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Submissions
Electricity Authority
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Nova Energy Limited
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By email: wholesaleconsultation@ea.govt.nz

Re: Consultation paper: Improving Hedge Disclosure Obligations

Nova Energy (Nova) supports the initiative to improve access to information on hedge market transactions. The current market shows a wide range of settled prices, possibly because the price information cannot be appropriately adjusted to reflect different characteristics between contracts, but it may also be symptomatic of trades made in the absence of good market information.

It would be good to be able to automate downloads of the hedge market data and have sufficient detail to be able to use this to construct a timely forward curve.

Nova's specific responses to the Authority's questions are appended to this letter.

Yours sincerely



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Nova submission: Improving Hedge Disclosure Obligations

Q No.	Question	Response
Q1.	Identified issues	
	a. Do you agree with the identified issues? If not, why?	Yes. OTC risk management contracts have a key role in managing exposure to the volatility of spot prices in the electricity market. Because, by definition, they are bespoke contracts it is frequently difficult to compare prices using the details of the contracts currently published.
	b. Are there other issues with the HDO requirements that we have not identified? Can you please provide specific and quantifiable examples.	<p>The trade date may not always be the best determinant of when a contract price was agreed to. Tenders are generally submitted at a point in time as open for acceptance, and the actual trade date occurs a week or more later once the parties are satisfied with completion elements such as contractual details and counter-party risk. While this timing issue may be a minor consideration in most cases, it can be misleading at times when forward prices are particularly volatile.</p> <p>In addition to information listed in the Code clause 13.219(2), contract extension rights also have a value impact.</p>
	c. What types of risk management contracts are not being captured under the current HDO requirements as set out in the Code?	Contracts may be settled between parties as part of a swap arrangement, i.e. the electricity price may be set a premium or discount depending on the value given to the linked agreement. Such agreements can be valuable to both parties, but the electricity price on its own may be misleading to an uninformed third party.
	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?	Yes. The hedge disclosure website provides an additional source of information to other relevant references. The limited number of transactions and differences in volumes and values at each pricing interval are barely adequate to define the results as a 'price curve'.

Q No.	Question	Response
Q2	Problem definition	
	e. Do you agree with the Authority's proposed areas of improvement? If not, why?	Yes. All three elements are necessary to provide an overall improvement in the value of the hedge disclosure website to users.
	f. Are there other areas of improvement in the HDO requirements that we have not identified?	As part of the HDO System it would be useful to be able to automatically download the latest data into users own systems for analysis purposes. There are various filters that users will want to apply when analysing the data and automated systems will make that significantly easier.
Q3	Improving risk management information collected	
	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>'Collecting information on all OTC contracts' is likely to be excessive and likely to include comparatively small retail contracts with commercial customers that have separate contracts with their network supplier. A minimum transaction value should apply.</p> <p>'Submission of entire contract' raises issues particularly where there are non-standard clauses.</p> <p>'Collect pre-negotiation details' This would have minimal information value in comparison to the burden of complying with such a requirement. Of greater value would be to 'require' brokers that go to the market for bids (or offers) for hedges on set terms to submit the price, term and quantity details for all conforming bids (offers). This would provide market participants with greater insight as to the intrinsic value of a transaction and reduces the market impact of data points that are outliers.</p> <p>'Require disclosure of node' This would clearly reduce the odds of anonymity. Nova holds that confidentiality is an important principle, but given the small size of the NZ market it is not clear that this can be achieved without significantly limiting disclosure requirements. As such, Nova favours disclosure of the specific node. This would reduce compliance costs because it eliminates the process of normalising prices to the region.</p> <p>'Disclose MW as well as MWh' This simply common sense and eliminates unnecessary calculations required to back-solve for the MW size of each transaction.</p>

Q No.	Question	Response
		<p>It also adds value as a cross-check on the accuracy of the information submitted. The compliance cost would be minimal.</p>
	<p>h. Are there any other options to improve risk management information collected that we haven't identified?</p>	<p>The Authority should perhaps consider using its powers to occasionally audit the accuracy of contracts entered into the HD website. This could be targeted to reviewing price outliers to determine if there are elements in the contract that give a false impression of the market value of the agreement. An example could be where the party providing the fixed price believes there is significant counter-party risk and that is factored into the contract price.</p>
	<p>i. If the Authority were to expand the types of risk management contracts collected:</p>	<p>Adding alternative contracts to the HDO only really have value if the additional information is expected to add to confidence in the forward price curve.</p>
	<p>a. What types of contracts should be collected (ie, swaptions, PPA)?</p>	<p>For instance, the price paid in PPA's is subject to the participating parties understanding of the expected GWAP / TWAP of the generation source. As such the value is not directly comparable to a CfD for a fixed volume over the same period. Translating the PPA price to a CfD is not something that can be simply formularised and as such the PPA may only be comparable to a similar type of generation.</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>Similarly, swaptions are generally sufficiently unique and the pricing of such arrangements is complex. The level of detail that need to be understood in such arrangements mean they have minimal value to third parties.</p>
		<p>By specifying the types of contracts to be disclosed the Authority risks creating an incentive to incorporate features in a contract that meet the requirements for exclusion. That risk could be offset by reference to intent and careful wording of the Code.</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>The key elements from a forward curve perspective are date of offer acceptance, term, volume, location and price. Any other information is only relevant to the extent that it impacts on the above elements.</p>
		<p>Like PPA's, benchmarking the pricing of a FPVV contract to a fixed volume CfD is problematic in the absence of knowledge of the expected variable volume (VV) profile. There could be a requirement to convert the VV to a fixed volume equivalent, or alternatively, at least match the expected profile to the best match of a drop-down list of typical generation or demand patterns.</p>

Q No.	Question	Response
Q4	Improving risk management information published	
	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?	Nova believes the data to be published should be selective, and as such, relevant to establishing a forward price curve only. As such this should require an improvement on the status quo, rather than any radical shift in policy.
	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)?	FPVV contracts could include information on the expected profile in order that an estimate of the underlying TWAP can be established.
Q5	Improving the hedge disclosure system	
	m. What improvements do you want to see in the current System, and why? Could you provide specific examples where possible?	Users should be able to automatically download the full set of publicly available data from the hedge disclosure website and perform their own analysis of the data from there.