

10 October 2014

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Proposed variation to FTR allocation plan

Smartwin Energy Trading supports in principle the proposed changes to the Allocation Plan 2014.

The proposed changes appear to be a pragmatic approach to meeting the requirements of the FMCA with minimum impact and cost to the market.

However, the practical requirements of the proposal raise some concerns. The requirement (consistent with the FMCA) for eligible investors to provide certification of their eligibility may create a barrier to entry to the FTR market, which may be appropriate given the complexity of the product and the potential risks involved. However, it may also create an unnecessary practical barrier to new and existing participants if the certification process proves difficult.

The requirement to have a lawyer, accountant or financial adviser certify the participant's eligibility is the key practical issue. Due to the complexity and relative obscurity of FTRs, and energy products in general, it is not immediately obvious that it will be easy or straightforward to find suitably qualified persons able and willing to comment on eligibility.

While in theory certification could be provided by any suitably qualified professional, we are concerned that professionals will be wary of providing certification under the new FMCA regarding activities that they have little knowledge of themselves.

This has the potential to impose costs on participants, either through time spent searching for a certifying professional, providing detailed evidence of eligibility, or paying professional fees to enable certifying professionals to become comfortable with the subject matter.

Further costs to participants may be incurred in satisfying the requirement that the certifying professional is not an associated person to the FTR manager, Clearing manager Transpower New Zealand and the Electricity Authority, as participants may be required to approach multiple certifying professionals to find one that is not associated.

An obvious solution to both of these issues would be for the FTR manager to provide a list of certifying professionals that are not conflicted by any affiliation and are comfortable assessing investor eligibility for the FTR market.

We provide comments on the specific questions in the consultation paper in the table below

If you have any questions please contact Vince Smart at vincestradingcompany@gmail.com.

Yours sincerely

Vince Smart

Question Number	Topic	Response
1	Changes reflect FMCA requirements?	Yes, the proposed variation accurately reflects the requirements of the FMCA
2	Language clear and unambiguous?	Yes, the language used is clear and seems to be very closely based on the language used in the Act.
3	FTR self-certification appropriate and feasible	Yes, the form and time period for self-certification is feasible, although as per cover letter, the current requirements may add some cost or difficulty for some participants. This could be resolved by providing a list of willing and suitable non-associated certifying professionals.
4	Large and eligible categories sufficient?	Yes, it seems unlikely that any current or likely future participant will not be covered by the proposed two categories, even if one of the others may also be appropriate. Hence adding additional categories is probably unnecessary.