13 July 2026

Electricity Authority
By email: wholesaleconsultation@ea.govt.nz

Submission on the review of LCE applied to FTR settlement

Dear Wholesale Markets team,

Haast strongly supports making all available loss and constraint excess available for FTR settlement and revoking Schedule 14.3. The amendment would improve settlement firmness, remove an artificial constraint on hub expansion and simplify the funding calculation at low cost. It should proceed in time to support the current FTR hub review.

Haast is an active FTR participant and financial intermediary. Over the seven years since Haast was established, we traded approximately NZD 792 million in electricity contracts with participants other than the four large vertically integrated gentailers. Most of that activity was underpinned by FTRs rather than ASX futures. FTR firmness and capacity therefore affect the competitive hedges we can provide to generators, retailers and independent participants.

Q1-Q4. Support for the amendment

The present calculation should not determine how far the FTR market can develop. The consultation paper says Schedule 14.3 becomes costly with a ninth hub and effectively unworkable at ten or more hubs. That is a systems constraint, not an economic reason to restrict the products available to participants as generation, load and price-separation patterns change.

The proposed amendment is the preferable response. FTR rentals have averaged 91% of available LCE since the market moved to eight hubs, while only 37.1% of available LCE has actually been used on average after auction income and settlement requirements are taken into account. Making all LCE available would remove a complex calculation without diverting all LCE permanently to FTR holders: residual LCE and unused auction income would continue to be returned through SRAM.

The identified implementation cost of up to NZD 410,000 is modest. The Authority estimates operating savings of NZD 80,000-NZD 90,000 each year and a quantified net benefit of at least NZD 127,000 NPV over ten years, before allowing for the more important benefits from competition, additional hub capacity, reduced scaling risk and more effective risk intermediation.

Q5-Q8. Firmness, auction prices and the CBA

The Authority estimates that its historical counterfactual would have reduced payments to transmission customers by approximately NZD 907,000 per year. That estimate is useful but incomplete as a prospective measure. It appears to hold FTR auction prices constant even though the amendment changes expected settlement firmness.

The Authority's 2022-23 FTR market review found that FTRs were fairly valued at auction and that the market was operating efficiently. In an efficiently priced auction, greater expected firmness and lower expected scaling should be reflected in higher FTR prices. Higher auction income contributes directly to settlement funding and should increase residual amounts returned through SRAM over time, partly or fully offsetting the static reduction in non-FTR rentals. The historical estimate may materially overstate the prospective reduction in SRAM payments.

The Authority should revise the CBA to account for this response. At minimum, it should provide a sensitivity analysis or explain why it considers the auction-price effect immaterial. It should not present the historical reduction in SRAM payments as the expected prospective effect while holding auction prices constant.

This should not delay the amendment. If precise quantification is difficult, the decision should acknowledge the dynamic response and assess actual auction income, firmness and SRAM outcomes after implementation. Any remaining transfer should also be assessed against the competition and consumer benefits of a firmer, more scalable FTR market.

Q9. Transparency and implementation

The amendment should be accompanied by a machine-readable monthly funding dataset. Participants should be able to observe and test:

- total LCE and FTR auction income;
- gross FTR settlement requirements and LCE actually applied;
- any settlement scaling factor;
- residual LCE and unused auction income returned through SRAM; and
- material post-calculation revisions.

These data would let the Authority and participants test whether increased firmness is being capitalised into auction prices, how much LCE is actually used, and whether the anticipated SRAM and competition effects arise. The Authority should proceed with the proposed Code amendment without delay and commit to a post-implementation review using these measures.

Requested decision

1. Amend clause 14.16 and revoke Schedule 14.3 as proposed.
2. Implement the amendment in time to support expansion of the FTR hub network.
3. Revise or qualify the CBA to recognise the dynamic auction-price and SRAM response.
4. Publish the monthly funding dataset and review actual outcomes after implementation.

Yours sincerely,

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