

Review of the spot market trading conduct provisions

Project Plan

1 February 2018

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Draft

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Document information

Approvals

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Signature

Date

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Version control panel

Date	Version	Author	Comments and/or description of changes
01/02/2018	1.1	Alistair Dixon	Prepared for the MDAG

Glossary of abbreviations and terms

FTR	Financial transmission right
MDAG	Market Development Advisory Group
WAG	Wholesale Advisory Group

[to be completed]

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1. Executive summary

What

- Project to ensure the trading conduct provisions are effective in promoting outcomes consistent with workable competition.

Why

- [problem definition to come]

When

- Seek MDAG feedback on project plan, particularly MDAG stages of project - 8 February 2018
- Sign-off of project plan by Authority - mid February
- Submit MDAG recommendation to the Board - [September 2019]

How

- Review case studies, findings of market performance and compliance reviews to understand performance of trading conduct provisions
- Consider approaches to promoting good trading conduct in other jurisdictions
- Review trading conduct provisions in Code (clauses 13.5A and 13.5B of the Code) and consider whether changes are required
- consider options, including guidelines, to aid in the interpretation of 'high standard of trading conduct' in clause 13.5A of the Code
- consider whether the trading conduct provisions should be extended to actions other than offers and parties other than generators or reserve ancillary service agents, where the behaviour may adversely affect spot market outcomes, or consider whether other changes are required

Who

- Project Governance - MDAG
- Project Sponsor - Tim Street
- Project Manager - Alistair Dixon
- Project Team - Alex Ehlert, Doug Watt, Roger Miller

2. Introduction and purpose

- 2.1.1 This document sets out the project plan for the project “Review of spot market trading conduct provisions”.

2.2 Purpose

- 2.2.1 The purpose of this project is to ensure the trading conduct provisions are effective in promoting outcomes consistent with workable competition.

2.3 Background

- 2.3.1 The project is number C4 in the Authority's 2017/18 work programme and its full title is “Review of spot market trading conduct provisions”. The project description is:
- “Review of trading conduct provisions in light of events that have tested these provisions. Take into account any findings from case studies, performance reports and compliance reports.”
- 2.3.2 The project is priority 2 and the target for 2017/18 is to start the preparation of an issues paper.
- 2.3.3 The trading conduct provisions were promulgated in June 2014.
- 2.3.4 The trading conduct provisions resulted from work by the Wholesale Advisory Group (WAG) on the pricing in pivotal supplier situations project. This project had the objective to improve the confidence in the efficiency of prices when competitive pressures in the wholesale market were weak. The project was initiated following several incidents where generators raised prices to a high level in a region in which they were temporarily pivotal but there was no supply scarcity. The WAG recommended the Authority consider introducing trading conduct provisions in October 2013.
- 2.3.5 Since the provisions were promulgated, the Authority has conducted two compliance investigations with respect to potential breaches of the trading conduct provisions:
- (a) an investigation into the trading conduct by Meridian Energy on 2 June 2016, which involved high offer prices by Meridian during a period when it was pivotal in an attempt to prevent constraints on the HVDC (Meridian investigation)
 - (b) an investigation was also undertaken in relation to conduct by Mercury on 8 December 2016, in which Mercury undertook a ‘trial’ to understand how other participants would respond to Mercury’s reduction of reserves supplied in the national reserve market (Mercury investigation).
- 2.3.6 A draft of the market performance review into Meridian’s behaviour and other events that contributed to the high prices experienced on 2 June 2016 was presented to the Board on 1 December 2016.

- 2.3.7 The Meridian investigation was considered by the Board on 4 May 2017. The Authority decided under regulation 23(3)(a) of the Regulations to discontinue the investigation.¹ The Authority also decided to issue a warning letter to Meridian.²
- 2.3.8 The Mercury investigation was considered by the Compliance Committee at its 31 October 2017 meeting. . The Authority decided under regulation 23(3)(a) of the Regulations to discontinue the investigation.³
- 2.3.9 On 20 November 2017, the Board requested MDAG to include the Review of spot market trading conduct provisions project in its work plan. MDAG agreed to include the project in its work plan at its 28 November 2017 meeting.

3. Project definition

3.1 Project objectives

3.1.1 The objectives of this project are to:

- (a) consider whether the trading conduct provisions in clauses 13.5A and 13.5B of the Code are adequate to promote the statutory objective or whether changes are required to better promote outcomes consistent with workable competition
- (b) consider options, including guidelines, to aid in the interpretation of 'high standard of trading conduct' in clause 13.5A of the Code
- (c) in light of any proposals to assist with interpreting 'high standard of trading conduct', consider whether the safe harbour provisions in clause 13.5B should be modified to ensure that behaviour of parties operating within the safe harbour is consistent with a high standard of trading conduct
- (d) consider whether parties whose actions can affect spot market outcomes but who are not subject to offer requirements should:
 - (i) be subject to trading conduct provisions or
 - (ii) have any behavioural concerns addressed by other means, such as amending other Code provisions
- (e) consider whether actions other than offers that can result in spot market outcomes inconsistent with workable competition should be:
 - (i) subject to the trading conduct provisions or
 - (ii) addressed by other means, such as amending other Code provisions.

¹ Investigation of alleged breaches of clause 13.5A(1) by Meridian Energy Limited. Notification of the Authority's decision under regulation 29 of the Electricity Industry (Enforcement) Regulations 2010, <https://www.ea.govt.nz/dmsdocument/22114>

² 8 May 2017 - Letter from Chair to Meridian Energy re: trading conduct on 2 June 2016, <https://www.ea.govt.nz/dmsdocument/22116>

³ Investigation of an alleged breach of clause 13.5A by Mercury NZ Limited. Notification of the Authority's decision under regulation 29 of the Electricity Industry (Enforcement) Regulations 2010, <https://www.ea.govt.nz/dmsdocument/22784>

3.2 Problem definition

3.2.1 The problem definition for this project is as follows:

3.2.2 [to insert following assessment by MDAG]

3.3 Benefits sought

3.3.1 The desired outcomes from this project are:

- (a) The trading conduct provisions are effective in promoting efficient outcomes in the spot energy and instantaneous reserve markets, including in situations when there is a lack of competitive pressure
- (b) Spot market participants that lack competitive pressure have a clear understanding of behaviour consistent with a high standard of trading conduct
- (c) The trading conduct provisions apply to all activity that can lead to inefficient outcomes in the spot energy and reserve markets
- (d) Matters that would be better addressed through other Code provisions or other instruments are clearly identified.

3.3.2 The business rationale for the project is as follows:

Competition	Reliability	Efficiency
Effective trading conduct provisions would promote competition by ensuring all spot market participants can operated on a level playing field and that parties subject to a lack of competitive pressure do not behave so as to inhibit competition	Effective trading conduct provisions would also promote an efficient level of reliability through promoting prices that reflect actual scarcity when it arises. This would promote efficient operation and investment targeting reliability.	Effective trading conduct provisions would promote efficiency by promoting spot market outcomes consistent with workable competition when there is a lack of competitive pressure. Effective trading conduct provisions would also result in prices that reflect scarcity when it arises. Overall, effective trading conduct provisions would promote confidence in the market, enabling informed decision making and more efficient risk management. This would enable new entry and promote competition, leading to more efficient operational outcomes.

Reduce barriers	Facilitating consumer participation	Provide efficient price signals	Appropriate flexibility and resilience	Ensuring fit-for purpose market services	Increasing compliance
✓		✓	✓		✓

3.4 Scope

The following table outlines the processes and areas that are covered by project:

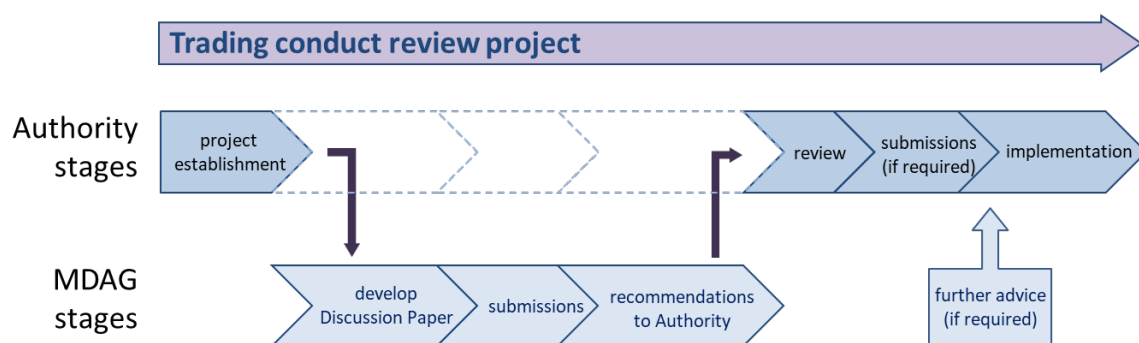
Included in the Scope: (We will do this)	Excluded from Scope: (We won't do this)
Consider the following matters a) trading conduct affecting outcomes in the energy and instantaneous reserves markets in the New Zealand wholesale electricity market (spot market) b) whether the trading conduct provisions are adequate to promote the Authority's statutory objective, or whether changes are required to better promote outcomes consistent with workable competition c) options, including guidelines, to aid in the interpretation of 'high standard of trading conduct' in clause 13.5A of the Code d) in light of any proposals to assist with interpreting 'high standard of trading conduct', whether the safe harbour provisions should be modified to ensure that behaviour of parties operating within the safe harbour provisions is consistent with a high standard of trading conduct e) whether the trading conduct provisions should be broadened to apply to parties not subject to offer requirements but whose actions can impact on spot market outcomes inconsistent with workable competition, or whether it would be preferable to address this by other means, such as amending other Code provisions f) whether the trading conduct provisions should apply to actions other than offers that can impact on spot market outcomes inconsistent with workable competition, or whether it would be preferable to address this by other means, such as amending other Code provisions. Trading conduct in hedge markets is only in scope to the extent it might affect conduct on the spot market	Review of clause 13.5 of the Code, which requires bids and offers to be lawful, is out of scope. Trading conduct in hedge markets, except where this might affect conduct on the spot market

3.5 Key Milestones and Deliverables

The key milestones and high level project schedule summary for the MDAG stages of the project are:

Activity	Dates	Status
Initiation		
MDAG agrees to include project in work plan	28 November 2017 (1 st MDAG meeting)	Completed
MDAG agrees project plan	8 February 2018	
MDAG agrees problem definition	[May 2018]	
MDAG finalises discussion paper	[September 2018]	
Submit discussion paper to Board for comment	[November 2018]	
MDAG releases discussion paper for consultation	[February 2019]	
MDAG prepare summary of submissions following consultation	[April 2019]	
MDAG finalise recommendations paper	[June 2019]	
Submit paper to Board to consider recommendations	[September 2019]	

3.5.1 Both MDAG and the Authority will work on the project. MDAG's and the Authority's work on the project are summarised in the following diagram:



3.6 Project dependencies

3.6.1 Dependencies will be recorded and escalated in the dependency register. Project managers will consult when developing and monitoring project schedules to ensure that all dependencies are considered and managed.

3.6.2 Current dependencies known for this project are:

Dependency	Possible Impact
Spot-market settlement on real-time pricing	Increased participation by consumers in spot market provides potential to counter behaviour from generators and ancillary service providers facing a lack of competitive pressure.
Enabling dispatchable demand at conforming nodes	Provided potential to counter lack of competitive pressure in spot market
Wholesale market information	If reduces problems arising from asymmetric information, it may reduce the need to rely on trading conduct provisions to address these problems
Review of wind generation offers	May address trading conduct issues in relation to wind generation
Instantaneous reserve market review	Any changes to the instantaneous reserve market resulting from this project may have implications for the trading conduct project.
Introduction of hedge market cap products / Enhancement of FTRs	More volume of these products available so greater ability to manage risk via these products
Enabling mass participation in electricity markets	Provides the potential to reduce the extent and ability to exploit transitory lack of competitive pressure in the spot market
Review of wholesale trading arrangements (pending project)	May address matters being considered by project
Insider trading (pending project)	Could potentially consider trading conduct as it relates to insider trading

3.7 Project Constraints and Assumptions

3.7.1 Constraints and assumptions that affect this project are:

Constraint / Assumption	Source
MDAG phase: Except where explicit provision is made for access, no access to confidential data and legal opinions	
Authority phase: May include consideration of confidential data and legal opinions but would need to be communicated in a manner that did not jeopardise confidentiality	

3.8 Project Risks

3.8.1 The risk management approach for this project will be to identify, assess and control and risks using the process contained in the project 'risks, issues and lessons learned template'.

3.8.2 The current high level risks identified are:

Item	Risk Description	Description of Consequence	Risk treatment / response
1	Parties that may be affected by review consider they are excluded	Successful completion of review compromised	Ensure there are opportunities for discussing review with such parties
2	Potential interaction with electricity retail price review	Successful completion of review compromised Could affect outcome of electricity retail price review	Ensure any interaction with the electricity retail price review is through the MDAG Chair
3	Market behaviour during review period	Depending on behaviour could highlight matters not considered, which could lead to a delay in completion of the review, or could constrain consideration of matters, limiting the breadth of matters considered by the review	Ensure any substantive issues are brought to attention of MDAG Chair
4	Proposals may have unintended consequences for efficient behaviour	Inhibition of efficient behaviour	Ensure communications regarding high standard of trading conduct is clear

4. Project Management

The project management approach addresses the processes and engagements required including:

- (a) project structure (roles and responsibilities)
- (b) the users and other known interested parties
- (c) communications
- (d) quality management
- (e) change management.

4.1 Project structure

4.1.1 Roles and responsibilities:

Name	Title	Role
MDAG		Advisory group
John Rampton	General Manager Market Design	Authority representative to MDAG
Avi Singh	Administrator Market Design	MDAG co-ordinator
Tim Street	Manager Wholesale Markets	Project sponsor
Alistair Dixon	Principal Adviser	Project manager
Alex Ehlert	Senior Investigator	Subject matter expert
Doug Watt	Manager Market Monitoring	Subject matter expert
Roger Miller	Senior Energy Analyst	Subject matter expert
Consultant (TBD)		Subject matter expert

4.2 Users and interested parties

4.2.1 The following table captures the users, interested parties and industry participants and the nature of their interest

User / interested party	Nature of their involvement and/or interest
Generators	Potentially affected by outcome of the review
Purchasers	Potentially affected by outcome of the review
Ancillary service agents	Potentially affected by outcome of the review
Consumer representatives	Will wish to ensure review ensures integrity of wholesale market
Financial parties / investors	Will wish to ensure review ensures integrity of wholesale market
Other regulatory bodies	Potential implications of review for regulation they administer

4.3 Communications

4.3.1 The communications activities to be undertaken for this project are listed in the table below:

Stakeholder/audience	Communication activities	Person responsible	Timeframe
Stakeholders not members of MDAG affected by the review	MDAG meetings with such parties	Chair / Secretariat	TBD
Interested parties	Consultation	Chair / MDAG / Secretariat	TBD

4.4 Quality assurance

4.4.1 To ensure the project deliverables are fit for purpose the following quality management process will be implemented:

- (a) MDAG review of draft material
- (b) Independent critique of draft consultation material prior to publication
- (c) Consultation on problem definition and potential recommendations.

4.4.2 The table below sets out the quality assessment criteria for each deliverable:

Deliverable	Assessment criteria	Sign-off responsibility
Consultation paper	Consultation paper is consistent with consultation charter and Code Amendment principles, provides a robust consideration of the issues under review, and is written in plain English	MDAG, Authority MDAG representative, project sponsor
Recommendation to Board	Sound recommendations based on robust analysis of submissions and issues identified through the consultation process	MDAG, Authority MDAG representative, project sponsor

4.5 Project Change management

- 4.5.1 Changes from this plan during the project will be appropriately managed to ensure their impact on time, cost, quality and resources are controlled.
- 4.5.2 This will be via the following process, which will ensure that all issues and changes are identified, assessed and either approved, rejected or deferred.

Capture	Examine	Propose	Decide	Implement
•Change type •Determine severity/impact •Log in register	•Assess impact on project objectives •Assess impact on time/cost /quality and resources	•Identify options •Evaluate options •Recommend options	•Escalate if beyond delegated authority •Approve, reject or defer recommended option	•Take corrective action •Update records and plans •Use version control (within filesite)

- 4.5.3 Any changes agreed will be identified in the project reports and recorded in the change register.

4.6 Project reporting

- 4.6.1 MDAG will receive project updates at each meeting. The updates will capture:
- current MDAG position on key matters
 - actions since last meeting
 - relevant correspondence.