

4 July 2022

Judy Lu
Project Co-ordinator
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By email to WholesaleConsultation@ea.govt.nz

Dear Judy

Financial Transmission Rights market review

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority (EA) issues paper "Financial Transmission Rights market observations – Ensuring arrangements are fit-for-purpose" 24th May 2022.¹ MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
2. MEUG members appreciated the opportunity to discuss the paper with EA staff on 16th June. We welcome the EA intention that the review be iterative and look forward to considering the submissions of other parties.²
3. The last substantial review of the FTR market was published 14th November 2019, around 2 ½ years ago.³ Notably that review found:

“Overall the introduction of the FTR market has been a success. Evidence suggests that FTRs contribute to spot price risk management, increase the efficiency of other risk markets, have contributed to retail competition, and have been used in innovative ways that were not anticipated when FTRs were introduced.”
4. It would be helpful if the correlation analysis undertaken for the 2019 report were updated so possible tipping points can be identified that have led to the quite different perception of how successful the FTR market has been in the FTR market observations paper. For example, in 2019 the econometric analysis showed “speculators are likely to increase FTR liquidity.”⁴ The market observations paper on the one hand agrees speculators are useful for the FTR market “The Authority also expects improvements to

¹ Document URL: [https://www.ea.govt.nz/assets/dms-assets/30/Financial-Transmission-Rights-FTR- -Loss-and-Constraint-Excess-LCE-Review-2022-issues-paper1320090.51349371.5.pdf](https://www.ea.govt.nz/assets/dms-assets/30/Financial-Transmission-Rights-FTR--Loss-and-Constraint-Excess-LCE-Review-2022-issues-paper1320090.51349371.5.pdf) at <https://www.ea.govt.nz/development/work-programme/risk-management/hedge-market-development/consultations/#c19182>.

² FTR observations paper mentions an iterative process in [5.1].

³ Refer <https://www.ea.govt.nz/assets/dms-assets/26/26805Post-implementation-review-of-the-FTR-market.pdf>

⁴ Ibid Executive Summary (d), piii.

FTR price discovery are aided by speculators participating in the FTR market” and on the other hand infers profits accruing to speculators are a net detriment, “Whereas the profit from FTR markets accrued to parties involved in generation, retail or hedge markets will remain within the electricity market and can be assumed to flow to consumers due to competitive pressures.”⁵

5. Reference to “competitive pressures” in the last quote in the paragraph above is, in our view, an open question for the wholesale market. This is a key focus of the concurrent EA wholesale electricity market review.⁶ Once the EA have published their response to submissions that closed on 22nd December to the review report published 27th October 2021, will we be able to apply those learnings to the FTR market review. Until the EA publishes that analysis it is premature to have any view on the observation that “the link between FTRs and the intended improvement in retail and generation competition appears to be limited.”⁷
6. The EA web page hosting the 2019 post-implementation review noted “One opportunity identified is the need for more education on FTRs, particularly for smaller firms.”⁸ MEUG is not aware of EA educational workstreams that have commenced since the last review. That opportunity should still be considered, i.e., subject to a cost-benefit-analysis before assigning resources to an education campaign. Understanding the details of the FTR market is worthy of consideration; however, there may be other factors that detract firms from considering whether to invest in being knowledgeable in using FTR. A possible barrier to some firms deploying FTR might be the cost of undertaking due diligence and investing in time to learn the pros and cons of the FTR market is overshadowed by the poor experience in the much larger (in terms of value at risk) wholesale market where low levels of competition persist and, at the least, a perception that the shadow of market power spills over into the FTR market.

Yours sincerely



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Executive Director

⁵ FTR observations paper [4.63] and [4.64].

⁶ Refer <https://www.ea.govt.nz/monitoring/enquiries-reviews-and-investigations/2021/wholesale-market-competition-review-2/>

⁷ FTR observations paper [2.3(b)].

⁸ Refer <https://www.ea.govt.nz/monitoring/enquiries-reviews-and-investigations/2019-2020/post-implementation-review-of-the-ftr-market/>