BY E-MAIL

ELECTRICITY AUTHORITY
TE MANA HIKO

Tony Baldwin - MDAG Chair

Cc: MDAG members

I am writing to you to follow-up our recent discussion on the article published on LinkedIn and Energy News by Matt Rowe.[1] This has raised concerns for the Authority that we would, in the first instance, like MDAG members to consider further.

In our view, Matt Rowe's article addresses matters and expresses views on a topic that is currently under active consideration by MDAG in the course of its trading conduct work. While Matt has not drawn firm conclusions, we believe that any objective observer would see the link. For Matt to express a view on trading conduct at this point raises the following concerns for the Authority:

- **Group process**: Expressing views on a topic under active consideration before the group has reached a view is contrary to a foundational purpose for having Advisory Groups, which is to bring together diverse individuals with an interest in the market, who are capable of thinking and contributing independently, to seek analytically robust solutions to general market issues. This collective process does not work if group members can choose to take public positions relating to these issues before the group has concluded its work.
- **Quality of advice:** Taking a public position partway through the process on an issue squarely under consideration by the group before it has been thoroughly tested raises questions about the member's commitment to looking for analytically robust answers. It also raises questions as to whether the member will be prepared to take an open minded approach for the remainder of the trading conduct process. That in turn raises a concern for me about the robustness of the advice MDAG will ultimately provide to the Authority Board.

I would reiterate that for MDAG's recommendations to be enduring and effective, it is important that the approach for identifying and determining solutions to problems is robust and evidence based. I appreciate that this is a hallmark of the approach you are taking with the group, and that further relevant analytical work has yet to be considered. It is obviously important for Advisory Groups in general to base their conclusions and advice to the Authority, and indeed the market as a whole, on rigorous and dispassionate reasoning.

We would welcome MDAG's response to these concerns, and understand that you intend to discuss them with the group at the 30 July meeting. We agree with your proposal that, in the first instance, MDAG reconsider its own rules of operation in light of this situation, which MDAG is permitted to do under the Charter, noting:

- Our specific concerns
- The importance of good process to ensuring both that:
  - all MDAG members remain willing and open to full participation in the group
  - stakeholders have confidence in the robustness of MDAG's views
- Any views from MDAG members about the necessary balance between good group processes, their independence, and how they go about testing relevant ideas with colleagues.

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[1] The lakes are near full, the gas fields are back operating, so why are New Zealand's electricity prices still so stubbornly high?

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In addition, the Authority intends to review the foundation documents for advisory groups to provide more clarity in this area. As part of that review, we will take any changes to MDAG's operating rules into account. If it would be helpful, Rob Bernau can join the 30 July MDAG meeting by tele-conference in the morning to hear your initial response to these issues. I note that they are also likely to be discussed at the 8 August meeting of the Authority Board.

Regards,

Ilana Miller - Acting General Manager, Market Design.