3 November 2020

WMID Team
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Dear WMID Team

RE: Review of Thermal Fuel Information Disclosure – Guidelines Consultation

Ecotricity, Flick Electric and Pulse Energy have joined together to make this submission on the Electricity Authority's (Authority's) consultation paper on proposals to revise the Guidelines on wholesale market information disclosure obligations.

We note the proposed amendments aim to improve disclosure of information about the availability of thermal fuels for electricity generation. We have reviewed the proposed changes as well as considering if there are other areas of the Guidelines that need updating.

Q1. Do you agree with the proposed updates to the Guidelines? If not, please explain why.

Paragraph 6.28(a)(iii): We query why the Authority has inserted 'or' in the list of useful information that could be provided. This implies only one piece of information is sufficient. However, if information is only provided on coal stockpile levels the readers of the information would have to be knowledgeable about how long the generation plant could operate with that limited amount of fuel (estimated running days). We recommend deleting the word 'or'.

Paragraph 6.28(b)(iii): Again we query why the Authority is providing the participant with discretion about the amount of useful information that could be disclosed. Reviewing the list of 'useful information' and thinking about if only one piece of information was disclosed – is the market fully informed about the material impact on prices? Our view is that the market will not be fully informed.

For example, the generator discloses only the expected date of return to normal operations – how is that useful when there is no information about the operation of the generator before it returns to normal operation. We recommend this paragraph be revised as follows:

> Useful information to provide could include ~~one or more of the following~~: when generation is likely to be constrained, by how much, and expected date of return to normal operations

Paragraph 6.28(b)(v): We suggest this paragraph forms part of the chapeaux for this example.

Paragraph 6.28(b)(vi): We suggest this paragraph is relevant for the whole of paragraph 6.28 and not specific to Example 2. This information could be put at the start of paragraph 6.28.

Paragraphs 10.6 – 10.9: We strongly support disclosure to the level of detail suggested in paragraph 10.8 (and in a standardised disclosure format). Further, it would be great if this detailed information was available for the same time periods as for exchange traded futures contracts. We agree this standard regular reporting would reduce the need for participants to continually assess their fuel availability for materiality and that ad-hoc disclosure would still be required. The proposed format would effectively refine the hydro storage data currently available and place thermal fuel disclosures on the same footing.

Paragraph 10.18: We suggest the Guidelines could be more explicit that a participant is breaching 13.2A if it notifies the System Operator of outages without using POCP and there is a lag in the System Operator publishing this information. The Authority could monitor / analyse whether voluntary use of POCP and delays in the information being made public to decide whether use of POCP should be mandatory.

Paragraph 10.20: We support inclusion of this guidance encouraging participants to pro-actively provide the System Operator with thermal supply information that may impact achievement of security of supply obligations.

Q2. Are there any other areas of the Guidelines that need updating? If so, please provide your views on why and how they should be updated.

Our recommendations for other updates to the Guidelines follow.

a) We strongly recommend that the Guidelines be explicit that the information disclosed should include reasons. For example, there is a big difference between a generating unit being unavailable due to routine maintenance or due to an unplanned failure of a turbine.

   Providing a reason will provide other participants with an indication of the severity of an event and enable them to make a judgement about whether the plant will return to service on the date disclosed by the asset owner.

   This requirement is consistent with the information being disclosed by gas industry participants – for example:

   Outage name: **Notification of Planned Gas Outages at Production Facilities**

Name of outage:	**Well Maintenance – October/November**
Brief description of nature/purpose of outage:	**Well Maintenance**

   Including a reason in a disclosure is consistent with the expectations in paragraph 6.23(c) "*how much detail an interested party would require in order to form a reasonable understanding of the*

scope and nature of the "material impact on prices"" but we recommend the Guidelines be revised to include an expectation that reasons would be disclosed.

b) The Guidelines should remind participants that c.13.2A of the Code requires disclosure information to be made public "*as soon as reasonably practicable after the participant becomes aware of the information*". This means that participants must disclose new information as early as possible when it is clear the current disclosed information is no longer correct.

   For example, a generator may be on an outage with a disclosed return time of 12:00 on 28/10/20. There have been several instances when a return time has been extended (materially) and notified very shortly (within the hour) before the disclosed return time and the notice was publicly available after the ASX hedge market closed. This outage has been disclosed because it has a material impact[1] yet the short notice of an extension of the outage severely limits other participants ability to plan for the longer outage.

   Participants working on the outage/assets must be knowledgeable about progress on the works required days / hours before the disclosed return time. As soon as it becomes clear the return time is not achievable – the market must be updated with a revised return time. The Guidelines could include an expectation that a generator must provide notice a specific period of time before putting / not putting plant back into service.

   This reminder could be included after paragraph 6.25 in the section on the level of detail to disclose.

c) The Authority's own review of spring 2018 says *''Ideally, generators would have a mechanism to signal when plant is unable to operate at full capacity despite not being on outage*" (para 5.12[2]). We believe it is important to know not just when but also why a plant is not operating at full capacity and a forecast for when it would be available. We note that generation plant that is not on outage but is not offered was used by the Authority as a measure of competition in the generation market in its regression analysis of spot price drivers.[3]

   This information could also be listed in paragraph 6.23 of the Guidelines.

d) The Guidelines say that wholly owned subsidiaries, joint ventures and special purpose vehicles are not directly caught by the disclosure rules (because it is the parent company and not them that are registered as a participant). We suggest the level of control of the parent company over these entities is a relevant consideration and should guide whether information held by the related entities is information that the parent company should be disclosing. The Guidelines should be amended to clarify this (paragraphs 6.3-6.4).

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[1] Consistent with paragraph 6.27(c) of the Guidelines
[2] See: https://www.ea.govt.nz/dmsdocument/26586-market-performance-review-of-spring-2018
[3] See Section 8 in the Market Performance Quarterly Review Q2 2020 Information paper https://www.ea.govt.nz/dmsdocument/27142-quarterly-review-july-2020

e) The Guidelines make it clear that the market for financial hedge contracts is within the scope of the Code on disclosure[4]. The Guidelines then list a significant change in electricity contracting position as an example of required disclosure information[5]. We strongly recommend the Authority review these sections of the Guidelines to ensure the full details of all types of hedge contracts will be disclosed – including the swaption between Meridian and Genesis.

   In addition, the disclosure obligations should extend to providing the details of when electricity is supplied under these agreements – information about the start / end dates and trigger conditions do not fully inform the market of the day-to-day use of these agreements. If the existence of the agreement has a material impact on price then the day-to-day use of the agreement must also be material. We note that paragraph 7.12 "*individual contracts and trading decisions … which have a material impact on market prices may not come under the reasonable person exclusion*". In our view, trading decisions in relation to swaption agreements are material.

   As discussed in our previous submission[6], we believe information on the following hedge contracts can also have a material impact on prices:

   - volume of generation covered for vertically integrated retailers by their generation business and the price at which these volumes are sold – that is, disclosure of the internal hedge transactions between gentailers' generation and retail businesses (including price, volume and the hedge profile / type for this volume)
   - information on large commercial contracts that are not hedge contracts - at a minimum the Authority should get this material information to enable monitoring of abuse of market power.

f) We note that the market for ancillary services is covered by clause 13.2A[7]. However, there is very little guidance about the information that should be provided (paragraph 6.27(d)). We suggest the Authority review these Guidelines in relation to reserves to ensure there is sufficient information publicly available to enable people to understand if the quantity or prices offered for reserves are used to influence spot prices / the least cost generation being dispatched, ie is having a material impact on prices. For example, the reserves offer price stack often has large steps in price over a small change in volume – and reasons for a change in the volumes offered should be disclosed.

g) In paragraph 7.12 the Guidelines suggest participants consider whether disclosure would unreasonably prejudice their commercial operations/position. We suggest it would be useful to remind readers in this section that the Code has been changed so that there is no longer an exclusion for commercial disadvantage (as in paragraph 6.28(b)(vi)).

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[4] Paragraphs 6.21 ad 6.22
[5] Paragraph 6.27(f)
[6] https://www.ea.govt.nz/assets/dms-assets/27/27352Ecotricity-Flick-Electric-and-Pulse-Energy-WMID-submission.pdf
[7] See paragraph 6.22

h) We recommend the Authority review paragraph 7.12 with the context of its work on gentailers' transfer pricing and retailer profitability in mind. It would be disappointing if gentailers could point to this paragraph as a reason not to provide public information about internal contracts when the current project may decide this information should be public.

Our motivations to improve public disclosure of information that could have a material impact on prices is to ensure market participants are fully informed and the Authority has robust and thorough information for monitoring the ongoing performance of the wholesale market. Confidence that price discovery in the spot and hedge markets is efficient is paramount as is enabling strong competition in both generation and retail markets for the long-term benefit of consumers.

We would welcome the opportunity to discuss our suggestions.

Yours,

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