Consultation Paper- Financial Transmission Rights market observations

Submission by Smartwin Energy Trading Limited

Smartwin Energy Trading Limited (Smartwin) welcomes the opportunity to respond to the Electricity Authority's (Authority) consultation paper Financial Transmission Rights market observations dated 24 May 2022.

We share the Authority's view that market arrangements must be fit-for-purpose and deliver greatest net benefit to consumers.

We do have concerns, however, with the accuracy of some of the observations made, and the depth of analysis undertaken to arrive at them. Our submission seeks to address these concerns in a neutral, solutions-focussed manner.

Smartwin is a small, independent derivatives trading firm, that has to date traded purely FTR products on a proprietary basis. The director of Smartwin, Vince Smart, was a member of the locational price risk technical group (LPRTG) that advised the Authority on the development of the FTR Market. Vince was also a member of the Authority's Market design team in 2013 and worked on the first expansion of the FTR market from 2 hubs to 5.

Our submission is in two parts, firstly a general commentary on the paper, followed by specific responses to the consultation questions.

We would be happy to discuss any of the matters raised in our submission further.

Please don't hesitate to contact us by phone.

1 General Comments

1.1 Introduction

The paper introduces concerns raised by participants but does not take a view on these concerns. The material provided under footnote 27 appears to suggest that Authority did not uphold the original claims, yet there are similarities between the claims made and some of the observations in this paper. It is therefore not clear whether these concerns are taken into account as part of the consultation paper, nor are submitters readily able to directly address the claims made by participants.

We have two observations to make regarding the concerns raised by participants:

1) The timing of the claims, and references within those claims suggest a possibility that the claims are essentially a direct retaliation by specific incumbent gentailers against Haast who had triggered a UTS investigation and a review of the HSOTC provisions.
2) Claims made by one participant that FTR speculators do not provide liquidity by reselling into subsequent auctions is inconsistent with Smartwin's trading policy, which, since the introduction of reconfiguration functions within the market has generally been to make all held volume available for resale at each subsequent auction.

Para 2.3 (a) makes a relatively sweeping statement about lack of targeting which appears to be based on an observation that both losses and constraints are covered by FTRs. Our view is that both losses and constraints represent significant locational price risk, and if this were to be true, the statement about FTRs not being tightly targeted would become less true.

Para 2.3 (b) makes an observation that the link between FTRs and improvements in the wholesale market appear to be limited. As discussed later, a more correct way to present this would be to say that the Authority's analysis to date has not found evidence for a link between the FTR market and improvements in wholesale market performance.

Para 2.4 (c) implies that use of larger shares of LCE is a problem, whereas it is an entirely expected and intended effect of expanding the FTR market to cover of the existing location price risk. As discussed later, this misunderstanding appears to be caused by the Authority reaching a different view about the FTR market design and purpose than those who designed it.

1.2 Chapter 3 FTR Market history and design

Clause 3.3 while correct, overlooks that FTRs were considered a key component of the original wholesale market design as developed by Bill Hogan many years earlier.

FTR market funding arrangements are mischaracterised when compared to the original FTR market design

Clause 3.9 states that FTRs are funded first by Auction revenue and then by LCE. This assertion is incorrect, or at least inconsistent with the original design of the FTR market. The intended design was to reallocate LCE to the FTR market, and that the auction is a means of allocating LCE to the areas of highest perceived value.

The Auction revenue is then intended to be generally passed to transmission customers in place of LCE, with the exception being that if LCE is insufficient to cover FTR settlements, Auction revenue could be used to 'firm' the FTR products. This design choice was made to simplify the FTR market and avoid introduce firm and non-firm products with associated complexity and spreading of liquidity and available capacity across more products.

As such the statement that "historically, 30% of FTR payments have come from LCE and 70% from Auction revenue" is incorrect.

This mis-framing of the market is problematic, as it implies that goal of the FTR market should be to act simply as a zero-sum game, whereby auction revenues are redistributed amongst participants. This is a fundamental reimagining of the FTR market design and is potentially dangerous without full and careful consideration. We suggest the Authority revisits this assumption based on the original FTR market design and restates its analysis as necessary.

While this issue may seem trivial, in that the same amount of money is passed to either FTR participants or Transmission customers, we believe it is fundamental to the Authority's observation the FTR market is 'expensive'.

It is worth noting that at the time, the allocation of LCE to transmission customers was perceived as inefficient, as LCE payments were inconsistently returned to consumers. While this situation may have altered with the revised TPM, it may be worth revisiting the FTR market development documentation regarding the efficiency of LCE allocation.

Constraint LPR versus Loss LPR

The Authority is correct in stating that constraint risk is more difficult to manage than loss risk.

However, loss risk, while a relatively constant percentage for a given power flow and grid configuration, scales with underlying market price, i.e. 4% of $60 is not the same $ value as 4% of $200. This leaves retailers and hedge sellers significantly exposed to financial risk (at least in dollar terms) if they are not able to hedge loss risk.

Further, in times of market stress (such as dry hydro periods) the powerflows can and do change significantly, leading to an entirely different loss pattern (e.g. what is normally a minus 4% loss-driven price effect can become a plus 6%, for a 10% swing, often on top of a higher underlying spot price).

The original market design intentionally included both constraints and losses, on the basis that while constraints represented the majority of risk at the time, losses were still significant, and that the share of risk between the two types could change over time.

Other impacts not considered

The section beginning with para 3.33 is strangely titled, since it presents evidence that LPR was affecting retail competition but appears not to discuss any of the matters that were apparently not considered. This creates a perception that the original problem definition may have been flawed without any evidence to support this.

LPR will evolve

The paper correctly observes that LPR will evolve. What the paper does not observe is that the FTR market has demonstrated that it is able to adapt rapidly to new transmission issues. A clear example is the response of the market to the announced closure of the Tiwai point aluminium smelter in 2019. The FTR market is able to respond to emerging changes in LPR through the addition of new hubs (or removal of unneeded ones) as and when risks are identified (and if the addition/removal of hubs passes the Authority's net benefit test).

RTP and TPM are both necessary components of a well-functioning market, but it does not seem likely that they will reduce the need for LPR risk management, nor has any evidence been presented to this effect.

It is somewhat concerning that paper does not highlight the adaptability and flexibility of the FTR market as an LRP solution in relation to this particular observation.

1.3 Chapter 4

Retail competition is increasing

Introduction of the FTR market was well signalled, with design and development activities well progressed by 2010. As such the increase in competition ahead of the market's introduction in 2013 could be attributed to an expectation of FTR introduction.

However, as described earlier in the paper, the market has been subject to a large degree of intervention prior to 2013, much of this on the back of the 2009 review and resulting recommendations. Entering a retail market is a complex undertaking that is likely to be influenced by a range of factors. As per chapter 3 of the paper, LPR was identified as one of these.

With any market intervention, is can be difficult to establish causality and effectiveness of interventions, particularly in the absence of any control groups.

Redclyffe analysis is confounded by other factors

For much of the period since 2018, the retail market has been under significant pressure from many factors, including:

> COVID-19 lockdowns and demand destruction/reallocation and payment uncertainty. The Hawkes Bay/Gisborne region has experienced higher impacts and uncertainty than some other regions from this at times.
>
> Several dry periods with associated high prices, leading to several small retailers closing or being absorbed.
>
> Hedge market illiquidity, and unwillingness to contract
>
> Narrow retail margins

As such, the introduction of the RDF FTR hub is something of a 'drop in the ocean'.

To discount the observed actual increase in market share of small and medium retailers against this broader context as "continuation of existing trends" is concerning. Based in this approach it seems hard to imagine what impact on the retail market would serve as satisfactory evidence of an FTR effect to the Authority in this regard.

Analysis of market share is quite limiting given the known stickiness of retail customers, especially when combined with potential credit risk or other issues associated with vulnerable communities. We suggest the Authority considers expanding its retail market analysis to include the number of retail offerings available in the region, and the price variability between these offerings, as a more fulsome indicator of retail market health and performance.

The approach of comparing Hawkes bay to Gisborne is particularly flawed, given that we would expect most participants to perceive Gisborne and Hawkes bay to be 'electrically similar' given that spot prices in both regions are affected by net flows between RDF and the CNI, which is in turn affected by generation from the Waikaremoana hydro scheme and to a lesser extent the Whirinaki peaking station. As such, any improvement in Gisborne retail competition should logically be used as evidence for a benefit from the RDF FTR node, not as a base case that Hawkes bay is expected to exceed.

Intended generation effect of FTRs is mis-interpreted

The Authority correctly identifies that primary considerations such as fuel resource, land availability and transmission connection availability will determine location of generating plant.

The FTR market was never intended or expected to influence the decision of generators to locate plant at specific locations. What the FTR market provides is a means for new generators that are not located at load centres to compete with centrally located generation for hedges and retail customers. For example, new geothermal generation connected in the central north island can readily sell into Auckland, Wellington or Christchurch using FTR's with WKM as a source to manage any price risk arising.

Consideration may need to be given to adding new FTR nodes in regions likely to see significant new generation installed, in order to ensure this generation has ready access to key markets.

Costs to support market are high

As previously discussed, the Authority appears to misunderstand the intended funding methodology for the FTR market. FTR settlements were intended to be primarily paid for by LCE, with the majority of Auction revenue being passed to transmission customers. As such, Figure 32 in the issues paper is incorrect.

Restated in the correct way, we would expect to see that LCE is frequently sufficient to cover FTR payments, and only occasionally topped up by Auction revenue payments.

It appears that the interpretation applied in the gentailer complaints has become accepted as the intended approach, which contravenes the market development rigour and previous consultation and Code development process.

The analysis stops short. The last included month in the series of figures (32,43,54,65) appears to be November 2021. At the time of publication, no less than 6 additional months had been settled. These are added below using available data:

Month	LCE	Auction revenue	FTR settlement	Residual LCE	Increase(reduction) in payments to Transmission customers
Dec-2021	$9.3m	$13.5m	$11.6m	$11.1m	$1.8m
Jan-2022	$11.6m	$15.9m	$20.6m	$7.0m	-$4.6m
Feb-2022	$13.1m	$11.6m	$16.7m	$7.9m	-$5.2m
Mar-2022	$16.1m	$12.9m	$18.0m	$11.0m	-$5.1m
Apr-2022	$16.7m	$14.8m	$21.3m	$10.1m	-$6.6m
May-2022	$16.5m	$14.1m	$22.5m	$8.2m	-$8.3m
Total	$83.8m	$82.8m			

Proportion of LCE increasing

Again, this appears to be a fundamental misunderstanding regarding the FTR market design. Under the original design, 100% of LCE would be used to provide close to 100% LPR cover. As such, an increase in hubs is expected and intended to result in an increase in LCE usage. A more useful observation would be to compare the percentage of LCE used relative to the LPR coverage provided by the FTR market.

Participant profits

Analysis of profit cannot be done without accounting for hedging activity. Removing FTRs purchased for hedges may increase or decrease the implied profitability of FTRs significantly.

Figures given for month profitability are not compelling in themselves. A participant could consistently make a small profit but in this analysis could be treated the same as a participant making much larger profits.

Underlying spot market conditions should also be taken into account, in that if FTR settlements are abnormally high due to high underlying spot prices, then the FTR market will appear to be more profitable. The long time horizon of FTR auctions means that early auctions must be traded in the absence of climate indicators.

Losses and constraints

See section 1.2 above for discussion of this point.

Parties subject to LPR are not using the FTR market

Participation may be indirect. The paper identifies Electric Kiwi as a physical participant benefitting indirectly from the FTR market via a non-physical participant.

Additionally, for example, Contact has publicly shared that it has entered into a hedge agreement with the Tiwai point smelter. It is likely that the risk of entering into hedges at Invercargill is significantly reduced due to the presence of an FTR node there.

NZRC purchases at Marsden, which is not served by an FTR product, and therefore could not be expected to participate. Similarly, Kinleith, Kawerau, Tangiwai and Glenbrook are all relatively poorly served by existing FTR nodes, and as such the direct participants may be reluctant to engage directly, however are potentially receiving more competitive hedge prices as a result of reduced LPR in general.

Pulse is incorrectly identified as a non-FTR participant, despite having held positions from 2013 to 2018.

Ecotricity has been acquired by Genesis Energy and is therefore a participant by association.

Given the ease of access to the FTR market as a participant, it is plausible that any volume traded through OMF is on behalf of direct consumers who do not wish to have a trading function within their business. It is hard to understand why an active speculator would trade through a broker with the inherent costs and risks this poses relative to direct participation.

As a non-physical participant, Smartwin's willingness and capability to provide physical hedge products is undermined by a number of factors not relating to the FTR market. These include complexity and risk of ASX participation, poor liquidity in ASX option products, cost and financial backing required to establish an OTC ISDA, regulatory and compliance hurdles and tight margins associated with retailing. As such it is perhaps not the FTR market that is broken, but that the other necessary components are not functioning as well.

In 8 years of trading in the FTR market, we have only been approached by one risk consultant to quote for risk management services based on FTR products. FTR participants are listed on the participant register, and I expect that many of them would be willing to provide a range of services and products should the demand exist.

Barriers to Participation

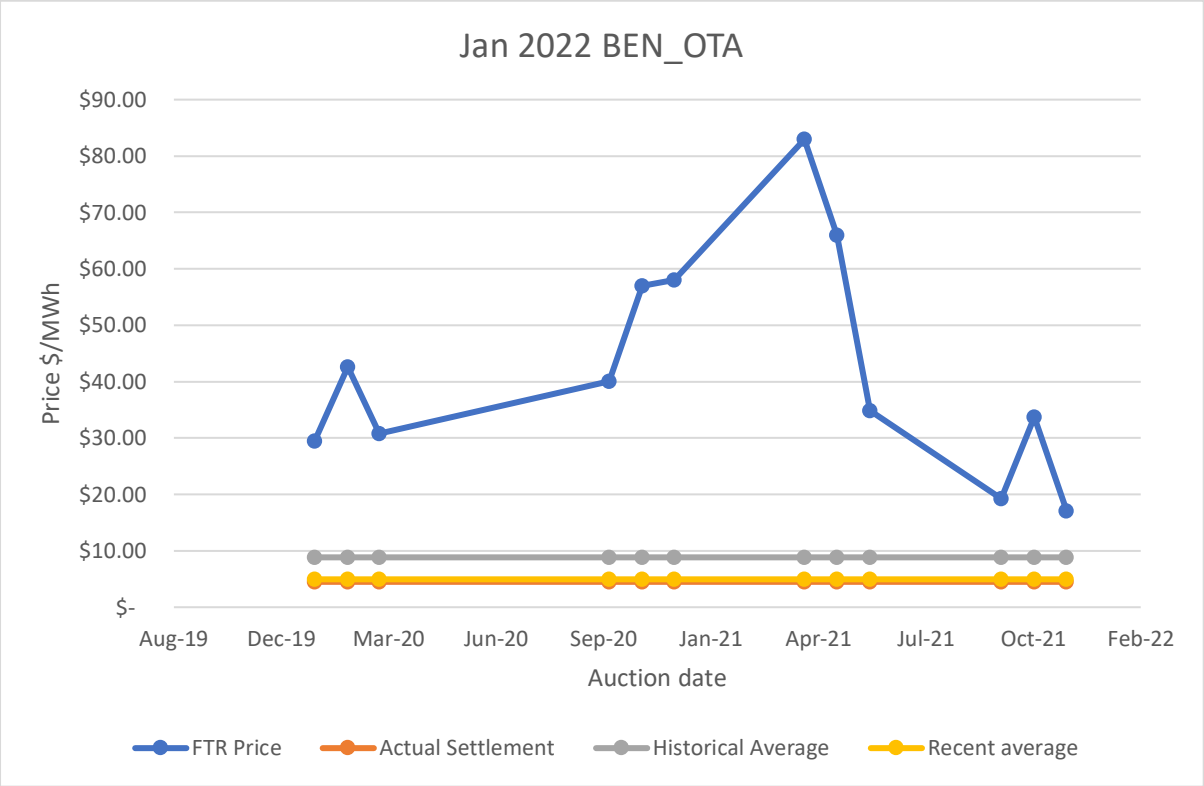
A 2017 survey seems a little out of date in 2022. It seems disingenuous to refer to lack of internal capability and expertise as a 'cost', especially when complexity has already been raised as an issue. The proliferation of small FTR participants suggests that the barrier to participation is one of desire rather than capability.

Observation 8 ; FTRs tend to trade below 'fair value' is fundamentally incorrect

One of the gentailer complaints referred to earlier was suggesting the FTR prices were too high to make the use of FTRs viable for hedging purposes. This is inconsistent with an observation that FTRs are underpriced. Further commentary on this issue would be helpful.

While it is difficult to establish 'fair value' for future, unsettled months, Smartwin observes that in general the auction prices available in the last 2 years for all periods have been significantly higher than the preceding 6 years.

The chart below shows the BEN_OTA options path for Jan 2022. The path traded consistently above both historical average value, and actual settlement value throughout all traded auctions. Some of these periods reflect the announced closure of Tiwai, but this had been deferred prior to the most recent auctions.



An analysis of the 56 available paths traded for Jan-2022 shows that of the 43 paths which had options volume traded, 18 were on average greater than 2 times the eventual settlement price, while only 14 paths traded below the eventual settlement price. 8 paths traded between 1 and 2 times the eventual settlement price, and 3 paths transacted at $0.00.

Many paths traded well above fair value consistently however monthly averages analysed in the paper do not account for this.

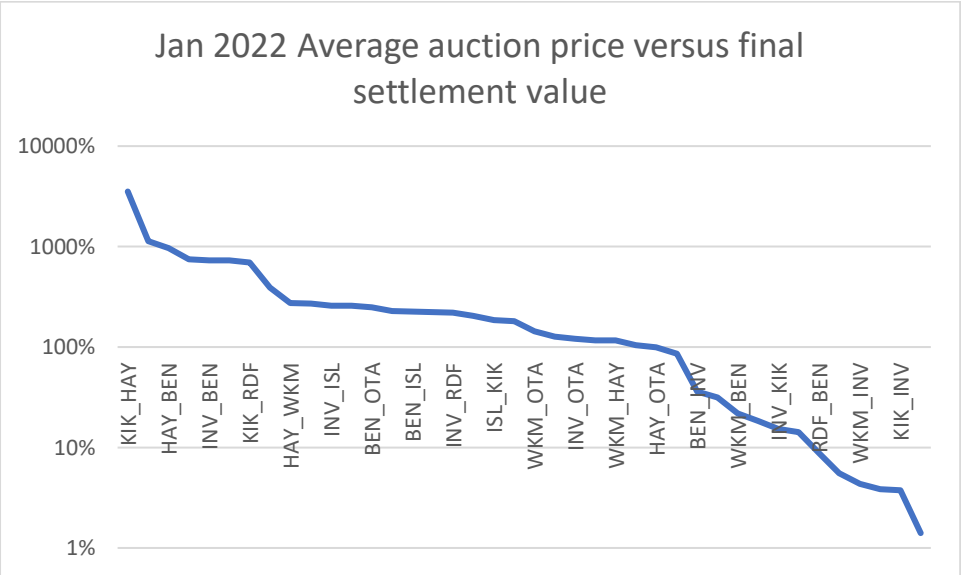


Figure 20 applies a quadratic regression to a dataset that has no underlying quadratic drivers. The absence of validating statistics further compounds this issue, as readers have no way of telling whether the regression is plausible or not but are left with the impression that profitability is rising and will continue to do so.

Para 4.63 appears to be struck out. Speculators provide a valuable service to any traded market, ensuring more accurate price discovery, higher liquidity, and prevention of bubble formation.

Para 4.64, the assumption of profits accruing to physical participants flowing to consumers is a brave one and runs counter to popular rhetoric from some market commentators regarding 'super-profits' and 'oligopolies'. As per earlier comments, the original LPRTG work identified issues with passthrough of original LCE to consumers.

Observation 9 Unintended features is flawed.

Reverse direction paths can only be acquired cheaply if they are 'under-priced' to begin with.

Reserve direction paths can only be sold back for a higher price if demand exists. Selling them back at this price enable more FTRs to be supplied to a market that is willing to pay. If they were not sold back, the price would be higher as there would be unmet demand.

Hence in responding to the three bullet points raised in para 4.68:

1 Yes, traders may be able to make high percentage returns over a small outlay.

2 Yes, competitive tension between buyer and sellers is a feature of an effective and workably competitive market

3 No it is not correct that buyers of ISL_HAY end up paying more. What is happening is that buyers of hedge products like ISL_HAY are able to wait for more information about the market conditions before hedging and are able to buy more product and manage more risk at the time they perceive

the risk to exist, because of higher liquidity provided by speculators. In doing so, purchasers of hedge products may pay slightly more than if they had hedged earlier, but the presence of speculative trading of reverse direction FTRs can only result in a reduction in the hedge price for short-dated products.

All transfers of wealth through this mechanism are symptoms of initial under-pricing, which is corrected by speculative purchase of reserve-direction options.

Analysis of ISL_BEN options over the life of the FTR market using registry data reveals the following:

A total of 35,854 MW-months have been transacted. Of these a total of 4,500 MW-months have been successfully reconfigured (approximately 12% of volume). Total acquisition cost on this path has been $334,013, and net reconfiguration proceeds total $473,995. This is a net return of $139,982 in total reflecting a 42% overall return on investment. With a 12% reconfiguration success rate, and a non-reconfigured payout of $0, one might suggest that trading in reverse direction options is not especially attractive.

We further note that any trading profits made through arbitrage (acquiring FTRs and re-selling them at a future time) are not funded by the LCE pool, but by auction revenue from other participants. As such, to the extent that those participants are willing buyers, it is hard to see how this activity could be seen as negative, expect perhaps in the unusual circumstances of exploited market power or other manipulation. Further, the enhanced liquidity made available through arbitrage must have a significant market benefit.

Observation 10 Regulatory oversight

The Authority is designated market regulator for electricity markets. Our understanding is that the FMA mainly protects retail consumers, none of whom are participants since eligible investor certification is required by the FTR manager.

The Authority has taken a very light touch to regulating the FTR market. This may be appropriate given the relative size of the FTR market, the resourcing of the Authority, and the demands of other work programmes.

Often FTR activity and positions become relevant to Wholesale market investigations, so there is an amount of oversight in this regard.

Smartwin raised a possible trading conduct situation with the FTR manager in January 2021. The FTR primary Auction took place on Wednesday 13 January 2021, and previous trading activity reflected the market's expectation that the Tiwai smelter would close imminently. However, on Thursday 14 January 2021 it was announced that NZAS had reached a deal with Meridian and Contact and would stay open. What this means is that it is likely that at least two FTR participants held material, price sensitive information prior to the FTR auction, and that this information was not readily available to the majority of FTR participants. Smartwin suggested that this constituted a situation under rule 13.255, however the Authority's market operations manager declined to take further action.

A useful step in enhancing transparency of the FTR market and its overall performance would be for the Authority to proactively publish reports and analysis about FTR positions and auction prices. The registry provides a great deal of transparency around auction outcomes, but this is only accessible to those who have registered for access. Further analysis of the data consumes time and resources that may be asymmetrically available to different participants and potential users of FTR products. As such, a valuable function could be provided by the EA to create more of a level playing field regards FTR market status.

Observation 11 Revenue adequacy

Expanding the FTR market and increasing volumes sold to result in more revenue inadequacy would logically lead to more auction revenue overall. If the LCE money flow is correctly re-framed then this would meet the Authority's objectives. However, increasing both auction volumes and reducing payout certainty could actually lead to a reduction in the auction prices for FTRs, leading in turn to both reduced Auction revenues and higher hedge settlement payments.

The use of auction revenues to firm FTR payouts was a deliberate design choice in the original FTR market design. It may be that the market depth and liquidity has evolved such that some of the reasons for this choice have changed in context. However with complexity being a stated barrier to participation there may continue to be valid reasons to avoid making products more uncertain, and/or creating two classes of FTR product.

Para 4.78 includes the phrase "transfer of LCE to non-participants," which presumably means to say "non-physical participants" since all FTR participants are market participants under the EIPC. We choose to treat this particular phrasing as an editorial error rather than an indication of systemic bias.

1.4 Chapter 5

Alternative uses of LCE

Any risk management product is likely to be by nature imperfect. However, when discussing alternatives to FTRs as a means of managing LPR, a common term that is used is 'partial'. Both the LRA methodologies, and the recently developed and discussed SRAM approach provide 'some' ability to manage LPR. Any discussion or consideration of a substitute for FTRs must give careful thought to the impact of the resulting partial risk cover, and more importantly on the uncovered risk, and the effects this could have on prospective market participants (especially retailers) if exposed to it.

2 Responses to questions

Title	Question/Observation	Response
Observation 1	Changes in the make-up of renewable generation will see LPR continue to change over the next 10 years.	This observation is valid in itself but fails to discuss whether FTRs are fit for purpose in this context, and how they might perform relative to other options.
Q1	What is your view on how LPR might evolve over the next decade?	LPR, and price risk in general is likely to greatly increase in the next ten years and could well be dominated by sources of risk that do not currently arise.
Q2	Do you see LPR as a genuine risk to your business? Why/why not?	We see unmanaged LPR as a genuine risk to NZ inc. and in particular the energy transition to low-carbon fuel sources.

Observation 2	Retail competition has increased over time; however it is difficult to determine the influence that FTRs have on retail competition.	This statement, while true at face value, is simply a case for more detailed analysis and investigation.
Q3	What influence has the availability of FTRs had on your decision to compete for consumers?	The presence of FTRs has meant that competing for consumers has gone from impossible to plausible.
Q4	What benefits do you see the FTR market providing in terms of consumer outcomes? Why/why not?	See response in section 1.3 of this document. Consumers benefit from the presence of the FTR market in a number of ways, often through the altered behaviour of participants (e.g. willingness to price hedges/supply, sharper pricing, entry into a region). These benefits will often be indirect and may require sophisticated analysis to detect.
Observation 3	There has been no apparent impact on generator competition due to FTRs.	And nor should there have been, since FTRs were never intended or likely to modify generation investment decisions.
Q5	What influence has the availability of FTRs had on your generation investment decisions?	Smartwin has not invested in any generation. However if we had, the availability of FTRs proximal to the generation location would have been a consideration
Q6	Has the FTR market allowed your business to build new generation plant in new geographic areas? Why/why not?	NA
Observation 4	FTRs currently use an average of $5.29 million per month from LCE (~47% of total LCE) to settle.	This observation should be stated in terms of how much Auction revenue FTRs use to settle.
Q7	Does the current use of LCE to support the settlement of the FTR market deliver the best outcomes for consumers? Why/why not?	Yes. The FTR market design approach determined that LCE represents an ineffective location price risk tool, and that using LCE to fund FTRs would be a more effective approach. FTRs are clearly an effective tool for managing LPR. On the basis that managing LPR leads to better outcomes for consumers, then funding FTRs is the best use of LCE.
Observation 5	Some parties may be consistently profiting from FTRs without a clear benefit to consumers.	This observation underestimates the value of speculators in providing price discovery and liquidity services.
Q8	Why do you think some FTR participants are profiting from FTRs more than others?	Making a profit from electricity derivatives requires a robust strategy, good analysis and a degree of market insight and experience.
Observation 6	The LPR due to losses is highly correlated with energy prices	See our response in section 1.2 above.

	while LPR due to constraints is not.	
Q9	Is it for the benefit of consumers to use loss rentals, constraint rentals and auction income to support the settlement of the FTR market? Why/why not?	Yes, for both loss and constraint rentals. A consumer needs a high degree of cost certainty. Failing to cover losses through an LPR product would undermine the value of this product. The decision to use auction revenue should be considered on its own merits, being providing higher certainty of LPR cover, and minimising market complexity.
Observation 7	Many parties (particularly direct connect consumers and independent retailers) who are subject to LPR are not using the FTR market.	Just because parties are not FTR participants does not mean they do not receive benefit from the FTR market.
Q10	Why do you think organisations that are exposed to LPR are not participating in the FTR market (directly or indirectly)?	We think that many more organisations who are exposed to LPR are benefitting from the FTR market than the Authority's analysis suggests. Indirect participation is not easy to identify and would require further analysis.
Q11	What do you think can be done to maximise the efficient use of LCE for the benefit of consumers?	This implies that the status quo is not efficient, the case for which is far from proven.
Q12	Do you consider LPR to be an impediment to effective retail and generation competition? Why/why not?	Yes. Retail competition will be limited in any area subject to significant and ongoing LPR. This can lead to vertically integrated incumbency, which then causes issues in terms of spot market power and subsequently wholesale competition.
Q13	How does the FTR market allow you to manage LPR? What non-FTR market tools do you use to manage LPR?	FTRs are a highly effective tool for managing LPR. We have no need for non-FTR tools.
Q14	Are changes required to the FTR market for the long-term benefit of consumers? Why/why not?	This is unclear. The Authority has not yet established either a problem or a range of solution options, therefore it is impossible to say whether any given change would improve outcomes for consumers. The analysis to date appears preliminary and inconclusive.
Observation 8	FTRs tend to trade somewhat below 'fair value.'	This is a generalisation that can readily be refuted with more detailed and comprehensive analysis.
Q15	Do you agree with the view that FTRs are currently traded below 'fair value'? If yes, why do they trade below fair value?	No, we do not. As discussed earlier, we believe many paths are currently traded well above 'fair value'. However, it is normal to expect that some paths will trade below fair value at times, because of the difficulty in establishing fair value, because of the inherent LPR and variability of its drivers.

Q16	Should FTRs be traded at/closer to 'fair value?'	Yes, FTRs traded at close to 'fair value' on a suitable averaging method would be considered an efficient market outcome.
Observation 9	Some features of the FTR market appear to be unintended and have no direct link to consumer benefit.	We disagree with this observation.
Q17	Are there other features of the FTR market that appear unintended or to have no clear consumer benefit?	No. Further, we disagree with the use of the term 'other' in this question.
Q18	Does the feature of the FTR market identified by the Authority negatively impact consumers? How?	No, it does not. Acquisition and reconfiguration of reverse-flow options provides a useful price discovery and liquidity service to the market. Any negative impact on consumers arises from the accuracy of risk management carried out by retailers.
Q19	Do you think there is a requirement for enhanced oversight of the FTR market?	Increased oversight by the Electricity Authority may be appropriate if deemed necessary and an optimal use of resources. Increased monitoring and market analysis could contribute to transparency and lower barriers to participation.
Observation 11	Revenue adequacy settings of the FTR market contribute to the profitability of FTRs	This is an oversimplification. Low incidence of revenue inadequacy logically means that smaller volumes were auctioned and that prices were higher than otherwise. This reduces overall FTR profitability but may create opportunities for speculators as scarcity (or perceived scarcity) arises more often.
Q20	What are your views on speculators benefiting from the design of the FTR market?	Speculators have access to the FTR market due to its design. In general speculators benefit from making good trading decisions and suffer from making poor ones. Arbitrage speculator profits are funded entirely by auction payments from other participants.
Q21	What benefit does speculation provide to the FTR market, and what link does this provide to consumer benefit?	Speculators that re-sell into auctions provide price discovery and liquidity services to the market, meaning that hedge purchasers can access hedges later and in larger volumes than would be possible without re-selling speculators. This means that on average, retailers should be able to better match their hedge book to their risk, leading to lower overall costs, which might then be assumed to be passed to consumers.