p>Submitters raised the following points:</p> <ul style="list-style-type: none"> No. It is easy to become an FTR participant, so the risk of adopting hubs suggested by non-participants that are not genuinely interested in trading is potentially high. There will be no real benefit to the FTR market by allowing non-participant nominations. Agree with the intent to encourage broader participation in the FTR market. Agree with the objectives as stated.

Issue	Question	Summary of submissions
	Question 3: Do you have any comments on the drafting of the proposed changes?	Submitters raised the following points: <ul style="list-style-type: none"> • Further analysis should be conducted on the potential outcomes of the single transferable vote approach. • The Authority and FTR manager should jointly agree costs to add new hubs and the available budget in advance. • The assessment process needs to be clearer and more robust. • Both participants and non-participants should nominate new hubs. • Participants and non-participants should be treated equally throughout the process. • Non-FTR participants should not be allowed to participate in the hub selection process. • Non-FTR participants should be required to register as an FTR participant before participating in the selection process.

Source: Electricity Authority

The benefits of the proposed changes are expected to exceed the costs and have a limited effect on the FTR manager's proposed process

- 4.6 The proposed variation to allow non-FTR participants' contributions does not affect the outcome of the voting process put forward by the FTR manager.
- 4.7 The proposed amendment is not expected to result in any additional costs to the Authority, FTR manager, or participants.

Table 4: Response to question 4

Issue	Question	Summary of submissions
Benefits of the proposed variation are expected to exceed the costs.	Question 4: Do you agree the benefits of the proposed amendment outweigh its costs?	Submitters raised the following points: <ul style="list-style-type: none"> • The proposed amendments appear to increase the risk of wasted effort on behalf of the Authority, FTR manager and participants, both in developing hubs that are not used or not added

Issue	Question	Summary of submissions
		<p>due to lack of budget.</p> <ul style="list-style-type: none"> • The costs of assessing multiple nominations by non-participants, who may only have limited intention of trading, will outweigh benefits. • Time could be wasted assessing hubs with little market value. • It is not clear that the amendments have enhanced the plan proposed by the FTR manager.

Source: Electricity Authority

5 The Authority identified three other means for addressing the objectives

5.1 The Authority identified other means for addressing the objectives.

5.2 These included:

- (a) changing the FTR Allocation Plan to require the FTR manager to determine the FTR hubs to be added
- (b) changing the allocation plan to allow the Authority to direct which FTR hubs should be added
- (c) amending the Code to specify which FTR hubs must be added.

5.3 These changes were considered undesirable as none of them allowed for an appropriate mechanism for changes to the FTR hubs.

5.4 Feedback on alternative methods can be found in Table 5.

Table 5: Response to question 5

Issue	Question	Summary of submissions
General comments	Question 5: Do you agree the proposed amendment is preferable to the other options?	<p>Submitters made the following comments:</p> <ul style="list-style-type: none"> • None of the options presented are preferable to the Authority's proposal. • The FTR manager's original proposal should have been an option. • Additional benefits could be realised by allowing for the simultaneous addition and removal of new hubs. • It is possible to use a broker, as a participant, to propose new nodes.

Source: Electricity Authority

Glossary of abbreviations and terms

Act	Electricity Industry Act 2010
Authority	Electricity Authority
Board	Electricity Authority Board
Code	Electricity Industry Participation Code 2010