

Financial Transmission Rights Manager
Energy Market Services
via email: ftmanager@ems.co.nz

4 December 2017

Consultation on FTR Allocation Plan 2017

Thank you for the opportunity to comment on the Consultation on the FTR Allocation Plan 2017, no part of our submission is confidential.

We support adding a hub at Whakamaru as soon as possible

As we stated in our March 2017 submission to the FTR Manager, Mercury is strongly in favour of adding a hub to the FTR market at Whakamaru as soon as possible, and wish to see this implemented ahead of winter 2018. As we have discussed in our previous submissions, our primary concern is that a Central North Island (CNI) FTR hub should be added to ensure orderly conduct and competitive outcomes in the wholesale market and for the protection of the long term interests of consumers. We believe the benefits of adding Whakamaru as an FTR hub are significant, well understood, and its inclusion has been supported by a diverse range of industry participants (including generators, retailers and consumers) confirming its implementation should be a priority (please refer to our August 2016 email to the Electricity Authority and letters of support).

A streamlined process for dealing with urgent requests for hub additions is needed

Mercury appreciates that this is the first time the Electricity Authority and the FTR Manager have used consultation on the overall FTR allocation plan as the mechanism for dealing with a request to add hubs. It is important that we learn from the experience and make changes to improve the efficiency of the process. As we emphasised in our submission on changes to the 2014 FTR Allocation Plan we would like to see a more streamlined and transparent process adopted for getting additional hubs approved when there is wide support for this to happen.

We remain concerned that the FTR Manager could receive nominations for hubs from individuals not intending to participate in FTR auctions which would cause inefficiencies in the process. We suggest that nominations be restricted to non-participants who are capable of meeting the criteria for participation. We do not think there is any need to change the current criteria for eligibility to participate in the FTR auctions. We consider that the FTR Manager requires more support for undertaking cost and benefit analysis of adding or removing hubs. These could be undertaken by an independent agency with expertise in cost and benefit analysis rather than requiring the FTR Manager to undertake this as the FTR Manager has no specific expertise in cost and benefit analysis and this undertaking can increase in complexity when extra hubs are added to the mix. We would also like to see the addition of hubs budgeted for so the Clearing Manager can undertake the necessary implementation work in a timely manner, as this is a matter for the Authority we intend to send it a copy of this submission.

Lack of capacity at auctions needs to be addressed



With respect to the question of whether hubs should be removed, while Mercury supports what is proposed in the consultation we believe that a more pressing issue is that insufficient capacity is being released at auctions. We would like to see this issue addressed as soon as possible. If more capacity was released this would assist to make the market more liquid which would provide greater scope for competition and drive further efficiency gains.

Our responses to the specific consultation questions are contained in the attached appendix. Note that we have endeavoured to renumber the questions so they are chronological and duplicate questions have been removed from our response.

Our answers to the specific consultation questions are provided in the attached appendix. If you have any queries please contact Pauline Martin, Derivatives Trader pauline.martin@mercury.co.nz 09 580 3638.

Yours sincerely

Pauline Martin
Derivative Trader

Consultation Question	Mercury Response
1. Do you agree with the long-list of options listed in Table 1 as sufficient for consideration for the FTR Allocation Plan 2017?	We believe there is a strong case for adding Whakamaru but less benefit from adding Redclyff and Kikiwa. If not adding all three is likely to delay adding Whakamaru then we will support adding all three. We request that Whakamaru be added as soon as possible.
2. Do you agree that this short-list of two options – criteria for removing hubs and adding hubs are sufficient?	Yes.
3. Do you agree with the FTR Allocation Plan taking effect immediately on the Authority's approval rather than a future date?	Yes, the approval process has already taken almost 18 months and there has been thorough discussion through the FTR User Group so there is no need for further delay as the proposed changes have been well signalled.
4. Do you agree that the current boundary between the level of detail in the FTR Allocation Plan and that in the FTR Policies is appropriate?	Yes.
5. Do you agree that WKM, KIK and RDF should be added? Do you believe a different combination should be added instead?	Yes, we are satisfied with the proposed hubs. No.
6. Do you agree that the variation to the FTR Allocation Plan described in the consultation is the appropriate means to introduce additional FTR hubs for Allocation Plan 2017?	This was the first time this process was used and it is important that we learn from the experience. We believe the Authority could just add hubs if requested by market participants where there is a demonstrated urgent need to do so and there is a strong level of support from participants as was the case in this instance with Whakamaru. The Allocation Plan process is not sufficiently transparent, cost estimates were not visible



	to market participants so could not be challenged. We believe the standard Authority consultation process is superior and everyone is used to it. We do not think having all market participants submit costs and benefits that other participants cannot view and challenge is helpful.
7. Do you support the extension of nodes from the lower rated electrical network (33kV, 66kV and 110kV) be included within the scope of the FTR Managers interconnection and capacity analysis as per section 4.10 of the Allocation Plan? If implemented, do you support the application of Schedule 14.3 of the Code to include those networks as within scope of the FTR information system?	Mercury supports the high level concept but we have concerns around whether it would work in practice from a technical perspective as a lower rated hub may reduce overall capacity. If overall capacity is reduced then the cost of the change might outweigh any benefits.
8. Do you agree that the FTR Manager should not recommend hubs to be removed from the FTR market, but rather consider hubs as suggested by participants as being no longer desirable as part of managing their perception of risk?	Yes. We believe participants are best placed to determine which hubs should be removed. This is important due to the fact there is at least a 2-3 year lag before the hub is actually removed.
9. Should the FTR Manager periodically request nominations for hubs to be removed that round? If not, what system should be used?	No, only active market participants should have a vote on removing existing hubs.
10. Should the FTR Manager review the short list of nominated hubs for removal from the market with market power implications in mind?	Yes and if there is any doubt the hub should be left in, for example if only one market participant wants the hub removed this is a strong indication of market power at play.
11. Do you agree that a voting approach should be adopted for removing existing FTR hubs from the market?	See response to question 9.
12. Do you agree with proposed variation 4 to the FTR Allocation Plan for removing hubs?	See response to question 9.
13. Do you agree that the removal of existing hubs process should be conducted at least once every two years?	No we think it should only be conducted when a majority of market participants indicate they want removal of a particular hub considered. This is not a priority issue.

