

Wholesale Advisory Group ::: Meeting number 22

Venue ::: NZ Steel Mill, Glenbrook, Auckland

Scheduled at 8:00am on 1 May 2014

Minutes

Members present

- ::: John Hancock (Chair)
- ::: Bruce Rogers
- ::: Chris Jewell
- ::: Alan Eyes
- ::: Neal Barclay
- ::: Richard Spearman
- ::: John Carnegie

Apologies

- ::: Graeme Everett
- ::: Stephen Peterson

Also in attendance

- ::: Lisa Dhanji (Transpower, Manager Market Services)
- ::: Mike Collis (Electricity Authority, Senior Advisor Wholesale Markets)
- ::: Richard Harrow (Electricity Authority, Advisor Wholesale Markets)
- ::: Andrea Kan (UMR Research) agenda item 3
- ::: David Weaver (Concept Consulting Group) by telephone for agenda items 3 & 4
- ::: Bridget Moon (Concept Consulting Group) by telephone for agenda items 3 & 4

The meeting opened at 8:25am.

1 **Welcome**

John Hancock (the Chair) welcomed members to the meeting.

A Apologies

Apologies were received from members Graeme Everett and Stephen Peterson, as well as Tim Street and John Rampton from the Authority.

B Interests Register update

The Chair asked members to email the secretariat with any new interests that might conflict their independence. The Interests Register was also circulated at the meeting, and members made amendments as appropriate.

C Minutes of the previous meeting

The draft minutes for the previous WAG meeting were accepted as a true and accurate reflection of the proceedings.

Members also accepted the draft WAG/RAG meeting minutes, with one suggested amendment: The lines company consolidation project should be an Authority project, but the meeting was undecided as to the appropriateness of the project being part of the RAG work programme.

D Matters arising

There were no matters arising.

E Future meetings

The Chair noted that he would not be present for the July meeting. John Carnegie would take on the role of Chair in his absence. Alan Eyes and Bruce Rogers noted they would also be absent for the July meeting.

The meeting schedule for the second half of the year had been received. The Chair encouraged members to respond to Saltanat Cole of the Authority with feedback on the schedule and their availability for the suggested meeting dates.

The November meeting was suggested as an option for another location meeting.

F Correspondence

The Chair referred members to the letter from Graeme Everett to the Chief Executive of the Authority that was circulated. Members shared opposing views regarding the value of maintaining the Hedge Disclosure website. The Chair suggested it be a question included in the Hedge Market Development discussion paper when it is drafted.

The Chair also referred members to the letter from the Authority Board thanking the group for its work.

G WAG work plan update

The Chair noted that the group would discuss the Instantaneous Reserves project with Vesa Mattila of the Authority at the next meeting.

The group reviewed the WAG work plan update.

Action

By

Date for action

Respond to Saltanat Cole regarding the meeting schedule for the second half of the 2014 year.

Members

Next meeting

2 National frequency keeping market

Mike Collis introduced the draft paper on the WAG’s recommendations to the Board on the national frequency keeping market. Discussion focussed on the issue of whether the project should be split into two parts, firstly the creation of a national market, and secondly co-optimisation of frequency

keeping with energy and reserves. A member questioned the merits of proceeding directly with co-optimisation as there are risks that transient market power in frequency keeping could result in unintended pricing consequences in other markets.

Mike clarified that the non-co-optimisation and co-optimisation technical solutions for national frequency keeping selection are incompatible and adding co-optimisation at a later stage would involve rebuilding and opposed to enhancing the national selection tool, in effect running the project twice.

Members concluded that while there are some risks associated with co-optimisation, there are existing market mechanisms for dealing with unintended pricing consequences. The WAG agreed the economic benefits of co-optimisation are large enough to warrant proceeding with this form of selection, but conditional on the Authority further investigating co-optimisation and confirming that co-optimisation would not introduce any unintended pricing effects. If this was not found to be the case, the issue should be referred back to the WAG.

Members broadly agreed with the recommendations as supported by cost benefit analysis and requested the paper be updated as follows:

- include a recommendation requesting the Authority to investigate any unintended pricing consequences of co-optimisation as part of the project
- change the order of the benefits so that they are in order of value
- include a comment that, as noted in previous meetings, the WAG has an interest in pursuing the future frequency keeping cost allocation work
- include a request that the WAG be kept informed about progress on the national frequency keeping project.

Once the paper is updated it should be circulated to members by email for final comment.

Action	By	Date for action
Updated paper to be circulated to members for final comment.	Secretariat	Before next meeting

3 **Presentation by Andrea Kan (Executive Director of UMR Research)**

Andrea Kan, David Weaver (by telephone) and Bridget Moon (by telephone) joined the meeting for this agenda item at 10:15am.

Andrea Kan gave a presentation on the preliminary results of the in-depth interviews which had been undertaken as part of the 2014 Hedge Market Survey. The results were incomplete pending two further interviews with survey respondents.

Issues raised by interviewees included:

- Uncertainty as to where the Authority is headed.

- Confusion over lines charges, a call for market education on this issue.
- Too many lines companies for retailers to deal with. A call for standard lines companies agreements and pricing plans.
- Uncertainty over the future of the Tiwai smelter and this impact of this uncertainty on the market.
- A lowered intention by interviewees, since the previous Hedge Market Survey in 2012, to enter the ASX futures market.
- Problems with distribution system outages.

Following her presentation, members briefly explored some of the issues with Andrea, at the end of which, the Chair thanked her for her time.

Andrea Kan left the meeting at 10:45am following the completion of discussions on this agenda item.

The WAG briefly discussed the material contained in the presentation.

4 Hedge Market Development

The group discussed the wide scope of the project, and the need to identify a clear problem definition. At the Chair's suggestion, the group agreed that it should first build up a picture of what an adequately hedged position looks like – noting the need to capture wider risk management approaches, and the relationship with the stress testing regime. From there, the group could consider what the market's deficiencies are, and the possible remedies.

The Chair led the group through a page-turn of the Hedge Market Metrics paper. Richard Harrow also presented accompanying slides. During this discussion, the group:

- Contemplated whether some of the observations made are a result of deficiencies in the market, or might rather be a fair reflection of the market's underlying fundamentals (e.g. risk highly weather dependent etc.).
- Expressed an interest in more in-depth analysis and comparisons with the NEM and other analogous international markets, with a view to determining the basis of observed differences in metrics. The Chair suggested Dean Price (ex-general manager at D-Cypha Trade) would be a good person to consult with on this issue.
- Considered the role of market makers and the reliance of the ASX futures market on their trading activity, with some suggestion that there may be a need for more market makers.
- Considered the role of financial intermediaries, and suggested a need to identify what was stopping them from taking a more active role in the market given the apparent existence of a premium - with the lack of a price cap being identified as a specific concern - and therefore, what would need to change to entice them to participate. A member suggested talking to Deutsche Bank about this issue.

The group requested that the secretariat make some changes to wording in the Hedge Market Metrics paper and presentation slides before they are published, to ensure they reflected the group's views.

The group discussed the plan for the next meeting, with the focus to be on developing the problem definition. The Chair noted that many issues had been raised with the group to date by participants that may be symptoms of different problems. As a means of structuring a coherent problem definition for the project, it may be helpful to:

- define the market using Tim's graphic from the initial WAG briefing paper
- elaborate that this is a "risk management market" for electricity and define the "hedge market" in those terms (explicitly more than ASX)
- explain what risk management needs for participants are
- map issues to needs
- assess using CRE.

The Chair requested that the secretariat prepare two papers for the next meeting – an internal paper incorporating new analysis and research material, and the beginnings of a draft discussion paper.

Action	By	Date for action
Changes made to presentation slides and Hedge Market Metrics paper	Secretariat	Prior to publication on Authority website
Present research and analysis on international markets	Secretariat	Next meeting
Present draft discussion paper for the group to consider	Secretariat	Next meeting

5 Other Business

There were no other items of business. The Chair closed the meeting at 12.36pm.