

REVIEW OF SPOT MARKET TRADING CONDUCT PROVISIONS TERM SHEET

This term sheet captures what the MDAG has agreed so far on the *Review of spot market trading conduct provisions* project following meeting number 8 on Wednesday, 5 September 2018.

Project component	Agreed (or yet to be agreed) terms
Target	Recommendations taking into account Authority's statutory objective, consensus where possible.
2018/19 Work programme target	MDAG publish discussion paper, if any
Scope	The review should consider the following matters, which would form the project scope: 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

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	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. Should MDAG identify matters it considers are best addressed by amending other Code provisions, one option would be for these matters to be addressed through subsequent MDAG projects.
Problem definition	• The general requirement for a 'high standard of trading conduct' is considered unclear • The trading conduct provisions only apply to parties making offers • The trading conduct provisions do not prevent withdrawal of plant after gate closure by plant not required to make offers • The safe harbour allows withdrawal of plant or instantaneous reserve for reasons other than bona fide reasons - o The safe harbour requires offers for plant <i>able</i> to operate • There is no requirement to inform the market when plant is not available but not on outage, eg through POCP • The trading conduct provisions do not specifically address collusion of offers between generators or providers of instantaneous reserve – the Commerce Act and the clause 13.5 requirement for offers to be lawful may mean this is unnecessary • The trading conduct provisions do not make clear that offers should reflect the physical underlying capability of the plant - o E.g. ramp rates should reflect the physical capability of the plant and any other restrictions on the plant such as regulation • The trading conduct provisions do not make clear that the physical basis for offers should be consistent across time
Options	
Value at stake	
Decisions	Behaviour not consistent with a high standard of trading conduct includes:

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	• having plant available, but not on outage and not offered into the spot market • the use of engineering factors (eg, ramp rates) to affect offers that did not reflect the underlying physical capability of the plant. In addition, the Group has agreed that customers that are hedged are indifferent to the spot outcome in the short term, but still receive a signal from spot market outcomes in the longer term.
Issues still to be determined	• Whether the trading conduct provisions should apply to a party using a pivotal position to offset losses elsewhere and, if so, in what circumstances • The safe harbours are not available to some plant [To be discussed at 6 November meeting] • The safe harbour may shelter and facilitate behaviour inconsistent with a high standard of trading conduct [To be discussed at 6 November meeting] • The safe harbour may be difficult to apply in practice [To be discussed at 6 November meeting] • The trading conduct provisions not provide guidance on when re-offering is appropriate [To be discussed at 6 November meeting]