

vía email: WholesaleConsultation@ea.govt.nz.

8 February 2024

## Improving Hedge Disclosure Obligations (HDO) – Preferred Options

Mercury welcomes the opportunity to provide feedback to the Electricity Authority (the Authority) on its consultation paper *Improving Hedge Disclosure Obligations – Preferred Options*, 12 December 2023 (Consultation Paper).

The Authority is seeking stakeholder views on preferred options for amending the current HDO requirements to improve the risk management information that is collected and published, as well as improve the hedge disclosure system.

Mercury supports the Authority's decision to update the HDO policy settings with the aim of ensuring that information about the contracts market made available promotes the long-term benefit of consumers. Mercury also supports in general the Authority's assessment of potential options for amending the HDO.

Mercury provides comments on the preferred options in response to the Authority's questions in the annex.

Mercury looks forward to engaging with the Authority and industry stakeholders on further developing, finalizing and implementing the Code amendments.

Yours sincerely,



Antony Srzich  
**Principal Advisor Regulatory Economics**

## Annex: Consultation Paper questions with Mercury's response

Authority questions	Mercury comments
<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? (page 21)</p>	<p>Yes, though given the nature of the Commercial and Industrial FPPS market (RFP driven by brokers) has the Authority considered excluding those contracts from disclosure altogether as price discovery for the C&amp;I segment is enabled through their purchasing process and the gaps in hedge disclosure seeking to be closed are related to OTC financial and PPA contracts between wholesale counterparties? Removing C&amp;I FPPS would simplify the obligations on disclosers significantly for little loss in price discovery/data (given the EA could periodically survey C&amp;I FPPS if an issue was perceived to arise as has been done before.</p>
<p>Q2. Do you agree with the proposed disclosure approach regarding the novel contracts? If not, please explain why? (page 21)</p>	<p>Yes, with the caveat that the “novel” process does not allow parties to escape deeper disclosure when the product is not novel. Clarity of criteria will be important.</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? (page 22)</p>	<p>Generally yes, but suggest the EA look at improving the EMI functionality to improve visibility for those who disagree.</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? (page 22)</p>	<p>N/A</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. (page 27)</p>	<p>Generally yes, with the comments:</p> <ul style="list-style-type: none"> <li>• We would like to see more detailed definitions on all disclosure criteria but in particular on what constitutes a Trade Date in the context of hedge disclosure if price discovery is the purpose.</li> <li>• Greater assistance for parties seeking clarity on disclosure requirements is likely to be necessary going forward.</li> <li>• For FPPS contracts, expected volume by trading period is likely to be an onerous undertaking</li> </ul> <p>With respect to FPPS contracts or CFD's that are for some days and not others, if the price calculation is to be automated based on information can it be assumed that there will be “day type” as an available category? Also, Mercury requests that inclusion of standardised price formats that can be uploaded simply.</p>



Authority questions	Mercury comments
	<p>Similarly, given the depth of trading period level data being collated what is the purpose of the category (k) - could this be automated?</p> <p>Regarding location and FPPS disclosures – how are multi node qualifying disclosures to be treated?</p> <p>Currently a large FPPS customer is split across a number of regions which already reduces the quality of the data, a nodal level disclosure will add significant administrative time and complexity and reduce the quality of data.</p>
<p>Q6. Are there any other datapoints you think should be disclosed for each contract? (page 27)</p>	<p>How is indexation to be treated?</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? (page 28)</p>	<p>Yes</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? (page 31)</p>	<p>Yes</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? (page 31)</p>	<p>Noting Fig. 1, we caution against comparing profile product disclosures against baseload ASX contracts as the majority of OTC contracts are for non standard profiles and time periods</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? (page 32)</p>	<p>Yes, noting our design comments above.</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? (page 32)</p>	<p>Too soon to say.</p>
<p>Q12. Do you agree with the objectives of the proposed amendment? If not, please explain why? (page 33)</p>	<p>No comment.</p>
<p>Q13. Do you agree that the benefits of the proposed amendment outweigh its costs? (page 33)</p>	<p>Yes.</p>



Authority questions	Mercury comments
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. (page 34)	Yes – noting comment above regarding excluding C&I FPPS.
Q15. Do you agree the Authority's proposed amendment complies with section 32(1) of the Act? (page 35)	No Comment.
[there is no Q16]	
Q17. Do you have any comments on the drafting of the proposed amendment? (page 54)	No Comment.

