



09 August 2023

Electricity Authority
Level 7, ASB Bank Tower
2 Hunter Street
Wellington

To whom it may concern,

Re: Improving hedge disclosure obligations consultation

Thank you for the opportunity to submit on the Electricity Authority's ('Authority') consultation paper on improving hedge disclosure obligations (HDO).

Contact agrees that the market has moved on significantly since the HDO's were published in 2009, leaving the information currently disclosed being of less use than in the past.

This consultation presents a great opportunity to improve the quality of disclosed information, however, the Authority should be mindful to restrict the collection of information to only relevant information while minimising the compliance impacts on market participants.

Key principles

Contact believes the Authority should consider the following points as key principles in developing requirements for hedge disclosure obligations.

1. HDO's should improve confidence of the Authority and market participants that the OTC market is promoting competition, reliability and efficiency.
2. HDO's should be flexible enough to move with future market requirements.
3. HDO's should provide useful information to market participants around the pricing and volumes transacted of different types of OTC products.
4. HDO's should not enable a participant who is party to a transaction to be easily identified by information published publicly.
5. Information required to be disclosed by HDO's should be minimised and restricted to the relevant commercial information.
6. HDOs should minimise the compliance burden to market participants and, where possible, the Authority should facilitate the transfer of the required information.

Problem definition

Contact agrees with the problem definition for areas of improvement.

We prefer the publication of selected transaction information. We believe this gives the Authority sufficient information to undertake market analysis and releases meaningful public information whilst balancing the confidentiality of participants involved.

The Authority should also keep in mind that the information disclosed under HDO's needs to be safeguarded from Official Information Act requests due to its commercially sensitive nature.

Improving the information collected

We are supportive of the removal of the requirement to disclose ASX transactions. The relevant information is publicly available via ASX and the Authority has access to detailed information. Removing the requirement would reduce the compliance burden on participants who trade in the ASX market.

We do not support the requirement to submit the entire contract or the collection of pre-negotiated bids and offers. Collection of pre-negotiated bids and offers would require a significant increase in effort to record both complying and non-complying bids and offers which may result from multiple rounds of negotiation. We would struggle to reconcile what we have disclosed against any internal system of record as we do not have a system to record bids or offers that have failed to transact - meaning that it would be difficult to give full confidence to those who are required to sign off on the annual hedge disclosure certificate.

A possible solution to the collection of pre-negotiated bids and offers could be a centralised RFP platform hosted by the Authority which allowed for the submission of RFPs and responses. We have not investigated the viability of setting up such a platform but provide it as a suggestion.

We support the removal of grid zones for submission to the Authority. However, when the information is republished to the market by the Authority, we believe it should be published as a pricing zone. This would support the principle that the disclosure of transactions should not make it easy to identify the parties involved in a transaction.

We do not support the disclosure of a MW figure. We are unsure how this would apply in the case of a volume that varies over the course of a contract or where a product traded is not baseload. We believe a better approach would be to have disclosures requiring a volume shape to be disclosed and whether the transaction applies to business days, non-business days or all days. It is important for the market to discover prices for shaped volume products such as morning peak and evening peak products to enable efficient investment decisions.

Contact supports the disclosure of more detailed information for options. Particularly with reference to option types (i.e. calls, puts, caps and swaptions), strike prices and the premium per MWh.

Electricity contracts have become significantly more complex in recent years, with a trend towards longer-term deals that reprice at regular intervals, and in the case of power purchase agreements (PPA), follow varying levels of generation output. This makes the accuracy of disclosures more challenging and it would be worth the Authority considering how price and volume should be disclosed for these types of transactions.

The current wording of the Code makes it unclear to us as to what the Authority expects when an option is exercised. For example, if a swaption is disclosed as an option, what is expected when the option is exercised for a period of time during the term of the option?

Proposed options

Contact supports the publishing of a selected range of information relevant to current and future requirements of the Authority and market participants.

In Appendix 1 and 2 we make suggestions for the disclosure file formats for non-option and option transactions.

If there is anything in our response that you wish to discuss further, please feel free to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Nigel East', with a stylized flourish extending from the end.

Nigel East
Forward Markets Manager



Appendix 1: Suggested disclosure file formats for non-option trades

Deal Information	Disclosed to Authority as	Disclosed to Authority example	Disclosed to market as	Disclosed to market example	Comment
Contract Type	As published	CFD	As published	CFD	CFD, OPT, PPA, vPPA, FPVV
Party Code	As published	CTCT	Not published	XXXX	
Party Email Address	As published	xyz@contactenergy.co.nz	Not published	XXXX	
Party Role	As published	Seller	Not published	XXXX	
Party External Reference	As published	12345	Not published	XXXX	
Other Party Legal Name	As published	Company A	Not published	XXXX	
Other Party Email Address	As published	abc@companya.co.nz	Not published	XXXX	
Trade Date	As published	30/06/2023	As published	30/06/2023	
Effective Date	As published	1/07/2023	As published	1/07/2023	
End Date	As published	31/07/2023	As published	31/07/2023	
Quantity (MWh)	As published	330	As published	330	
Adjustment Clause	As published	N	As published	N	
FM Clause	As published	N	As published	N	
Suspension Clause	As published	N	As published	N	
ISDA Schedule Used	As published	Y	As published	Y	
Registered under HSA	As published	Y	As published	Y	
Day Type	As published	BD	As published	BD	BD, NBD, All
Volume Profile	As published	Peak	As published	Peak	Baseload, Peak, Morning Peak, Evening Peak, Super Peak, Retail, Off-Peak, Overnight, Load Following, Generation Following.

Deal Information	Disclosed to Authority as	Disclosed to Authority example	Disclosed to market as	Disclosed to market example	Comment
					* Parties to disclose based on best profile fit.
Grid Reference Point	As published	CYD2201	Recalculated	J	Authority to publish at Zone for market disclosure. Noting that the Authority could determine that it requires additional pricing zones.
Contract Price	As published	\$100	Recalculated	\$97	Authority to publish at zone price based on Authority calculation of location factor.

Appendix 2: Suggested disclosure file format for options

Deal Information	Disclosed to Authority as	Disclosed to Authority example	Disclosed to market as	Disclosed to market example	Comment
Contract Type	As published	OPT	As published	OPT	OPT
Party Code	As published	CTCT	Not published	XXXX	
Party Email Address	As published	xyz@contactenergy.co.nz	Not published	XXXX	
Party Role	As published	Seller	Not published	XXXX	
Party External Reference	As published	12344	Not published	XXXX	
Other Party Legal Name	As published	Company A	Not published	XXXX	
Other Party Email Address	As published	abc@companya.co.nz	Not published	XXXX	
Trade Date	As published	15/05/2023	As published	30/06/2023	
Effective Date	As published	1/07/2023	As published	1/07/2023	
End Date	As published	30/09/2023	As published	31/07/2023	
Quantity (MWh)	As published	55200	As published	55200	
Adjustment Clause	As published	N	As published	N	
FM Clause	As published	N	As published	N	
Suspension Clause	As published	N	As published	N	
ISDA Schedule Used	As published	Y	As published	Y	
Registered under HSA	As published	N	As published	N	
Day Type	As published	All	As published	All	BD, NBD, All
Volume Profile	As published	Baseload	As published	Baseload	Baseload, Peak, Morning Peak, Evening Peak, Super Peak, Retail, Off-Peak, Overnight, Load Following, Generation Following.

Deal Information	Disclosed to Authority as	Disclosed to Authority example	Disclosed to market as	Disclosed to market example	Comment
					* Parties to disclose based on best profile fit.
Grid Reference Point	As published	WHI2201	Recalculated	C	Authority to publish at Zone for market disclosure.
Option Type	As published	Cap	As published	Cap	Call, Put, Swaption, Cap
Option Strike Price	As published	\$600	Recalculated	\$612	Authority to publish at Zone for market disclosure.
Option Premium (\$/MWh)	As published	\$12.23	Recalculated	\$12.47	Authority to publish at Zone for market disclosure.