



08 February 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 with many of the recommendations in the consultation paper. In our response we outline the areas where we disagree or require further clarification. For any areas not mentioned, the Authority should assume that Contact supports its proposals.

As a general comment, examples of the disclosure requirements would have greatly helped our understanding of the proposed changes. We feel that there is a risk that we have misinterpreted what recommendations may entail for disclosure requirements. We understand the Authority intends to run workshops in the near future, and we suggest working through a number of examples of the proposed changes.

Pricing and volume disclosure by trading period

Although confusing, we gather that the Authority potentially expects granularity of prices and volumes for all contracts to be disclosed at a half-hourly level and/or added together based on varying pricing bands. In parts of the consultation document it mentions providing half hour data (i.e. Table 4), and in another it mentions providing volume data for each price to be paid relation to each trading period under the contract (if applicable). It is not clear whether the last statement allows for aggregation of volumes at the same price (if that same price applies across a number of trading periods) – or how 'if applicable' would be applied.

If participants are required to submit half-hour data, the Authority may be able to self-determine contract variables such the total volume and contract profile when it publishes the data. This would simplify any future reporting changes if the Authority determines that it wants to change its definition of peak and off-peak periods (or add other definitions).

If half-hourly data is required for FPSS contracts, we suspect it would be a significant change for many participants to generate this data given the market generally prices on 144 format pricing.

Where possible, we think it may be preferable to a standardised approach for all non-FPSS contracts and another for FPSS contracts, such that the disclosure process can be automated at the lowest cost.

Disclosure of PPA pricing

We do not support the disclosure of PPA contract pricing into the public domain. The complexity of these contracts make it difficult to make a like-for-like comparison and may bring more questions than answers. For example, a PPA contract based off a single generation asset may have different pricing because of minimum and maximum volumes, firming during periods of low generation or outage, and different pricing mechanisms that could include or exclude carbon and/or indexation. We recommend non-disclosure of PPA prices for these reasons.

Contracts with formulaic volumes

Contracts with formulaic volumes are becoming more commonplace in longer-term contracts. This makes the accurate disclosure of volumes associated with these types of contracts more difficult. We suggest the Authority provides detailed guidance on how it expects this information to be disclosed.

Contracts with indexed/formulaic pricing

Contracts with indexed and/or formulaic pricing are becoming more commonplace in longer-term contracts. This makes the accurate disclosure of pricing associated with these types of contracts more difficult. We suggest the Authority provides detailed guidance on how it expects this information to be disclosed.

Contract characteristics for PPAs

As baseload, peak and off-peak do not typically apply to PPAs, the contract characteristics for generation following or consumption following could be included in the contract profile to reduce the number of fields reported.

Option premium

The suggested approach of using the total premium will make the comparison of premiums more difficult for users of the disclosure data. For this reason, we suggest that option premiums are disclosed in dollars per megawatt hour (\$/MWh).

Hedge Settlement Agreements (HSA)

It may be useful for the Authority to capture information around whether trades are registered under the HSA mechanism. We note that this does not appear to be part of the suggested disclosure requirements. We would be comfortable with this information being published but recognise there may be varying opinions.

Disclosure of exercised over-the-counter (OTC) option contracts

A suggested area of improvement is the understanding for market participants around disclosure obligations when an OTC option is exercised. For example, when a swaption contract is agreed, it is initially disclosed as an option transaction. However, when the swaption is exercised it becomes a CFD. In this situation, what disclosure obligations does the option seller have (if any)?

Costs and time required for system changes

In section 4.45 the Authority assumes that the costs associated with these changes will be minimal. We believe that the initial system changes may involve moderate to high costs for Contact. We will look to automate these disclosures as much as possible which will involve

system development (potentially including API integration), testing and implementation costs.

Depending on the complexity, these changes may also require a decent lead time to ensure appropriate resources are available to complete any system development that is necessary.

Incorrectly quoted

In section 4.41 of the consultation paper, Contact is incorrectly quoted as not supporting the disclosure of contract volumes in MWh. We did not support the disclosure of a single MW figure due to the complexities of variable volume contracts.

HDO workshop

We believe it would have been useful for the Authority to have held the HDO workshops (noted in section 6) prior the release of this consultation. For this reason, the Authority should delay making any final decisions on HDO changes until the workshops have been completed, and at that point assess whether there is a need for a further consultation based on workshop feedback.

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

Yours sincerely,



Nigel East
Forward Markets Manager