

6 February 2024

Wholesale team  
Electricity Authority  
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By email: [wholesaleconsultation@ea.govt.nz](mailto:wholesaleconsultation@ea.govt.nz)

**Dear team**

**Re: Hedge Disclosure Obligations Preferred Options Paper**

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

Flick supports the Authority's proposal to collect and publish more information on risk management contracts. We agree that Authority needs 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 entering the market increases. The monitoring effort to assess if this market is competitive is also increasingly important, particularly as firming products such as shaped CFDs and Fixed Price Variable Volume CFDs become more commonly traded and increasingly required for independent retailers to manage shape risk.

The Authority's description of existing arrangements is fair.<sup>1</sup> However, Flick believes it is critical the Authority acknowledge that 'risk management' for the retail business of gentailers is the Fixed Price Variable Volume Internal Transfer Price (ITP) they pay their generation business. This ITP applies to 81% of the generation volumes of four incumbent gentailers.<sup>2</sup> Gentailers' generation businesses are selling the remaining 19% of their output on the spot or hedge markets. They dominate these markets and, as the Authority has said<sup>3</sup>, have the ability to exert market power some of the time.

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<sup>1</sup> Paragraphs 2.1 - 2.9, pages 6-8 of consultation paper

<sup>2</sup> EMI vertical integration data for the two years 1 December 2022 to 30 November 2023 shows an average of 19% of the four incumbent gentailers generation volumes being exposed to the physical wholesale market.

[https://www.emi.ea.govt.nz/Wholesale/Reports/GH0V1K?\\_rsdr=L364D&Grouping=T4Grp&\\_si=v13](https://www.emi.ea.govt.nz/Wholesale/Reports/GH0V1K?_rsdr=L364D&Grouping=T4Grp&_si=v13)

<sup>3</sup> Wholesale Market Competition Review report

As a result, improved disclosure of the details of hedge contracts is urgently required. We note MDAG recommends improved disclosure is in place by the end of 2024.

The Authority's 2021 Energy Transition Roadmap document identified that *"It will be important that there is as much visibility of future prices for electricity as there is in current prices, and that liquidity in products of all time durations enables all participants to trade with confidence"*.<sup>4</sup>

Flick supports the Authority's decision to proceed with its proposal to improve the hedge disclosure obligations, by collecting and publishing more information.<sup>5</sup> We also note the Authority *"proposes to improve hedge disclosure obligations for three key reasons: to improve transparency of the contracts market, OTC market competitiveness, and strengthen regulatory oversight"*.<sup>6</sup>

However, this is only the start of the work Flick considers the Authority should be undertaking with urgency.

Since publishing this consultation paper the Authority has announced a 'risk management review' and requested everyone provide additional information for this review. Flick strongly supports the Authority undertaking this review. But we are concerned that the information provision proposed in this consultation is less substantial than that being requested under the Authority's risk management review. We request that the Authority consider the level of detail that is required to effectively monitor and regulate the market and ensure that such data is collected continuously and efficiently.

In addition, as we said in August<sup>7</sup>, 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.

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.

No part of this submission is confidential.

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<sup>4</sup> Paragraph 3.46 [https://www.ea.govt.nz/documents/584/Energy\\_transition\\_roadmap\\_jJ6izLq.pdf](https://www.ea.govt.nz/documents/584/Energy_transition_roadmap_jJ6izLq.pdf)

<sup>5</sup> Paragraph 2.18 of the consultation paper

<sup>6</sup> Paragraph 2.22 of the consultation paper

<sup>7</sup> [https://www.ea.govt.nz/documents/3779/Flick\\_electric.pdf](https://www.ea.govt.nz/documents/3779/Flick_electric.pdf)

Submitter	Flick Electric
<p>Q1. Do you agree with the proposal to retain the existing categories of risk management contract (CfDs, fixed-price physical supply and options contracts), with the proposed changes to ensure these contract categories remain fit-for-purpose? If not, please explain why?</p>	<p>Flick supports the Authority's proposals.</p>
<p>Q2. Do you agree with the proposed disclosure approach regarding the novel contracts? If not, please explain why?</p>	<p>Flick supports this disclosure but notes that the very terms of a novel contract may make it obvious who the counterparties are.</p>
<p>Q3. Do you support the proposal to exclude ASX-traded contracts from the hedge disclosure obligations, if it means losing access to detailed data at the individual contract level for these contracts? If not, please explain why?</p>	<p>Flick queries whether this proposed change will enable anyone to make an accurate assessment of the margin OTC / bilateral contracts trade at above ASX.</p> <p>Under this proposed change, someone wishing to compare OTC / bilateral contracts trade with ASX settlement prices will now have to compare two data sources, and most importantly, the EMI website does not hold data on ASX settlement prices.</p>
<p>Q4. If you do not support excluding ASX-traded contracts from the hedge disclosure obligations, please describe what additional value this data holds compared with the aggregated insights available on the Authority's EMI website. If not, please explain why?</p>	<p>See answer to Q3</p>
<p>Q5. Do you agree with the proposed approach to the disclosure of contract details including price, quantity, contract characteristics, contract profile, fuel type, trading period and location? If not, please explain why and outline what you consider to be a more appropriate approach.</p>	<p>Flick supports the proposed approach to disclosure of contract details.</p>

<p>Q6. Are there any other datapoints you think should be disclosed for each contract?</p>	<p>As discussed in our cover letter, we are concerned that the information provision proposed in this consultation is less substantial than that being requested under the Authority’s risk management review. We request that the Authority consider the level of detail that is required to effectively monitor and regulate the market and ensure that such data is collected continuously and efficiently</p>
<p>Q7. Do you agree with the proposed voluntary approach to the disclosure of bids and offers? If not, please explain why and outline what you consider to be a more appropriate approach?</p>	<p>Flick supports the Authority’s proposed approach to collecting information about bids and offers.</p>
<p>Q8. Do you agree with publishing the proposed data-points in Table 8 for individual contracts on the hedge disclosure system? If not, please explain why and outline what you consider to be a more appropriate approach?</p>	<p>Flick supports publication of the proposed data-points in Table 8. We also support that the changes to disclosure requirements will apply only to new contracts signed after the Code amendment.</p>
<p>Q9. What other insights and analysis on the risk management information do you think would be helpful to publish on the hedge disclosure system or EMI?</p>	<p>New insights can be added over time.</p>
<p>Q10. Do you agree with the proposed approach to improving the hedge disclosure system? If not, please explain why and outline what you consider to be a more appropriate approach?</p>	<p>Any online tool enhancement that makes compliance easier is a good initiative.</p>
<p>Q11. Do you support the option of using API to disclose risk management information, even if doing so requires investment and upgrade in your systems?</p>	<p>Flick is prepared to assess the costs and benefits of using an API to disclose risk management information.</p>
<p>Q12. Do you agree with the objectives of the proposed amendment? If not, please explain why?</p>	<p>Flick agrees with the objectives of the proposed Code amendment.</p>

<p>Q13. Do you agree that the benefits of the proposed amendment outweigh its costs?</p>	<p>From a qualitative perspective, Flick believes the benefits of providing and publishing additional hedge market information exceeds the costs. A workably competitive hedge market is critical for independent retailers. The Authority's, and others, analysis of the data being published must assist in forming a view about the competitiveness of the hedge market.</p>
<p>Q14. Do you agree that the proposed amendment is preferable to the other options? If you disagree, please explain your preferred option in terms consistent with the Authority's main statutory objective in section 15 of the Electricity Industry Act 2010.</p>	<p>See our answer to Q6.</p>
<p>Q15. Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?</p>	<p>No comment.</p>
<p>There is no Q16 in the consultation paper</p>	
<p>Q17. Do you have any comments on the drafting of the proposed amendment?</p>	<p>Flick does not have the resources to review this technical drafting.</p>