



9 August 2023

Wholesale team  
Electricity Authority  
P O Box 10-041  
Wellington

By email: [wholesaleconsultation@ea.govt.nz](mailto:wholesaleconsultation@ea.govt.nz)

**Dear team**

**Re: Consultation Paper-Improving Hedge Disclosure Obligations**

Flick appreciates the opportunity to provide a submission on the Electricity Authority's (Authority) identified issues and potential options to improve the quality and timeliness of information that is collected and made public on Over-the-Counter (OTC) contracts.

Flick notes the objectives set when this regime was put in place in 2007 (copied below) and we agree these objectives remain highly relevant.

*"The objectives were to facilitate ready comparison of electricity prices and other key terms of risk management contracts, enable participants to formulate their own historic contract curves, and provide participants with information to assess the competitiveness of the contracts market."*

However, these objectives relate to informing market participants. Flick suggests adding another objective which is to provide the Authority with sufficient quality information to be able to monitor the OTC market and assess if it is workably competitive. The consultation paper makes it clear the Authority expects the OTC market to play an increasingly important role as the proportion of intermittent renewable generation enters the market. The monitoring effort to assess this market is competitive is also increasingly important.

While disclosure of hedge market information is important, Flick submits the Authority must prioritise improvements to the ASX product range and contract duration. Liquidity in the hedge markets is key to effective and efficient risk management for independent generators and retailers. Access to a range of hedge products is more important than ex-post disclosure about the existence of hedge contracts.

We disagree with the Authority's comment that the forward curve available from ASX data (and published by the Authority) "undermines the need for participants to disclose information about CfDs and options contracts, which are currently used to develop a forward price curve".<sup>1</sup> This view misses the point that OTC / bilateral contracts are likely

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<sup>1</sup> Paragraph 3.4 of the consultation paper

to be at a margin to ASX (the transparent market) and the Authority should be monitoring the level (and range) of this 'margin' to assess if the margin is a fair reflection of any counterparty and/or product risks for a particular contract relative to standard ASX products.

The consultation paper refers to the Authority's monitoring role. Flick strongly supports the Authority increasing its monitoring capacity and capability in this increasingly important sector of the wholesale market.

Our response to the Authority's specific questions follows. We are also a signatory to the joint submission by the independent retailers group.

We welcome the opportunity to discuss our information in this submission with you in more detail.

Yours



Pavan Vyas

**Chief Executive Officer**

Submitter		Flick Electric
Q1	<b>Identified issues:</b> a. Do you agree with the identified issues? If not, why?	No comment
	b. Are there other issues with the HDO requirements that we have not identified? Can you please provide specific and quantifiable examples.	No comment
	c. What types of risk management contracts are not being captured under the current HDO requirements as set out in the Code?	No comment

	<p>d. Do you use the published information to elicit a forward price curve and to assess the competitiveness of the contracts market? If not, what do you use it for?</p>	<p>Yes. Information about contracts beyond the term of contracts traded on the ASX is particularly important.</p> <p>The portfolio of products traded on the ASX has improved marginally over time so OTC contracts (and the HDO information) fills a significant gap.</p>
Q2	<p><b>Problem definition:</b></p> <p>e. Do you agree with the Authority's proposed areas of improvement? If not, why?</p>	<p>Flick agrees with the high level statement of the proposed areas for improvement.</p>
	<p>f. Are there other areas of improvement in the HDO requirements that we have not identified?</p>	<p>Figure 2 shows a "Subset of the disclosed information is made publicly available". The Figure fails to refer to the other subset of data that will never be made public but is collected by the Authority for monitoring purposes to ensure the bilateral contracts market is workably competitive.</p> <p>Flick suggests the Authority should not underestimate the value of monitoring activity in the OTC market - to ensure that participants, especially independent generators and retailers, have confidence the price and terms offered in this market are competitive and fairly reflect any additional risks.</p>
Q3	<p><b>Improving risk management information collected:</b></p> <p>g. What are your views on the relative merits or priority of these five options for improving the risk management information collected? What are the compliance costs?</p>	<p>We provide the following feedback on the options identified by the Authority as well as the Authority's preliminary assessment against its objectives in Table 6.<sup>2</sup></p> <p>(a) Flick supports the Authority collecting information on all OTC contracts. This could be described at a principles level rather than listing the names of different contracts (which are bound to change).</p> <p>(b) Flick suggests if the Authority is collecting</p>

<sup>2</sup> We note there is no direct question seeking feedback on the Authority's preliminary assessment in Table 6.

		<p>the entire OTC contract, the Authority should then be responsible for disclosing the standard set of data from these contracts. This eliminates the impact of counterparties interpreting the Code differently.</p> <p>Flick does not support providing the Authority with the entire contract if the obligation to disclose information remains with counterparties. The important components of a contract should be being collected by the HDO (ie what else is the Authority expecting to see and why?). It is unclear why the Authority rates this option as high as option (a) when it either doubles up on specific requirements or places more work on the Authority.</p> <p>(c) If the Authority regulates to collect this information it must remain confidential to the Authority, be actively monitored and anonymised reporting provided to market participants.</p> <p>(d) Flick agrees with disclosing the node rather than the grid zone area.</p> <p>(e) Flick agrees with providing MWs and MWhs. It's not clear why this is rated as a Medium Benefit - other than it is a minor technical change.</p>
	<p>h. Are there any other options to improve risk management information collected that we haven't identified?</p>	<p>It is our understanding that the Authority is unable to see the counterparties to a contract under the current Code. Flick supports the Authority having visibility of counterparties for each contract.</p>
	<p>i. If the Authority were to expand the types of risk management contracts collected: a. What types of contracts should be collected (ie, swaptions, PPA)?</p>	<p>See our response to f. above:</p> <p>(f) Flick supports the Authority collecting information on all OTC contracts.</p>

	<p>b. Should the Authority specify the type of contracts that are required to be disclosed (similar to status quo), or simply amend the Code to capture all existing and any future types of hedge products? Why?</p>	<p>This could be described at a principles level rather than listing the names of different contracts (which are bound to change).</p>
	<p>j. What risk management information on each type of contracts should be collected, in addition to what is already required under the current Code to support risk management strategies?</p>	<p>Flick supports the addition of no further information aside from grid node and MWs.</p>
<p>Q4</p>	<p><b>Improving risk management information published:</b></p> <p>k. What are your views on the proposed options? Which one do you think the Authority should adopt when considering what risk management information should be published?</p>	<p>Flick supports the option of “Publish a selected range of information – derived by industry needs”. Our view is consistent with the Authority’s preliminary assessment that this option has a High Benefit.</p> <p>We strongly support an Authority led workshop approach to deriving the information that both buy and sell side participants value being publicly available.</p> <p>If the industry successfully determines the information that is most useful then there is no need to think about the option “Publish all information collected about OTC contracts”.</p> <p>We do not support the option of “Publish no information”.</p>
	<p>l. Based on the risk management information suggested above (paragraph 4.8 (a-e)) and any additional suggestions, what risk management information do you think should be published on each type of contracts, and why (or why not)?</p>	<p>Flick submits this question should be answered via an industry working group discussion.</p>

Q5	<b>Improving the hedge disclosure system:</b> m. What improvements do you want to see in the current System, and why? Could you provide specific examples where possible?	Flick has no improvement suggestions for the hedge disclosure system interface at this time. We suggest work on improving the platform should be progressed with input from hedge market participants.
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