

2 February 2024

Submissions
Electricity Authority
PO Box 10041
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Nova Energy Limited
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By email: wholesaleconsultation@ea.govt.nz

Re: Consultation paper: Improving Hedge Disclosure Obligations – Preferred options

Nova Energy (Nova) supports the approach being taken the Authority to improve the availability of pricing information to the wholesale electricity market.

There are just two elements where Nova believes the Authority is missing the mark:

- The zones for disclosure of contract information should be linked to the same GXPs used for FTR trading (plus the addition of SFD2201, which should be an FTR node), and
- The formula for calculating contract prices (clause 13.220) is not accurate, and the extent of the inaccuracy is likely to be significant.

Prices for baseload, peak, off-peak, or variable volume contracts are not comparable unless there are adjustments for quantities (specified or estimated) by time period and converted to a time-weighted average price (the equivalent of a base-load contract). Furthermore, average location factors differ significantly between peak demand periods and off-peak periods, as well as seasonally. These variables are in addition to the weakness inherent in using historical 12 month location factors as a proxy for future location factors. As such, applying simple average location factors to adjust contract prices for comparative purposes creates a lot of 'noise' in the results, i.e. significant uncertainty in whether the published prices at the reference nodes are a fair reflection of actual contract prices.

Given the objective is to reduce the spread of contracting prices to the benefit of consumers, the Authority should consider applying more accurate adjustments to the contract pricing data being received, even if this means that the details of the parameters being applied are not disclosed to the market.

It would be good to have access to a forward curve with a tight spread of market prices on a timely basis. The Consultation Paper is going in the right direction, but more work is required.

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
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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?	Yes
Q2	Do you agree with the proposed disclosure approach regarding the novel contracts? If not, please explain why?	Yes
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?	Yes, given the generic nature of the ASX futures product, there is little to be gained from having the transaction details.
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?	n.a.

Q No.	Question	Response
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>As per 4.51, 'price is the most important data point for understanding the market'. The reference price for most purposes is the time weighted average price for a constant volume over the term of the contract, as per ASX traded baseload futures contracts.</p> <p>For any contract that has a different volume profile to baseload however, price only has relevance in relation to equivalent volume profiles, unless the prices are volume weighted to reflect equivalent base-load prices.</p> <p>Fuel type only has relevance to the extent that it gives guidance on the likely volume profile on a variable volume contract. If prices are volume weighted to the equivalent baseload contract, then the fuel type information should not be necessary.</p>
Q6	Are there any other datapoints you think should be disclosed for each contract?	<p>Nova believes the grid zone areas for disclosure of contract information should be defined around the FTR nodes. This would add: RDF, INV, and KIK. SFD should also be separately identified, being a node that should be included in FTRs.</p> <p>Under the five existing nodes there is significant volatility and seasonal variability in location factors between many GXPs and the reference GXPs.</p> <p>Using the same nodes as FTRs would maintain consistency across alternative risk management products and enable more precise pricing of both hedges and FTRs. The FTR market prices would assist in providing a guide to hedge pricing.</p> <p>While the greater number of reference nodes would increase the likelihood of individual contacts being identified, the principle of linking hedge contracts and FTRs also serves as a discipline on parties seeking to increase the number of FTR nodes.</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>Yes, although Nova doesn't see a high likelihood of traders disclosing these. That is because such information has value to an individual trader. It is also an area where the Gentailers have a commercial advantage because they are in the market more frequently and therefore have more information available than parties that trade on an occasional basis.</p> <p>Instead of focussing on traders disclosing bids and offers, the Authority should focus on incentivising brokers to publish such data. Traders often seek feedback on bids and offers from brokers, and the amount of information disclosed will often depend on the nature of the commercial relationship between the parties.</p>

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		Brokers should require registration as Market Participants and as such could be encouraged to post bids and offers, even if a trade did not eventuate. Providing a simple template for submitting information would assist this.
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?	Yes, although the charts need flexibility in defining which contracts should be included. For example, a price curve at OTA could include OTA contracts only (OTC & ASX), or all contracts adjusted for location factor. A time weighted average price for a solar PV PPA, for instance, would have little relevance in such a chart.
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?	Add: the historical price trend for individual calendar quarters would be useful to help identify pricing outliers.
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?	Yes.
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?	Yes. Equally, enabling APIs to download the data would be valuable.
Q12	Do you agree with the objectives of the proposed amendment? If not, please explain why?	Yes

Q No.	Question	Response
Q13	Do you agree that the benefits of the proposed amendment outweigh its costs?	Yes. The final report presented by the MDAG also reinforces the need for good market information to ensure the wholesale electricity market operates efficiently.
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.	Yes
Q15	Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?	Yes
Q17	Do you have any comments on the drafting of the proposed amendment?	No