

MINUTES

Meeting number: 17a

Venue: Electricity Authority, Meeting Room 1, Level 7, ASB
Bank Tower, 2 Hunter Street, Wellington and Members dialled in via Zoom

Time and date: 9:36pm- 12.23pm, Tuesday, 17 December 2019

Attendees

- Tony Baldwin (Chair) – Via Zoom
- Paul Baker
- James Flannery
- James Flexman – Via Zoom
- Stu Innes – Via Zoom
- Andrew Kerr
- Rebecca Osborne
- Ann Whitfield – Via Zoom
- Al Yates – Via Zoom
- Murray Henderson

In attendance

- Tim Street (Manager Wholesale Markets, Electricity Authority)
- Alistair Dixon (Principal Adviser Market Design, Electricity Authority)
- Hannah Hopper (Advisor Market Design, Electricity Authority)
- Sal Shah (Advisor Market Design, Electricity Authority)
- Rachel Holden (Consultant, Concept Consulting)
- David Weaver (Consultant, Concept Consulting) [joined at 11.17pm left at 12.100pm (agenda item 3)]
- David Hunt (Consultant, Concept Consulting) [joined at 11.17pm left at 12.00pm (agenda item 3)]

The meeting opened at 9:36am.

1 Introductions

The Chair welcomed members to the meeting. The Group began discussion of the draft Code changes.

a) Trading Conduct proposal paper

The Chair began by informing members the Trading Conduct proposal paper was received favourably by the Authority's Board at the 6 December Board meeting.

Members inquired what the most up to date version was of the proposal paper. The Chair noted the 26 November copy was the most up to date version that had been shared with the Group.

The Group then moved to discuss the proposed Code provisions including clarification of terms, alternative wording options and terms that could be better defined.

Action 17a.1: Secretariat to

- provide an introduction/context paragraph to the discussion paper describing the links between this proposal, efficient pricing and hedge market.
- change the word "operates" to "offers" in (b) of the draft Code
- note in the introduction that the MDAG is aware of what else is going on (such as actions in response to the Electricity Price Review (EPR))
- include some text that notes that mandatory market making won't change incentives or the ability to use pivotal power, but may enhance the availability of financial instruments to cover basis risk (and therefore further weaken the argument that pivotal power is the only real 'insurance' option)
- add a question to the discussion paper to gather feedback on the market definition in (b) of the draft Code
- The Group ended up agreeing that dispatchable demand should be included in the Code amendment, but not bidding in general. Subsequent to agreeing this the Chair and Secretariat decided to ask questions on this issue instead given the drafting issues involved.
- add a question to the discussion paper to ask submitters whether there is any specific topics they would like further guidance on.

The Chair asked members if the views expressed in the proposal paper reflected those of the majority, minority or the group as whole (noting the changes discussed would be reflected and that consultation was still to come).

The Group agreed the views reflected those of the Group as a whole. Each member of the group expressed their support for the proposal described within the proposal paper. Some members noted it does not create a black and white compliance boundary, and that this is not possible.

The Chair outlined the steps required to finalise and release the discussion paper as:

- provide a copy of the discussion paper to the Group prior to the Christmas holidays
- in mid-January received a revised Cost Benefit Analysis (CBA) by Concept consulting to be provided to members before the 21 January MDAG meeting and make changes to relevant parts of draft paper
- provide a copy of the discussion paper to the Chief Executive and Board Chair to confirm that the Board's views have been considered by the Group
- seek agreement to finalise and publish the discussion paper at the 21 January MDAG meeting
- brief the Minister of Energy and Resources prior to publication of the discussion paper
- organise a seminar with stakeholders (in Auckland, possibly also Wellington) to be held during the six-week consultation period.

A member asked whether there should be legal review of the draft Code change before the discussion paper goes out. The group agreed that there should be legal review of the draft Code.

Action 17a.2 – **Secretariat** to provide final version of paper before the Christmas break, which would consider feedback received at the Board meeting on 6 December and incorporate feedback from the MDAG teleconference meeting on 17 December.

Action 17a.3 – **The MDAG** to review and sign off the discussion paper to be released for public consultation at the 21 January 2020 meeting.

b) Trading Conduct proposal paper: fact sheet

Hannah Hopper explained that the Authority is exploring better ways to communicate and provide material that is more accessible to our various stakeholders. This could involve posters or FAQs which can be distributed alongside the release of papers.

The group discussed the Fact Sheet associated with the Trading Conduct discussion paper and agreed this piece of work would be owned by MDAG.

Members then provided feedback on content and wording.

Action 17a.4 – **Secretariat** to update fact sheet to incorporate MDAG comments.

Action 17a.5 – **Secretariat** to circulate fact sheet in advance of 21 January meeting for MDAG approval.

c) 2 December 2019 Haast Letter: approach to analysing claims and next steps

The Chair noted that he, Authority staff, and Concept Consultants had met with Rob Allen, Phillip Anderson, and John Russell to discuss the 2 December 2019 letter from Phillip Anderson (Haast Energy Trading) 'Critique of Concept's report "Review of impact of

trading conduct enforcement action on spot prices””. The Chair noted that the exchange of views at the meeting was quite constructive.

David Hunt and David Weaver ran through their assessment of Haast’s analysis. Their key conclusions were that;

- They didn’t agree with Haast’s conclusion that there was statistical case for excluding gas prices from the model (for explaining electricity prices).
- They didn’t agree with Haast’s suggestion that gas production is a better measure of stress in the gas market than gas prices.
- Even if gas prices are excluded from the analysis the results don’t show that there was a structural increase in electricity prices at the time of the enforcement action against Meridian.
- They hold the view that prices since May 2017 (but not including this year) have been driven by physical drivers.

Concept is to provide a note outlining their response to the points raised by Haast.

d) 16 December 2019 Electric Kiwi & Haast Energy Trading letter

The Chair noted the Group had received a letter from Electric Kiwi and Haast Energy Trading ‘The Operational Procedures should protect and preserve the independence and integrity of the Advisory Group’ on 16 December 2019.

The letter makes two main points;

- there needs to be a focus on protecting the independence of the Advisory Group. In order to do this, they have provided a list of additions that recommend be included in the draft Operating Procedures
- the example of how MDAG dealt with the Matt Rowe article may be perceived to have compromised the independence of the MDAG as a group.

The MDAG decided that recommendations made by Haast Energy Trading and Electric Kiwi should be evaluated at MDAG’s February 2020 meeting, after which a response will be sent Electric Kiwi and Haast Energy Trading.

Action 17a.6 Secretariat to include discussion of Operating Procedures on the agenda for the 19 February 2020 MDAG meeting.

2 Publication of papers

The Group decided to publish:

- the meeting agenda
- the 2 December 2019 letter from Haast Energy Trading ‘Critique of Concept’s report “Review of impact of trading conduct enforcement action on spot prices”’

- the 16 December 2019 letter from Electric Kiwi and Haast Energy Trading 'The Operational Procedures should protect and preserve the independence and integrity of the Advisory Group'.

The Group asked that when the two letters are published that it is noted that MDAG is still preparing responses to the letters.

| **Action 17a.7- Secretariat** to publish the 2 December 2019 letter from Haast Energy Trading and the 16 December 2019 letter from Electric Kiwi and Haast Energy Trading on the Authority's website with a note that MDAG is still preparing responses to the letters.

The Group noted that final versions of the other meeting papers (the trading conduct fact sheet and trading conduct draft Code changes) would be published when the trading conduct discussion paper is published in February 2020.

The meeting ended at 12.23pm