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Electricity Authority  
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## Financial Transmission Rights development

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Genesis Energy Limited (“Genesis Energy”) welcomes the opportunity to provide a submission to the Electricity Authority (“the Authority”) on the issues and options paper “Financial Transmission Rights development” dated 28 March 2017 (“the paper”).

Genesis Energy acknowledges the Authority’s willingness to take steps to improve the hedge market - in this case Financial Transmission Rights (“FTRs”) particularly - and appreciates the effort that has gone into developing the paper.

We agree that effective management of locational price risk supports wholesale and retail market competition, reliability and efficiency for the ultimate benefit of consumers. For this reason we agree there are merits to some of the options put forward by the Authority in the paper.

Our preferences as to options are detailed in our response to questions, attached as Appendix A. In this cover letter we note some overarching themes we would like the Authority to have in mind while reviewing our submission.

### **Keep it simple for the benefit of consumers**

A key message that Genesis Energy has expressed in our recent engagement with the Authority is the need to keep things simple where possible, and we raise this again now. This means avoiding driving more and more complexity into what – particularly in the case of FTRs – is already a very complex market.

Complexity has the tendency to bring on costs and inefficiencies that act as a deterrent to existing and new market participants. So the threshold for change should be: will this deliver net benefits to consumers? If the answer is yes, then the additional complexity can be justified and lent support.

Genesis Energy also requests the Authority considers the FTR change process in the context of other hedge market developments underway, including the introduction of new cap products later this year.

While Genesis Energy firmly supports innovation and growth in the hedge market, we are wary of too much change, too quickly. It places huge resourcing pressures on market participants and there is a risk that parties will not be able to lend their full support to new developments, such is the complexity of these changes.

We suggest the Authority focuses on 'consolidating the gains' achieved in the hedge market to-date, which means allowing time for new products such as caps to be bedded-in, and engaging closely with industry on realistic timelines for the development of any additional hedge market projects as per the paper.

### **The best way forward**

Another key message that Genesis Energy advocates for is the Authority committing to further conversations with the industry on the best way forward.

In addition to closely considering submissions, we recommend that a working group of market participants is convened. This will allow for constructive discussion on the merits of development options, as well as practical implementation matters; ensuring that any market changes will work as well in reality as they might in theory. The new Market Development Advisory Group is likely to be a good forum for this and will ensure any change is delivered in coordination with other market developments.

We also suggest the Authority considers the feedback it received in its recent Hedge Market Survey and takes on board any insights on how market participants view the performance of the FTR market to-date. Through this lens, the Authority is likely to gain a richer understanding of where its efforts are best spent going forward in relation to FTRs and the wider hedge market.

If you would like to discuss any of these matters further, please contact me via [margie.mccrone@genesisenergy.co.nz](mailto:margie.mccrone@genesisenergy.co.nz) or 09 951 9272.

Yours sincerely



Margie McCrone  
Regulatory Advisor

## Appendix A: Responses to Consultation Questions

QUESTION	COMMENT
Q1: Do you agree that further enhancing the FTR market could support the issues identified by the Authority, and provide benefits to the wider hedge market?	Yes.
Q2: Are there any other issues with the current arrangements for FTRs that we have not identified?	No.
Q3: Are there any other ways to develop the FTR market that we have not identified? If so, please describe them.	No.
Q4: What are your views on the relative merits or priority of these twelve potential developments? Could some of them complement or substitute for others?	<p><b>GROUP 1</b></p> <p>Genesis Energy supports, and considers a high priority, the further advancement of options (a), (b) and (c) in conjunction. We do not support the development of these options in isolation.</p> <p>In our view, allowing direct overseas participation in the FTR market in combination with allowing parties other than the FTR manager to originate FTRs will deliver the 'sweet spot'; that is, both the demand and supply of FTRs will be increased proportionally, thereby improving liquidity and encouraging greater participation in the market. Developing a derivative-like product in parallel will enable the price of FTRs to trade closer to reality, as there would not be the same limitations on volume that are inherent in the current physical-FTR products.</p> <p>We are of the view that developing one of these options without the other could potentially lead to unintended adverse outcomes. For example, limiting supply but introducing additional demand would only serve to drive prices up, increasing market costs to all participants and failing to meet the threshold of delivering net benefits to consumers.</p> <p>The development of (a), (b) and (c) should be advanced through work with industry, particularly market participants,</p>

QUESTION	COMMENT
	<p>who can offer practical advice via a working group to the Authority on the design details required to ensure the end result is robust and durable.</p> <p>We believe option (d) should be considered a low priority.</p> <p><b>GROUP 2</b></p> <p>Genesis Energy recommends option (e) should be progressed as a medium priority, provided there is a limit to the number of FTR hubs that can be added under the allocation plan process and no more than ten hubs operate in the market at any one time. We also wish to clarify that we are assuming this option is in addition to the up to three new hubs that are currently being considered under the allocation plan process.</p> <p>We consider option (f) to be a high priority, and would support further development of this as a means to encourage greater market participation and improved appreciation of the benefits and risks involved.</p> <p>Options (g), (h), (i), (j) and (k) are all low priority from our perspective as they would serve little benefit to consumers, compared with the cost and complexity of implementation. Each of these options serves as evidence to the argument we make in the cover letter, that is, the Authority should be wary of introducing added complexity to an already complex market. We reiterate that the threshold for whether to proceed with any development should be whether it delivers net benefits to consumers.</p> <p>Genesis Energy supports increased transparency in the market, as per option (l), and would consider this a high priority. However, we are concerned how this could be managed due to privacy requirements.</p>
<p>Q5: Do you agree the Authority should provide policy direction on the four developments in Group 1, but that service providers can lead further assessment of the developments in Group 2?</p>	<p>Yes.</p>

QUESTION	COMMENT
<p>Q6: What are your views on the merits of extending direct participation in the FTR market to parties based in Australia?</p>	<p>See our answer to question 4 above.</p> <p>We would also like to add a further point that we do not currently see any reason to limit overseas participation to parties in Australia. A party in any jurisdiction that has a sufficiently high-degree of regulatory oversight should be allowed to participate in the FTR market.</p>
<p>Q7: What are your views on the merits and practicality of allowing parties other than the FTR manager to originate FTRs?</p>	<p>See our answer to question 4 above.</p>
<p>Q8: What are your views on the merits and practicality of developing an FTR derivative product?</p>	<p>See our answer to question 4 above.</p>
<p>Q9: What are your views on the merits of developing a bulletin board?</p>	<p>See our answer to question 4 above.</p>
<p>Q10: Of the two approaches to overcoming the inherent limitations in the supply of FTRs that have been discussed (allowing parties to originate or develop a derivative product), which do you consider preferable and why?</p>	<p>For reasons discussed above in question 4, we consider the best case scenario would be to develop these two approaches in tandem.</p> <p>If we had to choose one option over the other, we would prefer allowing parties to originate FTRs.</p>
<p>Q11: Are there other approaches to overcoming the inherent limitations in the supply of FTRs that the Authority has not identified?</p>	<p>No.</p>
<p>Q12: What are your views on how these developments would complement each other? To what extent might they be dependent on each other?</p>	<p>See our answer to question 4 above.</p>