



meridian

4 December 2017

FTR Manager
Energy Market Services
Waikoukou
22 Boulcott Street
Wellington 6011

By email: ftmanager@ems.co.nz

Dear FTR Manager

Consultation on FTR Allocation Plan 2017

Thank you for the opportunity to provide comment on the FTR Allocation Plan 2017. The consultation questions, and Meridian's responses, are attached.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Jason Woolley', with a long, sweeping horizontal stroke extending to the right.

Jason Woolley
Regulatory Affairs Manager
jason.woolley@meridianenergy.co.nz

Question No.	Question	Meridian response
1	<p>Do you agree with the long-list of options listed in Error! Reference source not found. as sufficient for consideration for the FTR Allocation Plan 2017?</p> <p>If not, can you suggest other options that should be considered, and why?</p>	<p>Yes</p> <p>-</p>
2	<p>Do you agree with the long-list of options listed in Error! Reference source not found. as sufficient for consideration for the FTR Allocation Plan 2017?</p> <p>If not, can you suggest other options that should be considered, and why?</p>	<p>[This is the same question as above].</p>
3	<p>Do you agree that this short-list of two options – Criteria for removing hubs and adding hubs as per the FTR Managers Hub Consultation – are sufficient for consideration for the FTR Allocation Plan 2017?</p> <p>If not, can you suggest other options that should be considered, and what they should be a greater priority than?</p>	<p>Yes</p> <p>-</p>
4	<p>Do you agree with the FTR Allocation Plan 2017 taking effect immediately on the Authority's approval, rather than at a future date?</p> <p>If not, what approach would you recommend, and why?</p>	<p>Meridian suggests that the appropriate dates for the FTR Allocation Plan 2017 taking effect will depend on how many hubs are ultimately added. If only one additional hub is added Meridian agrees that a first auction with the new node can take place in May 2018, for June 2018 products. If two or more additional hubs are added, Meridian requests that additional time should be allowed for participants to prepare for the significant increase in complexity. Meridian, for example, will need to undertake significant systems development work. We suggest in this scenario that, assuming a February 2018 Authority decision, the first auction for new hubs could take place in September 2018, for October 2018 products. Any earlier would compromise our ability to participate in the FTR market.</p>
5	<p>Do you agree that the current boundary between the level of detail in the FTR Allocation Plan and that in FTR Polices is appropriate?</p>	<p>Yes</p>

	<p>If not, what parts currently in policies do you believe should be shifted to the FTR Allocation Plan, and/or what parts currently in the FTR Allocation Plan do you believe should be shifted to policies? Why?</p>	-
6	<p>Do you agree with the FTR Manager’s recommendation to add WKM, KIK and RDF as additional nodes through the Allocation Plan 2017 process?</p> <p>Do you believe a different combination of the nodes (none, 1, 2 or 3) as identified in the cost-benefit analysis (Error! Reference source not found.) should be added instead? If so, why?</p>	<p>Meridian considers that the FTR Manager’s analysis:</p> <ul style="list-style-type: none"> - understates the costs of adding additional nodes in terms of the additional market complexity this creates; and - overstates the benefits (in terms of reduced costs to serve for retailers) of adding additional FTR nodes. <p>Meridian notes in relation to the second of these points that it’s not clear who receives the majority of FTR returns and in particular whether they accrue to traditional market participants such as retailers or to speculators. This is more prevalent in new FTR nodes that are captured in existing paths like Whakamaru as the benefit derived by the FTR Manager does not account for the existing benefit calculation from previous FTR nodes such as Otahuhu which were allocated to the same customers.</p> <p>As such we anticipate that any value from adding additional FTR nodes is likely to be modest for market participants. Meridian nevertheless supports the addition of the Whakamaru FTR node given the additional capacity this creates for risk management into Auckland. In the case of Kikiwa and Redclyffe, we consider the assessed net benefits are likely to be negative or insufficiently substantial to justify the addition of these nodes. In relation to Redclyffe any potential value from adding this node is not on the 220kV side but rather on the low voltage 110kV side– currently out of scope. See Meridian’s response to question 8.</p>
7	<p>Do you agree that the variation to the FTR Allocation Plan described in section Error! Reference source not found. is the appropriate means to introduce additional FTR hubs for Allocation Plan 2017?</p> <p>If not, why not?</p>	<p>Yes with two changes:</p> <ul style="list-style-type: none"> - if multiple hubs are added then the ‘Offered in Auctions from’ dates in the table at 2.2 should be amended from ‘May 2018’ to ‘September 2018’; and - Meridian queries the number of FTR products as calculated in the proposed new 2.3 – we suggest this should be 112 if 3 additional FTR nodes are added, not 116 as proposed in the consultation paper.

<p>8</p> <p>Do you support the extension of nodes from the lower rated electrical network (33kV, 66kV and 110kV) to be included within the scope of the FTR Managers interconnection and capacity analysis as per section 4.10 of the Allocation Plan?</p> <p>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?</p> <p>If not, why not?</p>		<p>Yes to both questions. Limiting the list exclusively to 220 kV nodes will not enable risk management through to some large load centres such as Christchurch (and the Upper South Island) and the Hawke’s Bay. Christchurch is served largely by 66kV and the Hawke’s Bay is served almost exclusively by 110 kV nodes at FHL, RDF and TUI. The transformers between the 220kV and 110kV in the Hawke’s Bay and 220kV and 66kV at ISL are risks to supplying their respective regions as prices separate between them regularly. FTR nodes just to the 220 kV side of these regions are not as effective at managing prices as are nodes on the low voltage side of the transformers</p>
<p>9</p> <p>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?</p> <p>If not, on what basis should the FTR Manager recommend hubs to be removed?</p>		<p>Yes</p> <p>-</p>
<p>10</p> <p>Should the FTR Manager periodically request nominations for hubs to be removed in that round?</p> <p>If not, on what basis should the FTR Manager determine when existing hubs should be removed in a round?</p> <p>If not, why not?</p>		<p>Yes</p> <p>-</p>
<p>11</p> <p>Should the FTR Manager review the short list of nominated hubs for removal from the market with market power implications in mind? The implication is that the consolidated shortlist would then move forward for voting.</p> <p>If not, why not?</p>		<p>No</p> <p>Issues of market power are often difficult and controversial and should not be considered by the FTR Manager in isolation from the wider market. Further, the FTR Manager is unlikely to have the requisite expertise to make decisions about whether removal of a particular</p>

		<p>hub or hubs raises market power implications and, if so, what those market power implications might be. As the consultation paper recognises, there is “...no ready answer as how to identify whether allowing (or removing) particular hubs could create more costs from increasing incentives to exploit market power in the energy market, than they create benefits in allowing participants to hedge themselves against the exploitation of market power in the energy market.”</p>
12	<p>Do you agree that a voting approach should be adopted for removing existing FTR Hubs from the market?</p> <p>If not, what alternative approach do you think should be adopted, and why?</p>	<p>Yes</p> <p>-</p>
137	<p>Do you agree with proposed variation 4 to the FTR Allocation Plan for removing hubs?</p> <p>If not, what approach and variation to the FTR Allocation Plan for removing hubs should be adopted, and why?</p>	<p>Yes</p> <p>-</p>
8	<p>Do you agree that the removal of existing hubs process should be conducted ‘at least once every two years’?</p> <p>If not, what frequency do you recommend, and why?</p>	<p>Yes. At least. It should also happen every time hubs are added.</p> <p>-</p>