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TRUSTPOWER SUBMISSION: FTR ALLOCATION PLAN 2017 CONSULTATION

1 Introduction and overview

- 1.1.1 Trustpower Limited (**Trustpower**) welcomes the opportunity to provide a submission to the FTR Manager on its Financial Trading Rights (**FTR**) Allocation Plan 2017 consultation paper (**the Consultation Paper**).
- 1.1.2 We broadly support the proposed FTR Allocation Plan, but would like to take the opportunity to reiterate our concerns that the ever growing FTR market is creating significant complexity to the New Zealand electricity market.
- 1.1.3 We believe that further hubs should not be added as the market is becoming unreasonably large, with each auction selling 112 products per month. With 6 months of FTR's being auctioned each month, this results in 672 products requiring valuation and consideration.
- 1.1.4 Trustpower believes that as the market grows by adding more nodes, and different products there will be a heightened chance that FTRs will be auctioned off below "fair value" as liquidity gets spread across a growing product base. This will erode value which should ultimately be returned to the consumer.
- 1.1.5 We caution the FTR Manager to carefully consider the implications of an overly complex FTR market.
- 1.1.6 Our answers to the specific questions posed in the Consultation Paper are attached in Appendix A.
- 1.1.7 For any questions relating to the material in this submission, please contact me on 07 572 9888.

Regards,

Craig Schubauer
Wholesale Market Manager

FTR Allocation Plan 2017.docx

Appendix A: Responses to consultation questions

Question	Response
<p>1. Do you agree with the long-list of options listed in Table 1 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>1.1 Trustpower broadly supports the long list of options, however we caution against some of the proposals, such as “Changed Auction Frequency”. This would dramatically increase the work load on participants, increasing the risk of poor attendance, and potentially lowering the clearing price for FTR’s. We believe that in this case the benefit to the market would not be high, but rather low, as value will be eroded and parties will have an increased likelihood of purchasing products below fair value.</p> <p>1.2 We also are weary of additional types of products, such as varying firmness, and different durations, or Time of Use FTR’s. This will split the liquidity, and create additional complexity in a market with few participants. Whilst there maybe merit in having more participants with bespoke products, there needs to be a trade off with the complexity for other participants, and how the FTR Manager would assign different value to related FTR products.</p>
<p>2. Do you agree with the long-list of options listed in Table 1 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>2.1 Yes, subject to the points raised to question 1.</p>
<p>3. 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>3.1 Yes. We believe that it is necessary to have the ability to remove FTR hubs to complement the addition of hubs.</p>

<p>If not, can you suggest other options that should be considered, and what they should be a greater priority than?</p>	
<p>4. 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>4.1 This appears sensible.</p>
<p>5. Do you agree that the current boundary between the level of detail in the FTR Allocation Plan and that in FTR Policies is appropriate?</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>	<p>5.1 Yes.</p>
<p>6. Do you agree with the FTR Managers 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</p>	<p>6.1 Trustpower has always advocated that the addition of further hubs is increasing the complexity in the electricity market. By design, FTR's reduce the amount of Loss and Constraint Excess (LCE) which is returned to consumers through the lines companies, and spreads this excess revenue between FTR holders, and interconnected parties. We continue to question whether this is in the best interests of the consumer.</p>

<p>(Table 4 Hub Final Ranking) should be added instead? Is so, why?</p>	
<p>7. Do you agree that the variation to the FTR Allocation Plan described in section 4.3. is the appropriate means to introduce additional FTR hubs for Allocation Plan 2017?</p> <p>If not, why not?</p>	<p>7.1 Yes.</p>
<p>8. 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>8.1 No. We believe that addition of lower rated nodes will further erode the return of LCE to consumers. Trustpower believe that it is appropriate to consider FTR's only on either HVDC or 220kV portions of the grid.</p>
<p>9. 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>9.1 Yes. We believe that it is up to the market to ultimately decide whether hubs are added or removed. We do, however believe it is appropriate for the FTR manger to provide advice to the market if it believes there could be benefit of adding or removing a hub.</p>

<p>If not, on what basis should the FTR Manager recommend hubs to be removed?</p>	
<p>10. 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>10.1 Yes. The timelines for removal of hubs needs to mirror that for the addition of hubs. This will ensure that the market can swap less valuable hubs with more valuable hubs without the increase cost of a new license.</p>
<p>11. 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>11.1 Yes. It is appropriate that the FTR Manager should always consider market power implications when adding or removing hubs to the FTR market.</p>
<p>12. 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>12.1 Yes.</p>
<p>13. Do you agree with proposed variation 4 to the FTR Allocation Plan for removing hubs?</p>	<p>13.1 Yes.</p>

<p>If not, what approach and variation to the FTR Allocation Plan for removing hubs should be adopted, and why?</p>	
<p>14. 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>14.1 Yes. This aligns with the criteria for adding hubs.</p>