30 June 2022

Submissions
Electricity Authority

By e-mail: WholesaleConsultation@ea.govt.nz

The FTR market is critical to competition in the electricity market

Electric Kiwi and Haast Energy Trading (Haast) continue to advocate the Authority prioritise availability and development of wholesale market risk management tools, including FTRs, to help promote "thriving" competition and the efficient operation of the electricity market for the long-term benefit of consumers.

It is regrettable the Authority did not provide any information about the "broader concerns about the current operation of other aspects of the FTR market" that had been raised by "some submitters" before announcing[1] it was going to put the planned operational changes on hold.[2,3]

If the Genesis and Meridian letters had been publicly released when the Authority received them, and other stakeholders had been given the opportunity to respond, we could have clarified that the letters were based on mis-information and did not provide a sound basis for concern or change in FTR policy. The Genesis and Meridian letters are nothing more than a cynical (and seemingly successful) effort to misdirect the Authority and stall positive reforms to the FTR market which would help promote competition. The cynicism of Genesis and Meridian is highlighted by their decision to provide the letters outside of the consultation the Authority was undertaking on FTRs at the time. Their actual submissions were relatively benign.

The introduction of the FTR market has been the single most important contribution to promotion of retail competition since the Authority was established

The Authority should immediately implement the FTR reforms it had previously telegraphed and consider what additional reforms should be introduced to enhance the FTR market. We continue to advocate for the Authority to consider the benefits of issuing more FTRs and residual products.

It was an absolute failing of the Electricity Commission that the Government needed to use legislative tools to ensure an FTR market was introduced after long delay.

The FTR market helps market participants manage wholesale market price risk – including locational, energy, and capacity risks – and to compete. Haast, for example, acts as an intermediary to manage wholesale price risk on behalf of Electric Kiwi and other retailers using FTRs and other tools.[4]

Electric Kiwi's customer base is about 80,000+ or 3.65% of the market. This makes Electric Kiwi the largest retailer not controlled by, or integrated with, a generator. Electric Kiwi has been an aggressive price leader with our customers benefiting from market leading offers and service, and collectively saving nearly $38 million in the last 7 ½ years.[5] For the vast majority of the time Electric Kiwi has

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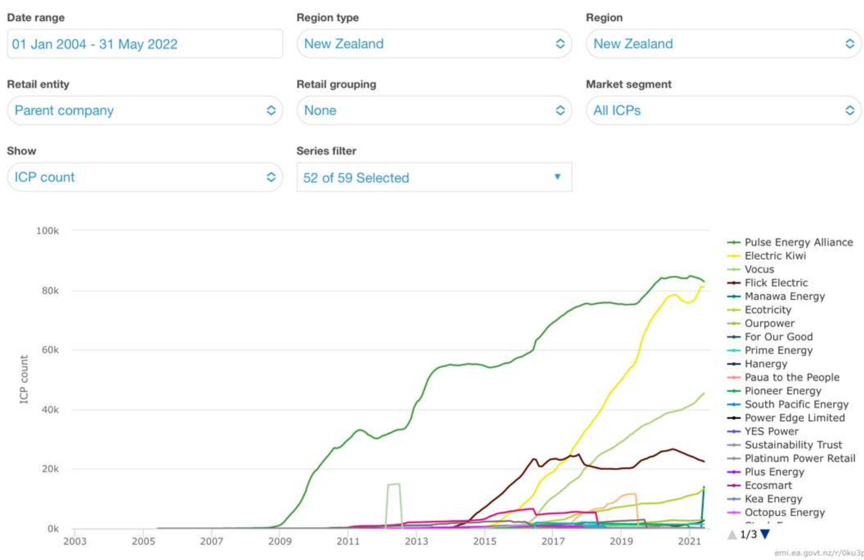
[1] Electricity Authority, Update on consultation on changes to the Financial Transmission Rights (FTR) rental calculation, 16 January 2001.
[2] There was nothing in any of the submissions the Authority received that indicated "some submitters" had raised broader concerns. It wasn't until nearly a year letter that correspondence was released that made it clear the purported concerns had been raised by Genesis and Meridian outside of the consultation process.
[3] Haast sought this clarification, including through correspondence and, when that failed, 11 February 2021 OIA request. The OIA request was initially declined and the Genesis and Meridian letters were not released until 26 November 2021.
[4] Haast Energy Trading, Hub consultation – cost benefit analysis of new Hubs, 12 December 2020.
[5] Not taking into account impact on average retail prices in the electricity market.

been in the electricity market it has been the price leader in the various regional retail markets, which has pressured large retailers to lower their prices and resulted in significant savings for consumers in general. The size of the savings to consumers would not be possible without the existing FTR arrangements.

While we recognise correlation does not mean causation, it is clear the advent of independent retailers followed shortly after establishment of the FTR market.[6] Prior to that Pulse was the only retailer of any size outside the incumbent retailers.



Summary of Electric Kiwi and Haast's views

- **The FTR market is a critical enabler of retail competition:** Development of the FTR market is by far and away the single most important contribution the Authority has made to promotion of retail competition. Without the FTR market Electric Kiwi and Haast may not have entered the New Zealand electricity market and Electric Kiwi would not have had the risk management tools to enable it to reach a market share of the current 80,000+ customers.

  Issues with access to suitable risk management tools is the single most important regulatory ceiling on competition from independent retailers like Electric Kiwi.

- **Although we consider the FTR market is working well, it should not be treated as a perfect or singular mechanism.**

- **The FTR consultation puts far too negative a light on the FTR market:** Given the success of the FTR market, and that this was confirmed by the Authority's post-implementation review in 2020, the negativity about FTRs in the current consultation paper was surprising. Just about all of the 11 "observations" in the consultation question the merit of the FTR market, but the observations lack foundation or merit. The focus of the observations and questions seem to be

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6 https://www.emi.ea.govt.nz/Retail/Reports/R_MST_C?DateFrom=20040101&DateTo=20220531&RegionType=NZ&RegionCode=NZ&ParentCompany=Y&Grouping=None&MarketSegment=All&Percent=N&_rsdr=ALL&seriesFilter=BCPL,DEEP,TAOM,ECOS,ECOT,ELEN,ELKI,ENEL,EMHT,CLUB,ETRN,FLCK,FOGY,HANE,HNET,IAMP,IDPL,KPOW,KEAE,SOHZ,LITE,CNIR,AMPX,NEXG,TASP,OCTO,OPHL,ORSL,OURP,PEAK,GIVE,PLEL,PION,PLTM,PLUS,ORBS,EDGE,PRME,CPPL,PUNZ,SPWR,SIMP,SPEL,STAK,SUPE,SUST,TTTL,TOPE,SWCH,WANG,WISE,YESP&_si=fr|1081,frc|D,v|3

tilted towards finding fault with the market rather than looking at how risk management tools can be improved.

- **Characteristics of the New Zealand FTR market are not unusual:** FTR markets tend to be based on a model with LCE (or similar concepts) used to fund unders and overs of auction settlements. Financial players are also typically engaged in these types of markets internationally, and not just physical market participants.

- The reviews of FTR markets that we have seen (e.g. PJM) support the view that FTRs are "fulfilling [their] intended purpose, and that the long-term FTR product and participation by financial traders add value to the market".[7] PJM used empirical analysis of historical FTR auction data to conclude: "Financial participants, or non-load serving or point-to-point entities, contribute value to the existing … FTR construct by applying competitive forces that provide a more accurate valuation of available transmission capability. This added competition also creates enhanced liquidity …"

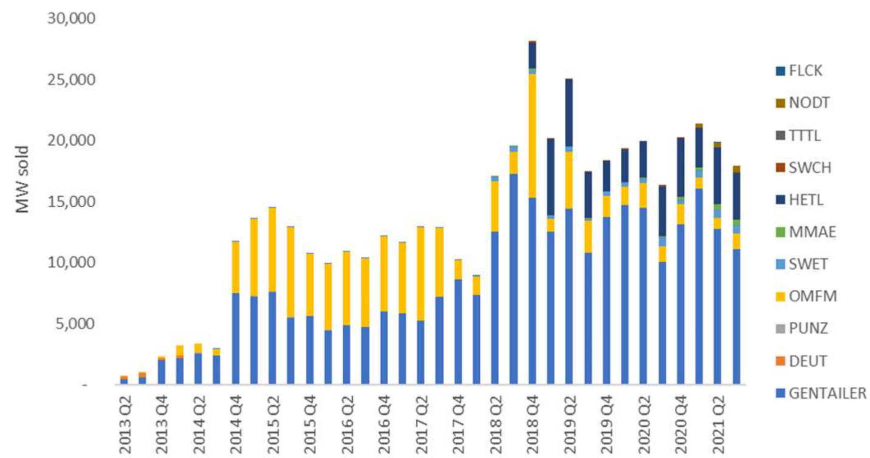
- London Economics also reviewed the PJM FTR market and found evidence FTRs support price discovery and the functionality of the forward market, including forward market liquidity e.g.:[8]

> LEI next examined futures markets. A review of transaction data in the last few years for PJM basis-related futures contracts on Nodal Exchange shows a strong increase in volumes after the release of FTR auction results (and this applies to all types of FTR auctions). This is evidence of the price discovery attributes that FTR auctions provide to support the functionality of the forward market. LEI's discussions with traders active in PJM and other US power markets noted that the FTR auction design contributed to forward market liquidity. Indeed, based on total futures transacted, PJM has by far the most liquid forward market of all US RTOs/ISOs. Forward activity in PJM is also characterized by a lower bid-ask spread than other power markets. These are useful indicators of the superior liquidity of the PJM forward markets.
>
> The extensive use of financial hedges is another measurable reference point for the importance of forward market activity in creating long term benefits to load. LEI surveyed the financing arrangements of new gas-fired resources that entered commercial operation for the last three years in PJM. LEI's research confirmed that nearly 9.5 GW of new combined-cycle gas turbine ("CCGT") capacity that started commercial operations from 2017 to 2019 involved using financial hedges as part of their financing arrangements. These financial hedges were realized thanks to liquid forward markets. Furthermore – and importantly for the purpose of estimating long term benefits – market price risk associated with the financing of these investments was reduced as a consequence of these financial hedges.

- **Small independent operators cannot "corner" a market dominated by large vertically-integrated operators with substantial market power:** We agree with the Authority that a "measure of success is the participants have broadened from generators, large industrial users and retailers, to increasingly also proprietary traders who use this product to be more active and support liquidity in the ASX futures and options market".[9]

[7] PJM FTR Group, Financial Transmission Rights Market Review, April 2020: https://pjm.com/~/media/library/reports-notices/special-reports/2020/ftr-market-review-whitepaper.ashx
[8] London Economics, Review of PJM's Auction Revenue Rights and Financial Transmission Rights. 16 December 2020: https://www.pjm.com/-/media/committees-groups/task-forces/afmtf/postings/lei-review-of-pjm-arrs-and-ftrs-report.ashx
[9] https://www.ea.govt.nz/about-us/media-and-publications/market-commentary/market-insights/financial-transmission-rights-successful-product-for-managing-risk/

- Analysis provided by Dr Batstone for the Authority highlights that while "the number of participants actively engaged in the FTR market has increased since the market commenced in 2013 … gentailers still dominate volumes traded …"[10]



- If Genesis and Meridian are not obtaining adequate FTRs it is likely because they prefer to use 'cheaper' risk management tools, such as geographic vertical-integration (increasingly evident in the South Island[11]) and "us[ing] their generation offers to manage transmission constraints", and aren't prepared to pay the true value of covering price risk.

- We agree with the Authority that "… the best way for physical parties to increase their share of the FTR market, to better manage their locational risk, is to increase participation and bid prices in FTR auctions" and "If there were no speculation in the FTR market—or speculation was discouraged—more LCE would be "syphoned off" and the beneficiaries of this would be physical players such as Meridian and Genesis."[12]

- **The Authority position is normally to focus on efficiency impacts only, and not to consider wealth transfers**. It is risible Meridian is trying to raise concerns that "The profits made by speculators in the FTR market" are causing "detriment of consumers of at least $20 million per annum" given the magnitude of the Authority's findings of excess prices in the wholesale electricity market. Meridian's Tiwai arrangements alone are causing in excess of $860m harm to consumers per annum.

- **The Authority should guard against protectionist vested interests attempting to hi-jack the FTR reform process:** We agree with emhTrade that "Nefarious lobbying ought to be ignored".[13] Genesis and Meridian essentially engaging in regulatory 'cakeism'; Genesis and Meridian want access to FTRs but don't want to pay its true value.

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[10] Dr Stephen Batstone, MDAG – Price Discovery with a 100% Renewables Wholesale Market, October 2021.
[11] Meridian has commented that matching retail and generation portfolios is used by the 5 incumbent gentailers to manage risk e.g. "… generation is provided mainly by five vertically integrated generator-retailers ("gentailers"), with only 7% of generation capacity owned by other firms. Overall, the vertically integrated "gentailers" have broadly balanced portfolios of generation and retail sales …. This is at least consistent with the view that the desire for hedging provides a motivation for vertical integration, when contract markets cannot meet the need as efficiently." [footnotes removed]

https://www.mbie.govt.nz/dmsdocument/4195-meridian-energy-electricity-price-review-first-report-submission
[12] Electricity Authority, Open letter in response to a request for a review of the market for Financial Transmission Rights (FTRs), 10 November 2020.
[13] emhTrade, Cost and Benefits of Hub Addition, 16 November 2020.

- We reiterate from Haast's 2020 submission that:[14]

> The majority of FTR market participants are vertically integrated gentailers with incumbent retail bases. These participants have an incentive to diminish liquidity in wholesale markets to prevent independent retailers or independent generators from competing with them effectively. The poor performance of the ASX market without regulated arrangements and previous opposition to increasing the size of the FTR market are examples of this strategy in action. The FTR manager and Authority should recognise this when reviewing submissions on the merits for expanding the FTR market and act in the long-term interest of Consumers.

- **The Authority should implement the operational enhancements to the FTR market it consulted on** between 18 August and 29 September 2020, which were then on hold in January 2021. The Authority should also consider the benefits of issuing more FTRs and residual products.

- **Complexity is a feature of the electricity market:** We question why some larger, incumbent operators are raising issues about complexity of FTRs but these concerns are not shared by smaller participants such as emhTrade and Haast.

- The Authority should be cautious about claims the FTR market is too complex. The electricity market is complex. The operation of full nodal pricing is complex. The new TPM is proving to be very complex. The market needs as much complexity as required to ensure its efficient operation. The role of retailers (and/or their intermediaries) is to understand and manage complexity and risk. Part of being a successful and efficient retailer is to operate as more than just a reseller and to manage complexity and risk on behalf of customers.

- **The Authority should not prescribe how participants should hedge.** The Authority seems to hint in the consultation paper it is tempted to intervene in the market to ensure that FTRs are only used for locational risk management, and not repackaged into the wider risk management market. This would be a retrograde move and stifle innovation and liquidity in many parts of the New Zealand electricity market. An appropriate analysis of the costs and benefits of the FTR market shows it is in the long-term interest of consumers for it to remain and grow. This should be the test against which the FTR market is judged, not the historic expectations of how a market might function before it was created a decade ago.

- **It is not the Authority's role to intervene in the market by decreeing what it considers is risk management activity and what it considers to be speculation:** We reject any suggestion that consideration should be given to bans on "speculators" (however defined) or on "whether there should be limits to the amount of FTRs that can be acquired by a single participant". A prohibition on "speculation" that would prevent goods or services going to the highest bidder/buyers that value the product the most would defy the basic principles of market and allocative efficiency.

The FTR market need to be preserved and protected

The FTR market has several features which make it attractive from the perspective of efficient risk management and promotion of competition – and unattractive from certain vested incumbent interests – including:

- **There is equal access to FTRs:** the FTR market is largely immune from vertically-integrated gentailer discriminatory practices which undermine the spot and hedge markets;

- **FTRs enable profile and capacity risk management:** liquidity and pricing for products useful for managing profile and capacity risk is poor outside of the FTR market. Electric Kiwi could not

[14] Haast Energy Trading, Hub consultation – cost benefit analysis of new Hubs, 12 December 2020.

competitively hedge a residential profile if forced to deal solely with incumbents OTC for these products.[15]

- **FTRs enable offsets (netting of prudentials) between hedge and spot markets:** The Authority has invested significant time and resources in exploring if ASX hedges and spot exposure could net, with no results to show for it. The FTR market was designed this way from the start. A better hedge market design may be to refocus market-making policies and regulation towards an enhanced (and renamed) FTR manager, with market makers offering baseload and cap products into regular auctions that clear via the Clearing Manager. This would also address the problem of the ASX not respecting the Authority's jurisdiction to run investigations and set prices appropriately following their conclusion by refusing to resettle futures.

We haven't seen anything in the FTR consultation that would indicate the Authority's post-implementation review was wrong or the Authority was incorrect to conclude: "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."

The Authority's "initial observations" should be treated with caution

In relation to the Authority's purported "Observation 5" that "Some parties may be consistently profiting from FTRs without a clear benefit to consumers", the Authority should consider the comments it made to the Electricity Price Review: "if there is evidence of systematic or "excessive profits being made … we would expect to see widespread entry of generator-retailers keen to have a piece of the profits on offer".[16]

The Authority's "initial" FTR consultation paper observations only look at the (current) upswing in the market. The same type of 'analysis' would result in similar conclusions if the Authority looked at the ASX or OTC markets. Participants who have owned hedges in a rising market have profited on their hedges and suffered losses on their customer sales. Looking only at one side of this equation is a flawed approach. For example, in situations such as Haast-Electric Kiwi, where the FTR purchaser is acting as an intermediary and providing risk management services to electricity retailers.[17]

EMH Trade has explained this point well in response to Meridian submissions they consider "false" and "misleading" "about the proliferation of so-called 'speculators'" and "profit":

> FTRs can have significant exposure to underlying energy price risk (in addition to locational price risk). This exposure can be (and is frequently) used by intermediaries to provide hedge products both OTC and through the ASX. When doing so, again in the value of the FTR is likely to equate to a commensurate loss on the sold hedge. Ultimately the hedge value ends up with the consumer and only a small margin is retained by the intermediary. Clearly the 'profits' that the submission suggests are being made are only one side of the equation, and in fact show the extent to which innovation in energy risk management can facilitate competition from new entrant retailers (Indeed a rudimentary analysis of which FTRs Haast, in particular, have procured will show that they are heavily weighted towards high delta products).

The FTR consultation paper identifies wealth transfers where there are none

By only looking at the (direct) impact of FTRs on financial traders and not taking into account (indirect) effects on retail positions and effects on electricity consumers (e.g. independent retailer tariff offers),

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[15] For example, the Authority has previously concluded: The Authority's analysis using historical data has shown that retail profiled load is able to be effectively and efficiently managed through the use of baseload futures products, as there is a strong correlation between price movements in baseload and peak future products."

Electricity Authority, Enhancing trading of hedge products, Decision paper, 8 December 2015.
[16] Electricity Authority, Electricity Authority Electricity Price Review submission, 19 October 2018.
[17] A confidential (Electricity Authority only) briefing on risk exposure and Haast's purported profits is provided in a separate document as part of our submission in response to the FTR consultation.

the Authority has mis-identified "wealth transfers" where there is no wealth transfer from transmission customers to FTR holders.

The Authority appears to have also taken an approach that is inconsistent with its interpretation of its statutory objective, e.g. "in virtually all circumstances, only the efficiency gains of an initiative should be treated as benefiting consumers, with wealth transfers excluded because they 'net off' among all electricity consumers once indirect wealth effects are taken into account".[18]

Regardless of how the statutory objective is interpreted, it is unusual for a regulator to focus on the purported profitability of market participants that do not have significant or substantial market power,[19] and to give this more attention than the profits of market participants with significant or substantial market power. The FTR consultation focuses more on Haast's profitability than the wholesale market review has given to the profits incumbent gentailers have siphoned off through excess pricing in the wholesale market.[20]

There seems to be some implicit assumptions being made that are difficult to unpack from the consultation paper's "observations about features of the FTR market that appear to either work against, or do not support, the long-term interests of consumers". Some of the premises contained in the "observations" appear to include: (i) assumptions about the extent to speculative activity in the FTR market and profits from this activity; (ii) assumptions that financial traders don't have any involvement (direct or indirect) in electricity generation, retail or hedge markets so it can be assumed that the profits won't flow to consumers through competitive pressures;[21] (iii) a view that speculative activity doesn't provide benefit to the market, either in terms of efficient price discovery or promoting competition; and that (iv) the purported "profits" from speculative activity are "functionless rents" rather than simply wealth transfers. We do not consider any of these premises to be well-founded.

If profits are a genuine concern of the Authority, it would be helpful if this was explained, including how it sits with the Authority's position on other policy matters (wholesale market review, TPM etc) and its interpretation of its statutory objective.

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[18] Electricity Authority, Interpretation of the Authority's statutory objective, 14 February 2011.
[19] Unless it is to test whether they are being price squeezed and prevented from competing.
[20] There are 3 cursory paragraphs on incumbent profits in the 155 page wholesale market review Information Paper compared to over 3 pages in the FTR consultation on FTR trader profits.

The Authority's wholesale market review has given scant focus to the profitability of incumbent market participants with substantial market power despite that Meridian et al have substantial market power and the Authority has identified evidence of large and sustained excess prices in the spot market. This contrasts with the Commerce Commission's similar supermarket investigation.
[21] e.g. paragraphs 4.63 and 4.64.

We note and agree with emhTrade's observations about Meridian's 'concerns' about speculators[22]

emhTrade

- The terms 'speculators' and 'profit' are either intentionally misleading or naive. Most of the parties listed in the submission as speculators would likely refer to themselves as intermediaries. Indeed it is reasonably common knowledge within the industry that Haast Energy Trading is a 'sister company' of Electric Kiwi and provides risk management services including, it would seem reasonable to assume, hedge products. In this sense, Haast is likely acting as an intermediary which is directly facilitating increased retail competition for the benefit of consumers (and, notably, to the detriment of incumbent retailers).
- As we've noted, FTRs can have significant exposure to underlying energy price risk (in addition to locational price risk). This exposure can be (and is frequently) used by intermediaries to provide hedge products both OTC and through the ASX. When doing so, a gain in the value of the FTR is likely to equate to a commensurate loss on the sold hedge. Ultimately the hedge value ends up with the consumer and only a small margin is retained by the intermediary. Clearly the 'profits' that the submission suggests are being made are only one side of the equation, and in fact show the extent to which innovation in energy risk management can facilitate competition from new entrant retailers (Indeed a rudimentary analysis of which FTRs Haast, in particular, have procured will show that they are heavily weighted towards high delta products).
- Either Meridian has deliberately sought to mislead by suggesting this hedge value is being completely re-allocated from consumers and physical participants to speculators, or they are displaying a complete lack of understanding of how the risk management markets are interrelated. Our view is that, facing retail competition as a result of innovation in risk management, they are deliberately trying to stifle the ability of their competitors to take such an approach (to the detriment of consumers).

The Authority should investigate the deteriorations in market concentration statistics and the extent to which gentailers are concentrating their retailing activity close to their generation

A large portion of the FTR consultation is dedicated to historic Electricity Commission analysis of locational price risk, including that "for four of the five major generator retailers, there was a strong correlation between high nodal price exposure and low relative regional market shares". If this historic analysis is relevant it should be updated.

It appears, as part of the 'problem' with the FTR market, that some gentailers are prefering to concentrate their retailing activity closer to their generation (geographic vertical-integration) rather than use risk management tools such as FTRs to manage risk.

This is particularly evident in the South Island where Contact and Meridian are (by far) the largest generators and are increasingly taking over as the two largest retailers in each of the regional markets. The affect has been sufficiently pronounced that retail market concentration in the South Island has worsened in recent times. This is part of a broader problem with market concentration and vertical-integration in the electricity industry which needs to be addressed as part fo the wholesale market review in order to achieve thriving competition.

We documented this, for example, in our submission in response to the wholesale market review, over 6 months ago.[23]

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[22] emhTrade, Cost and Benefits of Hub Addition, 16 November 2020.
[23] https://www.ea.govt.nz/assets/dms-assets/29/Electric-Kiwi-+-Haast-submission.pdf

The retail HHI and CR1 for the South Island is higher than it was a year ago. We have pragmatically used data up to end April 2022 only to highlight these changes, so as to exclude the affect of Mercury's purchase of TrustPower's retail customer base. This purchase lifted all market concentration statistics in May 2022.

The HHI deteriorated in 9 of the 16 South Island network reporting regions in the last 12 months. The retail CR2 (market share of Contact and Meridian) for the South Island is higher now than it was in June 2020.[24]

Contact and Meridian are rapidly becoming the two largest retailers in most network reporting areas as well as the two largest generators in the South Island:

- In 2000, Contact and Meridian were the two largest retailers in just 4 of the 16 South Island network reporting areas. This has now risen to 8 and is likely to become 10 in the near to medium term.[25]

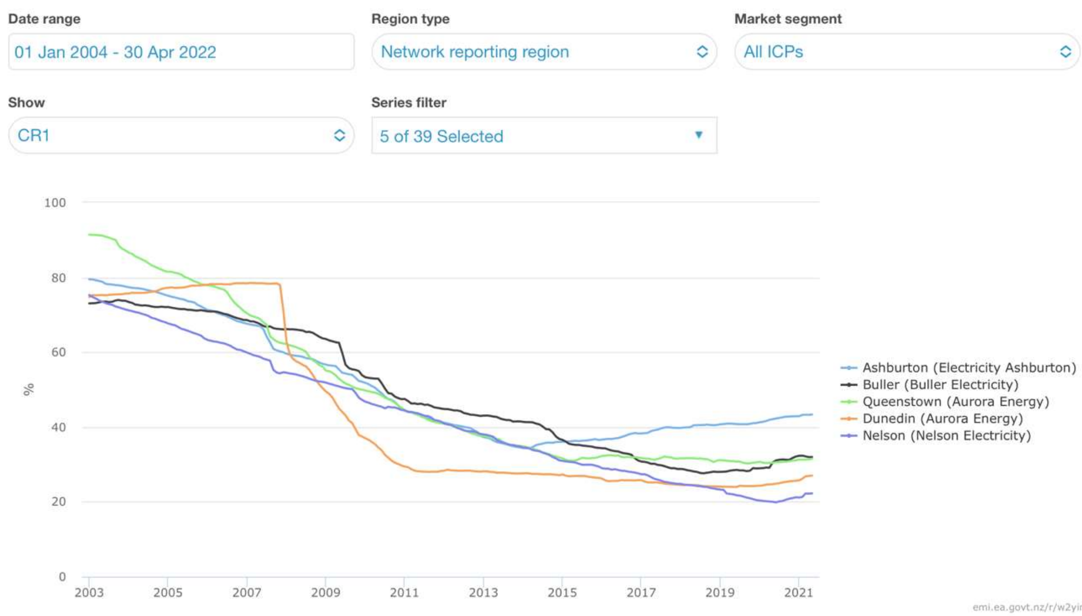
- In 2000, either Contact or Meridian was the largest retailer in 8 of the network reporting areas. This has now risen to 13 and likely to become 14 in the near to medium term.[26,27]

- The only South Island network reporting areas where Contact or Meridian are not the largest are Malborough (Meridian and Contact are in 2nd and 3rd place with Meridian on track to overtake Trustpower as largest retailer), Buller (Pulse Energy is the largest retailer) and Westport (Trustpower is the largest retailer, with Contact and Meridian in 2nd and 3rd place, respectively)

[24] Consistent with the EMI website, the market concentration statistics referred to below do not adjust for Mercury's acquisition of Trustpower.
[25] Contact is on course to become the 2nd largest retailer (currently 3rd) in Nelson, and Meridian in on course to become the 2nd largest retailer (currently 3rd) in Central Otago.
[26] Meridian is on course to become the largest retailer (currently 2nd) in Marlborough.
[27] As noted above, Mercury purchase of Trustpower's retail customer base has impacted some of these statistics e.g. the acquisition has resulted in a one-off jump in Mercury market share in Nelson from 5.16% in April to 22.68% in May which pushes Mercury slightly (and likely temporarily) ahead of Meridian at 22.2%.

There is a similar (and likely temporary) bump in Tasman where Contact and Meridian where the largest and 2nd largest retailer, but Mercury has slightly overtaken Meridian.

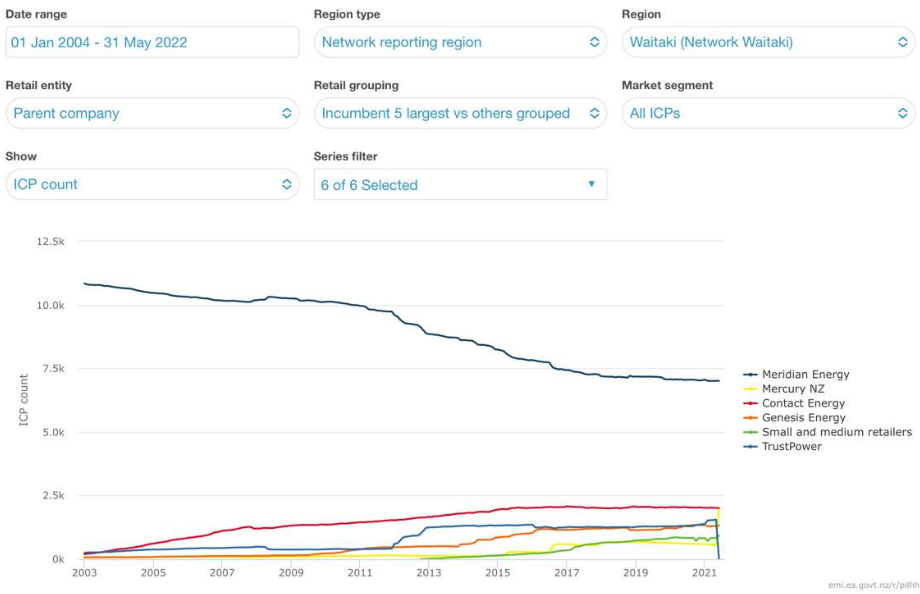
The increasing South Island retail market control of Contact and Meridian is reflected in deteriorating market concentration in several the regional markets e.g.:[28]



28 https://www.emi.ea.govt.nz/Retail/Reports/R_CR4_C?DateFrom=20040101&DateTo=20220430&RegionType=NWK_REPORTING_REGION_DIST&CRLevel=1&seriesFilter=24,27,31,34,37&_rsdr=ALL&_si=v|3

https://www.emi.ea.govt.nz/Retail/Reports/R_CR4_C?DateFrom=20040101&DateTo=20220430&RegionType=NWK_REPORTING_REGION_DIST&CRLevel=2&seriesFilter=26,34,36,37,38&_rsdr=ALL&_si=v|3

Waitaki is the ‘poster child’ for physically-located vertical-intergration with Meridian holding onto 52.84% market share and much slower loss of market share compared to other incumbencies. Meridian has 46.7% residential market share in Waitaki, (Tauranga 64.55% is the only market that is worse), 77.83% SME, 63.6% Commercial, and 84.24% Industrial.[29]



Enhancements should be made to improve the available of FTRs to manage wholesale market price risk

The Authority should implement the operational enhancements to the FTR market it consulted on between 18 August and 29 September 2020 but then put on hold on 26 January 2021. These enhancements were supported by most submitters. It appears that the minority opposition was based on matters outside of the scope of the consultation, including baseless claims about market ‘capture’.

The Authority should also consider the benefits of issuing more FTRs and residual products.
We reiterate from our SRAM submission that:

> Issuing more FTRs and residue products against the LCE can make SRAM more predictable and uncorrelated with spot outcomes. This could keep the price signals consumers and generators see net of SRAM close to efficient levels and increase wholesale market liquidity via increased opportunities for risk repackaging.
>
> The Australian NEM utilises a market design which more closely matches residues with financial products in a Settlement Residue Auction, a similar approach in NZ could increase the total amount of products sold and reduce underfunding risk. For example, the NZ FTR market could have more FTRs added, higher release factors and be extended to include a spot-SRAM product designed to match to the remaining LCE component which does not have FTRs issued against it. This would have the benefit of passing on the volatile SRAM pool to traders who can repackage other wholesale products against it and increase liquidity in the wider wholesale market, while the level of SRAM would be relatively constant and based on longer-term expectations of spot-SRAM. With appropriate product design the buyers of spot-SRAM could bear the underfunding risk in the FTR market allowing the Authority to more confidently increase FTR release factors.

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29 https://www.emi.ea.govt.nz/Retail/Reports/R_MST_C?DateFrom=20040101&DateTo=20220531&RegionType=NWK_REPORTING_REGION_DIST&RegionCode=33&ParentCompany=Y&Grouping=T5&MarketSegment=All&Percent=N&_rsdr=ALL&_si=fr|1081,frc|D,v|3

Electric Kiwi and Haast are comfortable with Genesis' recommendation that the Authority "request that the Market Development Advisory Group consider … how the FTR market could be improved".[30] The work MDAG has done on trading conduct and 100% renewables demonstrates its capability to do a sound job of reviewing the FTR market, and there are synergies between the 100%RE project and FTR market development and enhancement.

We reject any suggestion consideration should be given to bans on "speculators" (however defined) or on "whether there should be limits to the amount of FTRs that can be acquired by a single participant" both of which would require the Authority to place itself in the commercial 'shoes' of market participants and make judgements about the level of FTRs required to prudently manage risk and where the boundary lies between prudent risk management and so-called "speculative profit-oriented play".

Concluding remarks

The Authority should be wary of claims by Genesis and Meridian that the FTR market isn't working or the market is somehow "cornered" by Haast and "speculators" (however defined). The term "speculators" is used as an attempted pejorative reference to "intermediaries" and ignores that both "speculators" and "intermediaries" have an important role in efficient price discovery.

Competition from innovative independent retailers like Electric Kiwi is critical for driving down electricity price, the Government's goals of ensuring affordable electricity for Kiwi households and businesses and electrification of the economy as part of the country's zero carbon ambitions.

Unless the problems in the electricity market are addressed – including ensuring risk management tools enable independent suppliers to compete on a level playing field – we are likely to see further weakening of competitive pressure and higher prices for consumers. The worsening of retail market concentration statistics in the South Island, which is increasingly dominated by Contact and Meridian, should be seen as a bellwether for the electricity market more generally.

The Authority should implement the operational enhancements to the FTR market it consulted on between 18 August and 29 September 2020, but subsequently put on hold, and consider the benefits of issuing more FTRs and residual products.

Yours sincerely,

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[30] For the avoidance of doubt, we do not support consideration of regulated limits on individual participants FTR activity or other such quantified rationing mechanisms. Allocative efficiency requires that goods and services, including FTRs, go to the parties that value them the most.