

# MINUTES

Meeting number: 4

Venue: Electricity Authority, Boardroom, Level 7, ASB Bank Tower, 2 Hunter Street, Wellington

Time and date: 9:30am to 2:50pm, Tuesday, 10 April 2018

## Attendees

- James Moulder (Chair)
- James Flannery
- James Flexman [joined 9:42am]
- Darren Gilchrist
- Stu Innes
- Bruce Rogers
- Matt Rowe [joined 9:39am]

## Apologies

- Rebecca Osborne
- James Tipping

## In attendance

- Murray Henderson (Principal Market Analyst, System Operations, Transpower) [items 2, 3 and 4; joined 12:05pm]
- John Rampton (General Manager Market Design, Electricity Authority) [items 1 and 2; left 12:30pm]
- Tim Street (Manager Wholesale Markets, Electricity Authority)
- Alistair Dixon (Principal Adviser Market Design, Electricity Authority) [joined 9:36am]
- Avi Singh (Administrator Market Design, Electricity Authority)
- Elly Kappatos (Personal Assistant to Market Design, Electricity Authority) [items 1 and 2; joined 9:37am]
- John Stephenson (Partner, Sense Partners) [items 1 and 2]
- Jean-Pierre de Raad (Partner, Sense Partners) [item 1 and 2]

## Guest speakers on Saves and win-backs

- Jessica Wilson (Head of Research, Consumer New Zealand) [item 2; joined 10:00am, left 10:34am]

## Guest speakers on Review of spot market trading conduct provisions

- Mike Roan (General Manager Wholesale, Meridian Energy) [item 3; joined 12:46pm, left 1:26pm]
- Jason Woolley (Regulatory Affairs Manager, Meridian Energy) [item 3; joined 12:46pm, left 1:26pm]

The meeting opened at 9:29am

## 1 Meeting Administration

### 1A Apologies

Apologies were received from Rebecca Osborne and James Tipping.

### 1B Interests register

The Chair tabled the MDAG interests register and noted there were no changes from the previous meeting.

Because some members arrived after the completion of this agenda item, the Chair asked the secretariat to check if there were any changes to their disclosures.

- | **Action – 4.1:** Secretariat to check interests disclosure of relevant members by next MDAG meeting

### 1C Minutes of previous meetings

The Chair tabled minutes of the previous meeting on Thursday, 15 March 2018.

The MDAG delegated confirmation of the minutes to the Chair, subject to the addition of the following points regarding the discussions with guests on the *Review of spot market trading conduct provisions*:

- in determining whether offers in pivotal situations are comparable to non-pivotal situations, the periods for comparison should be wider (eg, weeks or months) than adjacent comparable trading periods (Phill Anderson)
- the investment required in the grid to eliminate constraints (and therefore net pivotal opportunities) is not likely to be attractive (Phil Gibson)
- all non-generator participants have the opportunity and the signals to hedge their market positions, just as generators do (Phil Gibson).

### 1D Matters arising

The group noted:

- a member's email outlining their feedback on the latest version of the *Saves and win-backs* issues paper
- the importance of defining the relevant market for the *Review of spot market trading conduct provisions*, particularly given the potential implications under the Commerce Act 1986.

## 1E Action list

The Chair noted all actions from the previous meeting were completed, except the ongoing action to invite guests from the Financial Markets Authority and OM Financial to attend a future meeting to provide their views on the *Review of spot market trading conduct provisions*.

The MDAG also asked the secretariat to forward a copy of email correspondence with Electra regarding *Saves and win-backs* to members.

- | **Action – 4.2:** Secretariat to invite the Financial Markets Authority and OM Financial to meet with the MDAG by **June 2018 MDAG meeting**
- | **Action – 4.3:** Secretariat to forward Electra email correspondence to members by **next MDAG meeting**

## 1F Correspondence

The Chair tabled correspondence sent and received for the group to note, namely:

- a letter from the Chief Executive of Electric Kiwi to the Authority Chair (copied to the MDAG Chair), outlining their views on *Saves and win-backs*
- an email from the General Manager of Vocus Energy to the MDAG secretariat, proposing revisions to the MDAG's *Saves and win-backs* problem definition set out in its project plan
- a letter from the MDAG Chair to the General Manager Hydro and Wholesale as well as the Wholesale Markets Manager at Mercury Energy, thanking them for hosting the MDAG's 15 March meeting.

The MDAG decided the Chair should draft a letter of response to the email from Vocus Energy, and agreed the letter should:

- note the MDAG decided to retain the problem definition set out in its project plan at this time
- encourage submissions from interested parties when the MDAG releases its issues paper
- emphasise the need to show, in economic terms, how any proposal is consistent with the Authority's Code amendment principles and the Authority's statutory objective
- attach a copy of the Authority's Consultation Charter.

The group also asked the secretariat to forward the Authority's response to the Electric Kiwi letter to members.

- | **Action – 4.4:** Chair to send a letter of response to Vocus Energy by **next MDAG meeting**
- | **Action – 4.5:** Secretariat to forward the Authority's response to Electric Kiwi to members **when the Authority has responded**

## 1G MDAG meeting dates calendar

The MDAG noted the calendar setting out its agreed meeting dates.

## 1H Work plan update

The Chair tabled the work plan update for the group to note.

## 2 Saves and win-backs

Guest speaker Jessica Wilson from Consumer New Zealand discussed her perspective on *Saves and win-backs* with the MDAG, noting:

- Consumer New Zealand did not support the Authority's decision to create the save protection scheme in 2014, because they believed this would:
  - only affect a small proportion of consumers, being those who losing retailers want to retain
  - not deliver what consumers most want, which is better price transparency so they can more easily compare the benefits and costs of tariffs (particularly fixed-term arrangements)
- consumers were concerned with excessive door-knocking and being provided with misleading information, particularly during periods of intense retail competition when new entrants are seeking to obtain sufficient market share
- Consumer New Zealand believed there was insufficient evidence that a moratorium on win-backs would improve competition
- a moratorium could actually exacerbate “slamming” scenarios, where consumers are forced to switch against their will
- “heat of the moment” transactions were usually unfair on consumers
- Consumer New Zealand had not observed what it would expect (reduced prices as demand stagnates) in the electricity retailing market given normal competitive pressures
- an increasing number of retailers in the market was not guaranteed to reduce prices for consumers.

The secretariat then briefly presented the group with a summary of the key points in, and the structure of, the draft issues paper.

In light of the discussion with Consumer New Zealand, the MDAG discussed the draft issues paper and asked the secretariat to make various changes, including:

- inserting the summary of the key points into the Executive Summary
- the addition of a glossary
- consistent use of important terminology
- various clarifications to the graphs in the paper.

*The group decided to halt this agenda item at this point and resume the item later*

## 3 Review of spot market trading conduct provisions

Guest speakers Mike Roan and Jason Woolley from Meridian Energy discussed their perspectives on the *Review of spot market trading conduct provisions* with the MDAG, with reference to Sapere Research Group's [addendum](#) to their report on trading conduct.

They broadly contended:

- any party in any market would have been expected to act in the manner Meridian did in relation to the events of 2 June 2016
- having certainty around their obligations was the key element for traders

- there should be a better process to obtain this certainty, noting Meridian was the only party that could not appeal the Authority's decision relating to the events of 2 June 2016 to the Rulings Panel
- any safe harbour provisions need to be extremely clear about the range of conduct they cover
- transmission constraints must be sufficiently recognised in a workably competitive market
- further work should be done to ensure the capacity of the HVDC is fully utilised.

The group also had a wide-ranging discussion with the guest speakers regarding the acceptability of using assets to manage basis risk.

*The MDAG decided to halt this agenda item at this point and resume the item later*

## 2 Saves and win-backs

*The group resumed this agenda item*

The MDAG returned to its consideration of the draft issues paper. In addition to the changes it proposed earlier, the MDAG asked the secretariat to:

- use shorter, more recent time periods for several graphs
- add relevant footnotes
- make various grammatical, stylistic and structural amendments.

The group asked the secretariat to update the draft issues paper with its suggested changes and re-circulate for further feedback. The group then agreed to delegate authority to the temporary deputy chairperson (in the Chair's absence) to work with the secretariat to finalise a version to present to the Authority Board.

- | **Action – 4.6:** Secretariat to update draft *Saves and win-backs* issues paper by 16 April
- | **Action – 4.7:** Secretariat to re-circulate updated draft *Saves and win-backs* issues paper to the MDAG for further feedback by 16 April
- | **Action – 4.8:** Temporary deputy chairperson and secretariat to finalise draft *Saves and win-backs* issues paper for the Authority Board by 20 April

## 3 Review of spot market trading conduct provisions

*The group resumed this agenda item*

The MDAG discussed the points raised by the guest speakers from Meridian and noted:

- its agreement that certainty was a critical element of a successful trading conduct regime
- a fundamental issue to resolve was whether plant can be used to manage basis risk
- differences in the ability to hedge to offset the risks of pivotal situations between the supply and demand sides.

The group asked the secretariat to explore whether there were additional judicial mechanisms that could help expedite any allegations regarding a breach of the trading conduct provisions.

- | **Action – 4.9:** Secretariat to explore additional judicial mechanisms that could help expedite any trading conduct breach allegations by June 2018 MDAG meeting

#### 4 Publication of meeting papers

The MDAG agreed to withhold publication of:


- the draft *Saves and win-backs* issues paper to enable consideration by the Authority Board before its release
- any correspondence provided in confidence.

The group approved publishing all other meeting papers on the Authority's website without alteration.

*The meeting ended at 2:58pm*

**I, James Moulder (MDAG Chair), certify that the minutes recorded disclose all issues discussed at the meeting (date at the top), are recorded truthfully and without bias.**

Signature:



Date: Tuesday 8 May 2018 (08.05.2018)