

9 August 2023

Electricity Authority  
Level 7, ASB Bank Tower  
2 Hunter Street  
P O Box 10041  
Wellington

## Manawa Energy submission– Improving Hedge Disclosure Obligations

Manawa Energy (**Manawa**) welcomes the opportunity to provide a submission to the Electricity Authority (the **Authority**) on its Improving Hedge Disclosure Obligations consultation paper (the **Consultation Paper**).

The Consultation Paper reviews the current hedge disclosure obligation (HDO) requirements and identifies three areas for improvement; risk management information collected, risk management information published, and the hedge disclosure system.

### Introducing Manawa Energy

Manawa is New Zealand’s largest independent<sup>1</sup> electricity generator and developer, currently responsible for around 5 percent of Aotearoa New Zealand’s existing generation capacity.

Manawa operates a portfolio of 44 power stations across 25 hydro-electric power schemes, supplying around 5% of New Zealand’s electricity needs. Manawa also supplies around 600 Commercial and Industrial customers with electricity.

### Manawa’s views

As the sector continues to undergo considerable change in the transition to 100% renewable electricity, market transparency is vital to ensure a well-functioning contract market endures. However, there can be diminishing returns to the value that market transparency provides and it is therefore essential that the benefit provided by further contract disclosure is balanced with the effort required to provide and interpret this information. Any value added by greater disclosure needs to be clearly demonstrated to avoid an inefficient compliance and processing burden.

The Consultation Paper proposes a number of options to improve transparency in the hedge market (improving the risk management information collected, the risk management information published, and the hedge disclosure system) and whilst Manawa broadly agrees with the problem assessment and the need for improvement, we are not convinced the current potential options suggested strike the right balance between benefit and cost.

### Improving the risk management information collected

To improve the risk management information collected the Authority identifies potential new obligations, and changes to existing obligations, that include collecting information on all OTC contracts, submission of entire contracts, collection of pre-negotiation bids and offers, a move to disclosing at nodes, and requiring disclosures in both MW and MWh.

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<sup>1</sup> By independent we mean without any integrated mass market retail business

### *Collect information on all OTC contracts excluding contracts traded on the ASX*

We are concerned that requiring the provision of information on all contracts creates a risk that the dominant players in the market might decide that contracting with smaller players is too onerous, and it would be simpler to contract only amongst themselves. We see that this outcome would counteract any positive improvement in market transparency. It is important there is sufficient confidence that this additional information would not create too great a compliance burden for those dominant players.

### *Require submission of entire contract*

We do not favour submitting entire contracts. The details of individual contracts sometimes include credit clauses and other elements that are highly confidential, the disclosure of which could make it more difficult for parties to do business with others.

### *Collect pre-negotiation bids and offers*

We are also concerned with the proposed obligation to provide pre-negotiation bids and offers in respect of the potential for excessive compliance burden. A lot of these details are in the form of phone calls, informal discussions, or long email chains. The manner of the negotiations is also often highly confidential. We would request that the Authority be very clear about the boundaries of the information that it is trying to capture, as it is simply not practical to provide all information on all pre-negotiation bids and offers. Manawa would welcome an opportunity to discuss workable boundaries further with the Authority.

### *Remove grid zone areas and require participants to disclose node and to disclose MW as well as MWh*

We are supportive of the Authority's suggestion to change to disclosing nodes, we see this would be an improvement.

We do not have a view with regards to requiring disclosures to be in both MW and MWh however, the meaning of MW information would need to be carefully pre-defined (i.e. would it be defined by trading period, by average overnight/day, etc)

## **Improving the risk management information published**

To improve the risk management information published, the Authority is investigating options varying from publishing no information at all to publishing all information collected about OTC contracts (anonymously). We are supportive of the Authority's assessment that suggests publishing a selected range of information based on industry needs will bring the most benefit to consumers and participants.

## **Improving the hedge disclosure system**

The Consultation Paper also proposes to update the design and operation of the HDO system, and it is Manawa's view that this is potentially going to be the option that provides the most value and should be the focus of this review. Creating a better presentation of the information that is already submitted could create greater transparency for the market, without increasing the cost of compliance. We see that the Authority needs to work closely with participants to understand what a good system would look like. Some of the improvements we envisage are very detailed (for example, the contract price field currently does not work for prices that are subject to a future indexing) and a more comprehensive survey or interview process with users of the system is likely required. Manawa would welcome this opportunity to work with the Authority further on this.

We also encourage the Authority to investigate whether an anonymised version of the clearing managers Hedge Settlement Agreement (HSA) database could be sufficient. We see that this could circumvent a lot of the compliance costs participants face and may be an efficient use of current data.

If you have any questions regarding the content of this submission, please contact Grace Burtin, Regulatory Manager