4 December 2017

FTR Manager

FTR Allocation Plan 2017 Consultation Paper

emhTrade is an active participant in the FTR market. We utilise this market to manage the risks associated with our retail position, as well as to provide liquidity into the ASX derivative markets and as a speculator.

We welcome the opportunity to provide feedback on the consultation paper however have kept our responses brief and in relation only to those aspects with which we are primarily concerned.

In regards to the short-list of options for consideration, we fail to see why any low-benefit initiative should be prioritised over a high-benefit initiative. For that reason we would like to see increased auction frequency considered by the FTR manager. Any increase (even if not the full curve every month) would bring considerable benefit to the wider market through creating more efficient portfolios for participants, less friction and cost of carry risk, and greater congruency and therefore liquidity with ASX products.

We are also deeply concerned with the choice to only include 3 additional hubs. The FTR manager's own estimates in regards to costs and benefits could reasonably be extrapolated to show that there was greater net benefit from adding more than the proposed 3 new hubs. The process of allowing current participants the opportunity to vote for outcomes based on their own costs and benefits, rather than those that will be incurred by the wider economy is fundamentally flawed and, we would go so far as to say, anti-competitive.

New entrants to the market, and the consumers that will benefit from their participation, have been denied the opportunity to see net-positive market improvements because of the voting power of the incumbent participants.

Furthermore, when analysing the benefits of adding new nodes we note significant benefits have not been considered. In particular, the economic benefit of increased liquidity in ASX futures that would arise through statistical arbitrage between the futures and various FTR products has been ignored.

There are hubs that, if added, would increase liquidity in futures by at least 30MW. We would be happy to discuss which hubs in particular in commercial confidence. Again, we are deeply concerned that the economy is being denied these benefits through a process that allows their addition to be vetoed by vote from parties that have a vested interest in denying the market increased liquidity (and the resultant lower forward curve).

Finally, we note that any cost benefit analysis that uses the costs of the most inefficient participant limits competition, innovation, and the benefits of these to the economy by denying those parties that are able to lower cost an opportunity to benefit from this ability. We question a process by which the costs of more active participation in an entirely voluntary market are used to to assess changes. If the costs outweigh the benefits for particular participants, if those participants are acting rationally, they will choose not to participate and therefore the cost will not be incurred.

The market, including all participants (existing, potential or otherwise), should strive for nothing short of excellence in regards to the effective transfer of risk such that the consumers of NZ will achieve long term benefit.

Yours Faithfully,

Stuart Innes.