



Summary of submissions

FTR enhancements issues and options paper

24 April 2018

Introduction

- 1 On 28 March 2017, the Electricity Authority (Authority) published an issues and options paper that considered opportunities to further develop the market for financial transmission rights (FTR). FTRs are financial contracts that help parties to manage the risk of wholesale electricity prices being different between two points on the grid ('locational price risk').
- 2 We identified twelve developments that could improve the FTR market and its integration with other markets for managing wholesale electricity price risk. We sought views to help us decide if any of them are worth considering further.
- 3 Eight of these potential developments could be advanced by our service providers, so we just sought high-level comment on their merits and priority to help our planning. These eight developments were referred to as Group 2 in the issues and options paper and would:
 - (a) increase the number of locations where participants can use FTRs to manage price risks
 - (b) help participants to better understand the FTR market and how they can benefit from it
 - (c) auction FTR contracts more regularly
 - (d) introduce FTR contracts that cover only those locational price risks that arise during certain critical times of the day and week
 - (e) introduce FTR contracts that cover a calendar quarter, on top of the current monthly contracts
 - (f) introduce FTRs that allow parties to cover-off their price risks further in advance
 - (g) split FTRs into two tranches—one that provided certainty of full payment, and another that would be cheaper to buy, but might not be paid in full all the time
 - (h) improve the transparency around the operation of the FTR market and its participants.
- 4 We sought more detailed comment on the other four proposed developments. These four developments were referred to as Group 1 in the issues and options paper and would:
 - (a) allow parties that are based in Australia to directly participate in the New Zealand FTR market
 - (b) allow parties to privately fund FTRs and sell them through the existing FTR auctions
 - (c) develop a new financial derivative of an FTR that would be traded on an exchange, and would provide another way to manage locational price risk

- (d) support developing a platform (such as a bulletin board) that parties could use to trade FTRs over the counter, outside of the periodic auctions, so that they could be easily bought and sold at any time.
- 5 This paper summarises stakeholder feedback. It does not contain an exhaustive list of the points made in the feedback received, but rather, summarises the key themes.

Feedback received

- 6 In response to the issues and options paper, the Authority received feedback from the 11 parties listed in Table 1.

Table 1 List of parties that provided feedback

| Generator / retailers | Others |
|------------------------------------|--------------------------------------------|
| Contact Energy Limited (Contact) | emhTrade |
| Genesis Energy Limited (Genesis) | Major Electricity Users' Group (MEUG) |
| Mercury Energy Limited (Mercury) | OM Financial Limited (OMF) |
| Meridian Energy Limited (Meridian) | Smartwin Energy Trading Limited (Smartwin) |
| Nova Energy Limited (Nova) | Transpower Limited (Transpower) |
| Trustpower Limited (Trustpower) | |

Summary of key areas covered in the feedback received

- 7 This section provides a summary of feedback in submissions on:
- the issues identified by the Authority and the potential to enhance the market
 - how responsibilities for advancing the twelve options should be split
 - the merits, or otherwise, of extending direct participation in the FTR market to Australian parties
 - whether parties other than the FTR manager should be allowed to originate FTRs
 - the merits of developing an FTR derivative product
 - whether developing a bulletin board would improve secondary trading
 - the relative merits and priorities of Group 1 options
 - how the FTR developments identified by the Authority complement each other
 - whether there are any other ways of developing the FTR market that the Authority did not identify.

Submitters generally agreed with the issues identified and the potential to enhance the market

- 8 Most submitters agreed with the issues identified by the Authority, but several submitters considered there were further issues that had not been identified. There was broad support for the potential to enhance the market to support these issues, with nine of the 11 submissions supporting further enhancement.
- 9 Six submitters submitted there were additional issues that needed to be considered:
- (a) emhTrade raised three additional issues:
 - the 'no fee' structure of the FTR manager role leading to inefficient outcomes in terms of market development
 - a lack of transparency in the FTR market relative to the spot market
 - the absence of a decision on how residual funds are allocated (a decision which was deferred when the FTR market was implemented)
 - (b) Mercury submitted that underutilised hubs should be removed within defined periods of time, and encouraged the Authority to focus on completing the previous consultation on adding a new node
 - (c) Meridian submitted that the FTR market was complex and this complexity may be discouraging increased participation
 - (d) Nova considered that having FTRs and futures being transacted on different exchanges and different time zones was an issue, and said it would also be useful if prudential cover could be netted across both exposures, as well as against market sales and purchases
 - (e) OMF submitted that the difficulty in hedging retail load at smaller hubs at the edges of the grid was an issue
 - (f) Smartwin submitted that there were signs that incumbent participants were overbidding for some FTR products, leading to overpricing of FTRs and limiting their usefulness as a hedge product.
- 10 Nine of the 11 submissions supported further enhancement to the market to support the issues identified by the Authority, although two of these submitters urged some caution:
- (a) Mercury submitted that further enhancements should be of a limited and targeted nature to ensure the timely facilitation of beneficial changes. Mercury also noted that they did not support initiatives that would significantly increase the number of contract types available because they would substantially increase workload and administrative costs for little benefit.
 - (b) Meridian considered the wider hedge market and the FTR market were already working well, so further proposed enhancements to the FTR market needed to be subjected to rigorous cost-benefit analysis.
- 11 Contact and Trustpower submitted that further enhancements were not needed. Contact believed the current FTR market was functioning satisfactorily and the additional costs of the proposed changes would likely outweigh the benefits. Trustpower submitted that the potential issues identified by the Authority were not currently impacting on the efficiency and effectiveness of the FTR arrangements. In addition, Trustpower considered that the

enhancements would increase the complexity of FTR arrangements and this would result in greater costs, more diluted liquidity, and a barrier to entry for potential new retailers.

Submitters generally agreed with split responsibilities for advancing the twelve developments

- 12 All but one submitters agreed there should be split responsibilities between the Authority and service providers for advancing the twelve developments, although some of this support was conditional.
- 13 Contact, Genesis, Meridian, MEUG and OMF all agreed with the Authority's proposed split of responsibilities for advancing the twelve developments.
- 14 emhTrade, Nova, Smartwin, Transpower, and Trustpower provided support for splitting responsibilities between the Authority and service providers, but were conditional in their support:
 - (a) emhTrade agreed that the Authority should provide the policy direction for Group 1 developments, but submitted that the Authority also take an active role in providing direction and governance to the service providers on the developments in Group 2. emhTrade considered that the framework for the service providers making improvements was flawed. This was due to the split responsibilities of different service providers, and the risk that methods service providers use to prioritise changes may not align with the Authority's statutory objective.
 - (b) Nova agreed that service providers could take the lead on the developments in Group 2, but submitted that the value of those developments would be enhanced if a platform for secondary trading was successfully introduced (which was one of the Group 1 developments). Nova also considered that the Authority could help facilitate developments in Group 2, such as preparing standard legal forms that all participants can use to record trades.
 - (c) Smartwin urged the Authority to work very closely with service providers in developing any substantial policy changes.
 - (d) Transpower considered that the fourth of the Group 1 developments (supporting secondary trading with a bulletin board) should be added to Group 2 for service providers to pursue.
 - (e) Trustpower agreed with the split of responsibilities between the Authority and service providers, but did not consider it necessary to take the majority of the options further forward at this time.
- 15 Mercury submitted that policy direction should be provided by the Ministry of Business, Innovation and Employment (MBIE) rather than the Authority.

Most submitters did not support extending participation to Australia

- 16 Six of the eleven submitters (Contact, emhTrade, Mercury, Meridian, OMF, and Smartwin) did not support extending direct participation in the FTR market to parties based in Australia. A further two submitters (Nova, Trustpower) doubted there was any real need for extending participation to Australia.
- 17 Reasons for not supporting direct participation of Australian parties included:
 - (a) there are significant legal issues that need to be worked through (Contact, Meridian)

- (b) overseas participants can already access the market through third parties (Contact, Meridian, OMF)
 - (c) there is a lack of evidence it will be beneficial (Contact, emhTrade, Mercury, Meridian, Nova)
 - (d) it will make it more difficult for New Zealand based participants to hedge their risk (Mercury)
 - (e) most New Zealand based participants will be unwilling to enter into hedge contracts with foreign companies (Smartwin)
 - (f) there is a risk that additional complexity will be introduced unnecessarily unless there are a number of Australian parties ready and willing to participate (Trustpower)
 - (g) not being convinced that the introduction of additional FTR participants will lead to increased hedging through the ASX futures market (Contact).
- 18 Three submitters (Genesis, MEUG, and Transpower) expressed support for extending participation to Australia. However, Genesis only supported extending participation to Australia in conjunction with allowing origination and developing a FTR financial derivative. Genesis believed that developing any of these options in isolation could potentially lead to unintended adverse outcomes. Genesis also did not see any reason to limit overseas participation to parties in Australia.

The majority of submitters supported origination in principle

- 19 Seven submitters (Contact, emhTrade, Genesis, Mercury, Meridian, OMF, and Smartwin) expressed support in principle for allowing parties other than the FTR manager to originate FTRs. However, most of these submitters questioned whether origination would be practical:
- (a) Contact said that all the risks and operational implications needed to be addressed before a final decision is made
 - (b) Mercury were unsure about the practicality of the initiative due to a lack of information about how origination would work in practice
 - (c) Meridian submitted that there may be limited parties who are willing to originate FTRs
 - (d) OMF wanted to see some indication that there were parties interested in short selling material volumes before any further work is done pursuing this
 - (e) Smartwin considered that the number and depth of selling participants is likely to be low given the open-ended risk of selling FTRs.
- 20 emhTrade submitted that origination should be pre-requisite to allowing direct overseas participation, while Genesis supported development of origination in conjunction with allowing direct overseas participation and developing an FTR-like derivative product.
- 21 Nova and Trustpower thought origination was not needed. Nova noted that if a secondary market is successfully established, or selling of existing FTRs is allowed, then there is no need for third parties to create FTRs. Trustpower considered the absence of liquidity in markets for options and peaks on the ASX may be illustrative of the fact that participants don't have a compelling need for additional products to manage their risk.
- 22 Transpower considered there would be significant practical and revenue adequacy issues to address if externally originated FTRs were to be sold through the same auctions.

Transpower's preference was to adopt an alternative solution—a joint energy and transmission rights auction (JETRA).

23 MEUG did not provide a clear position on origination.

Submitters expressed mixed views on the merits of developing an FTR derivative

24 Three submitters expressed support for an FTR derivative:

- (a) emhTrade believed it was the lowest cost and lowest risk way of addressing the issues the Authority has identified
- (b) OMF considered it resolved four of the five issues identified by the Authority and removed the need to change the Code, allow short selling, open the market to overseas participants, and create a bulletin board
- (c) Genesis supported the development of an FTR derivative product in conjunction with extending participation to Australia and allowing parties other than the FTR manager to originate FTRs.

25 Five submitters didn't support developing an FTR derivative product:

- (a) Contact was not convinced that an FTR derivative product would gain much traction, especially if it was run through the ASX as then parties would be managing prudential requirements for FTRs through two different exchanges (NZX and ASX).
- (b) Mercury considered the FTR market was already complex and did not need the added complexity an FTR derivative would bring.
- (c) Meridian submitted that FTR derivatives can already be done via the OTC market.
- (d) Smartwin felt that adding another energy derivative to what is already being developed on ASX may not be helpful.
- (e) Transpower thought there were technical and practical issues to address in developing an FTR derivative product, including how to maintain simultaneous feasibility. Transpower proposed its alternative approach called JETRA.

26 Trustpower was not sure an FTR derivative was needed, while MEUG had no view on the merits and practicality of developing an FTR derivative product. Nova preferred arrangements that would allow parties to 'borrow' FTRs from an existing holder and sell them to a third party.

Most submitters didn't support a bulletin board for improving secondary trading

27 Most submitters either didn't support the development of a bulletin board, or thought it was a low priority. Reasons for the lack of the support included:

- (a) any benefits of a bulletin board would be outweighed by the costs of setting up and monitoring the bulletin board (Contact)
- (b) there does not seem to be a great desire to secondary trade (emhTrade, OMF, Smartwin, Trustpower)
- (c) more frequent FTR auctions would address the root cause of a lack of trading far more than the addition of a bulletin board (emhTrade)
- (d) transacting FTRs through an exchange rather than a bulletin board would be more appropriate (Nova)

- (e) in overseas markets that had both bulletin boards and reconfiguration auctions, most secondary trading went through reconfiguration auctions (Smartwin)
 - (f) a bulletin board would create inefficient double handling (Transpower)
 - (g) other activities could be undertaken to support growth in the secondary market and reduce the need for a bulletin board (for example, there are currently features of the FTR market that could have their functionality developed to enable FTRs to be requested or offered) (Transpower)
 - (h) reconfiguration auctions are proving an increasingly viable tool for market liquidity (Transpower).
- 28 Mercury and MEUG were the only submitters to express any support for a bulletin board—Mercury thought a bulletin board would provide more transparency and further understanding of the market, while MEUG only supported the development of a privately-owned bulletin board that was user pays.

Submitters expressed mixed views about the merits and priority of Group 1 developments

- 29 There was no consensus from submitters on which of the Group 1 developments would be most beneficial and therefore should be prioritised. However, the development of a bulletin board to support secondary trading clearly had the least support of the four Group 1 developments. Allowing for direct participation in FTR trading by Australian parties also had limited support.
- 30 Submitters had a range of views on which of the two approaches to overcoming the inherent limitations in the supply of FTRs (allowing parties to originate, and developing a derivative product) was preferable:
- (a) Contact, Mercury and Smartwin preferred allowing parties to originate, but did express some concerns:
 - Contact believed origination should occur within the FTR market rather than via another platform
 - Smartwin submitted that neither option was likely to be viable in the near term
 - (b) Genesis and Meridian had no firm preference for either option, but expressed slight preferences for allowing parties to originate FTRs:
 - Genesis considered both options should be developed in tandem, but if they had to choose one option would prefer parties being able to originate FTRs
 - Meridian considered that it would be easier for parties to originate FTRs than develop derivative products
 - (c) emhTrade and OMF preferred developing a derivative product because:
 - it was the least risky approach to take (emhTrade)
 - price discovery and settlement pricing would occur on a daily basis and not just when the FTR period was auctioned (OMF)
 - short sellers would be able to participate in the FTR derivative if they wanted, without the complexity of changing the Code and opening the FTR auction and clearing manager channels to accommodate short positions (OMF)

- ASX future positions would be able to be offset against the FTR derivatives, reducing margin requirements (OMF)
- (d) Nova, Transpower, and Trustpower all submitted that neither option was preferable
- (e) MEUG had no view on which option was preferable.
- 31 Transpower also proposed that its alternative market development proposal—JETRA—should be added to Group 1 and have priority over the second and third Group 1 developments (allowing parties other than the FTR manager to originate FTRs and developing an FTR-like derivative product).

Three of the group two developments were supported by most submitters, with little support for the other group two developments

- 32 Nine of the eleven submitters commented on their support, or otherwise, for each of the group two developments. Nova did not comment on whether they supported each of the group two developments, while MEUG submitted that none of the developments passed the broad test of being worth further investigation.
- 33 The following group two developments were supported by most submitters:
- (a) adding FTR hubs
 - (b) supporting FTR education
 - (c) improving transparency.
- 34 The other group two developments had little support or were given low priority by submitters.

Most submitters supported adding FTR hubs

- 35 Six submitters (emhTrade, Genesis, Meridian, OMF, Smartwin, and Transpower) all supported adding FTR hubs. Two of these submitters (emhTrade and Smartwin) listed this development option as the top priority of all the developments considered in the issues and options paper. Three of these submitters submitted some further refinements were needed:
- (a) emhTrade submitted that the voting process needed to be improved so that participants could not ‘block’ additional hubs from reaching the CBA
 - (b) Genesis considered there should be a limit to the number of FTR hubs that can be added under the allocation plan process and that there should be no more than ten hubs operating in the market at any one time
 - (c) Meridian said that the allocation plan needed to include a process for the ‘retirement’ of FTR hubs that are no longer useful.
- 36 Mercury supported increasing the number of FTR hubs by one (Whakamaru), but did not support any further addition of hubs.
- 37 Contact submitted that the addition of FTR hubs needed to be considered carefully as each additional hub increases costs on participants exponentially. Contact considered that a real benefit to the market needed to be demonstrated without degrading the usefulness of the existing products.
- 38 Trustpower disagreed with the increase in the number of FTR hubs to nine, as proposed by the FTR manager.

There was broad support for increased FTR education

39 All the submitters who commented on the “support FTR education” development option broadly supported this development. However, submitters varied in what priority they gave it. Genesis submitted that supporting FTR education was a high priority, but it was only Smartwin’s fourth priority and emhTrade’s sixth priority (of the eight group two developments).

40 Reasons for being supportive of further FTR education included:

- (a) it would encourage greater market participation and improved appreciation of the benefits and risks involved in participating in the FTR market (Genesis)
- (b) it was minimal cost (Smartwin).

41 Contact noted that their support was conditional on the education providing good value for money.

Most submitters did not support auctioning all FTRs every month

42 emhTrade and OMF were the only submitters that considered auctioning all FTRs every month was likely to be beneficial.

43 emhTrade submitted that auctioning all FTRs every month was the second priority of all the development options. emhTrade considered that auctioning all FTRs every month would lower the cost of participation because participants could pick and choose when to participate. emhTrade also considered it would improve the ability for participants to make secondary trades.

44 OMF did not elaborate on their reasoning for supporting the auctioning of all FTRs every month.

45 All the other submitters that commented on the auctioning of all FTRs every month either thought it would not be beneficial or was low priority:

- (a) Contact considered it would be very time consuming, would make analysis more difficult, and would also increase the risk of over allocation of FTRs
- (b) Genesis submitted that auctioning all FTRs every month was a low priority as it would serve little benefit to consumers, compared with the cost and complexity of implementation
- (c) Mercury did not support it because there would be no significant benefit
- (d) Meridian was not against this proposed development per se, but questioned whether it would deliver significant additional benefit
- (e) Smartwin considered auctioning all FTRs every month would add unnecessary complexity and excessively dilute available auction volumes
- (f) Transpower noted there had been little FTR user group support for the development
- (g) Trustpower considered it was an unnecessary development.

Most submitters did not support introducing “peak” or “Super Peak” FTR product

46 Two submitters expressed support for introducing a “peak” or “Super Peak” FTR product:

- (a) Smartwin submitted that introducing a peak or Super Peak FTR product was the second priority of all the development options. It considered it would allow the building of a hedge profile suitable for retail participants.

- (b) emhTrade listed the development as the fourth priority of the eight group two developments, but did not elaborate on why.
- 47 Other submitters did not see the benefit of introducing a peak or Super Peak FTR product:
- (a) Contact submitted that given the relative lack of uptake of these types of products in other markets it was hard to see how the introduction of this product would provide any additional utility to the FTR market. Contact also considered it would increase complexity, which was unlikely to increase participation.
- (b) Genesis considered it was low priority as it would serve little benefit to consumers, compared with the cost and complexity of implementation.
- (c) Mercury considered it was of limited benefit and added undesirable complexity.
- (d) Meridian noted that they could see some advantages of these products, but:
- they would reduce the sufficiency of the LCE pool
 - there was already an alternative mechanism for managing peak (or Super Peak) related risks in the OTC market, so it was unclear whether the benefits of introducing such FTR products would outweigh the costs.
- (e) Transpower noted there was little FTR user group support for introducing peak or Super Peak FTR products.
- (f) Trustpower considered it was unnecessary to introduce a peak or Super Peak FTR product. They noted that there are already ASX products that enable parties to manage peak risk and once liquidity in these ASX peak products increased it may provide an indication of a demand for FTR peak product.

There was little support for a quarterly FTR product or strip FTR product

- 48 None of the submitters considered that developing a quarterly FTR product or strip FTR product was a high priority. Both emhTrade and Genesis stated that it was a low priority, while Mercury did not support it at all because it considered it would have limited benefit and would add undesirable complexity.
- 49 Five other submitters considered there were issues that needed to be addressed prior to deciding if a quarterly FTR product or strip FTR product should be developed:
- (a) Contact said its support would depend on how the proposed products were structured and the costs of development
- (b) Meridian submitted that the impact of the new products on revenue sufficiency, and therefore the availability of the existing products, needed to be carefully considered
- (c) Smartwin was concerned a quarterly FTR product or strip FTR product would be complex to manage and could have bizarre pricing outcomes
- (d) Transpower considered it may require difficult and costly modification to the Nexant iHedge system
- (e) Trustpower submitted that although there may be value in replacing longer products with a strip product, there might be better options directly available through the ASX which means costs to industry could be minimised.

Submitters were split on whether extending the FTR price horizon was beneficial

50 Three submitters (emhTrade, Meridian, and Smartwin) supported extending the FTR price horizon. Smartwin submitted that it would be minimal cost and may improve hedging. emhTrade and Meridian did not provide reasons for their support.

51 Five submitters either did not support extending the FTR price horizon or thought it was low priority:

- (a) Contact and Trustpower both submitted that extending the FTR price horizon would increase the risk of over allocation. They noted that reliable transmission outage information is only available 12 months out, so increasing the time horizon for FTRs from 24 to 36 months would mean that two thirds of the auction periods would be completed without reliable transmission outage data. Trustpower noted that as uncertainty increased, willingness to buy FTRs would decrease (and conversely willingness to sell would increase).
- (b) Contact also submitted that extending the FTR price horizon would likely mean that the number of auction months released at each auction would need to increase to accommodate the additional months—this would increase workload on participants.
- (c) Genesis thought it was a low priority as it would have little benefit relative to cost
- (d) Mercury did not support extending the FTR price horizon as it would be of minimal benefit and would add undesirable complexity.
- (e) Transpower noted that the development had had little FTR user group support.

There was little support for introducing FTRs with preferential pay-out priorities

52 Submitters either did not support introducing FTRs with preferential pay-out priorities, or thought it was a low priority.

53 Contact and Smartwin both submitted that introducing FTRs with preferential pay-out priorities would add unnecessary complexity. Four submitters questioned whether the benefit would outweigh the cost (Genesis, Mercury, Meridian, and OMF).

54 emhTrade considered that the benefits of preferential pay-outs could be better achieved through listing a derivative, while Mercury submitted that scaling risk was easy to model and hedge.

Submitters supported improved transparency

55 emhTrade, Genesis, Mercury, Meridian, Smartwin, Transpower, and Trustpower all supported improving transparency. Genesis, Meridian, and Smartwin all said it was one of the top priorities.

56 Both emhTrade and Meridian supported the publication of bids, while emhTrade also supported the publication of offers. Trustpower submitted that transparency needed to occur on both the buy and supply side.

57 Meridian also wanted to see:

- (a) full details of the assumptions made by the FTR manager in running the FTR auctions
- (b) annual independent third-party review of the FTR manager's model.

58 While Genesis supported improved transparency, it was concerned about how privacy concerns could be dealt with.

59 Contact did not express support for improved transparency. Contact noted that they believed the use of intermediaries to build anonymous positions in the FTR market was creating asymmetry of information, but did not think it was widespread enough to warrant a rule change at this stage. However, Contact was concerned that generators were using intermediaries to build up “pivotal positions” and would support the development of safeguards around this behaviour. Contact did not support the publishing of auction bids because they are commercially sensitive and a requirement to publish them would discourage new participants from participating in the FTR market.

There was no consensus on how the various FTR developments would complement each other

- 60 Submitters had differing views on how the various FTR developments considered in the issues and options paper would complement each other.
- 61 Two submitters (Mercury and Smartwin) submitted that the developments were largely independent. Two other submitters (emhTrade and OMF) said that listing a derivative was their clear preference and that there was no need for the other developments.
- 62 Contact and emhTrade both submitted that origination of FTRs needed to be developed before expansion of the scheme to include Australian or other overseas participants (although emhTrade didn’t support extending direct participation to overseas parties at this stage).
- 63 Genesis and Transpower considered that there were some developments that would complement each other:
- (a) Genesis submitted that allowing direct overseas participation, the ability to originate FTRs, and the development of an FTR derivative, should be advanced in conjunction
 - (b) Transpower considered that:
 - direct overseas participation complemented both the ability to originate FTRs and having a bulletin board to support secondary trading
 - developing an FTR-like derivative product complemented seven of the other twelve developments identified in the issues and options paper (including allowing direct overseas participation and supporting secondary trading with a bulletin board).
- 64 Meridian and Trustpower questioned whether any of the developments were likely to be beneficial, while MEUG and Nova didn’t comment on how each of the FTR developments would complement each other.

Some submitters suggested other FTR developments to be considered

- 65 Four submitters suggested alternative FTR developments:
- (a) more publication of data (such as a market bid curve) (emhTrade)
 - (b) introducing fees for parties that participate in the FTR market (emhTrade)
 - (c) determining residual fund allocation (emhTrade)
 - (d) removing hubs that are underutilised within defined periods of time (Mercury)

- (e) introducing a different mechanism for auctioning (although it was acknowledged that this was a significant change that would cause major costs and disruptions) (Smartwin)
 - (f) changing the profile for releasing FTR volume (Smartwin)
 - (g) JETRA, which has potential for increasing the funds for additional FTR capacity, providing additional energy heading, and developing more products (Trustpower).
- 66 Three submitters suggested changes to revenue adequacy arrangements, eg:
- (a) holding the FTR manager more firmly accountable to its revenue inadequacy target (emhTrade)
 - (b) making the FTR manager's capacity calculation less conservative (Mercury)
 - (c) relaxing or making more aggressive the FTR manager's revenue adequacy target (Smartwin)
- 67 However, Meridian noted that it didn't agree with relaxing the FTR manager's target for revenue inadequacy. Meridian submitted that relaxing the target for revenue inadequacy would be counterproductive as it would reduce the effectiveness of FTRs as a means of hedging basis risk, and the chances of revenue inadequacy would be greatest at the times that holders of FTRs were most likely relying on them to provide protection against basis risk.
- 68 Seven submitters (Contact, Genesis, Meridian, MEUG, Nova, OMF, and Trustpower) did not suggest any alternative FTR developments. However, Trustpower noted that they would prefer the LCE to be returned to retailers rather than have FTRs.

Appendix A Issues and options paper questions

| | Question |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Q1 | Do you agree that further enhancing the FTR market could support the issues identified by the Authority, and provide benefits to the wider hedge market? |
| Q2 | Are there other issues with the current arrangements for FTRs that we have not identified? |
| Q3 | Are there any other ways to develop the FTR market that we have not identified? If so, please describe them. |
| Q4 | What are your views on the relative merits or priority of these twelve potential developments? Could some of them complement or substitute for others? |
| Q5 | Do you agree the Authority should provide policy direction on the four developments in Group 1, but that service providers can lead further assessment of the developments in Group 2? |
| Q6 | What are your views on the merits of extending direct participation in the FTR market to parties based in Australia? |
| Q7 | What are your views on the merits and practicality of allowing parties other than the FTR manager to originate FTRs? |
| Q8 | What are your views on the merits and practicality of developing an FTR derivative product? |
| Q9 | What are your views on the merits of developing a bulletin board? |
| Q10 | Of the two approaches to overcoming the inherent limitations in the supply of FTRs that have been discussed (allowing parties to originate or develop a derivative product), which do you consider preferable and why? |
| Q11 | Are there other approaches to overcoming the inherent limitations in the supply of FTRs that the Authority has not identified? |
| Q12 | What are your views on how these developments would complement each other? To what extent might they be dependent on each other? |