

Summary of questions raised by attendees at the disclosure of risk management contract information briefing held on 11 September 2007.

The Electricity Commission (Commission) thanks the people who attended the disclosure of risk management contract information briefing held on 11 September 2007. A number of interesting questions and suggestions were raised by attendees during the briefing. These questions and suggestions have been summarised below along with initial comments from the Commission. This information may be of value to parties intending to provide a submission on the disclosure of risk management contract information consultation paper.

1. Should the Proposal be amended so that the disclosure regime (as defined in the proposed Rules) is enforceable upon all risk management market counterparties, rather than just those that are Participants?

Fixed Price Variable Volume (FPVV) contracts: The Proposal does not require purchasers of FPVV contracts to verify the published contract information. In addition, the majority of parties that purchase FPVV contracts are not Participants. For these reasons, it was considered of little value to expand the definition of Participant to include purchasers of FPVV contracts.

Contract for Difference (CfD) contracts: The HMDSG advised that it is currently relatively uncommon for CfDs to be struck between non-Participants. Consequently, the Proposal provides non-Participants with the ability, but not the obligation, to verify a trade. This approach should still achieve the objectives of the proposal without introducing a compliance burden on non-Participants. If the volume of CfD trades between non-Participants increases the Rules, and possibly Regulations, could be reviewed and updated accordingly.

2. Two business days is insufficient time to load summary contract details into the information system.

The "loading" period should be increased if two business days is impractical. However, as the "loading" period increases the utility of disclosing shorter term deals (especially at a time of market volatility) decreases. These two factors will need to be balanced when deciding the most appropriate loading period.

3. EnergyHedge contracts should either be excluded from the disclosure regime, or made identifiable from other disclosed contracts.

The proposal to have a single information source for contracts traded above a certain threshold was designed to simplify the analysis process for risk management participants. However, it may be useful to distinguish contracts traded on EnergyHedge (standardised inter-generator contracts) from other OTC contracts.

4. Has the Commerce Commission been briefed on the development of the disclosure proposal?

The Electricity Commission is responsible for considering any competition issues arising from the Proposal. The Proposal outlines the view that the anonymous nature of the proposed disclosure regime minimises the risk of collusion. In addition, the proposed publication of contract information may make any anti-competitive behaviour more readily detectable.

- Has the Commission considered alternatives that remove the need to limit disclosure for contracts greater than two years?

The Commission considered reducing the number of Zones from 14 to 4. These revised zones could be Upper North Island, Lower North Island, Upper South Island and Lower South Island. The larger zones would provide Participant's with a greater level of anonymity and may remove the need to limit disclosure for contracts between two and ten years.

The following table (the "alternative option" that was discussed at the briefing) outlines the alternative disclosure thresholds. This approach would require all contracts that are less than ten years to be fully disclosed with the price normalised to a node within each zone. Although this approach simplifies the disclosure regime it does remove some of the location information that would be available if the original Proposal was implemented.

	Criteria	Term	Quantity	Price	Zone UN/UL/US/LS
Term and quantity	Greater than 10 years	Full disclosure	Full disclosure	No disclosure	No disclosure
Term, quantity and price information	Less than 10 years	Full disclosure	Full disclosure	Requirement to disclose with prices normalised to a node within the zone	Full disclosure

- The disclosure of FPVV contracts requires that a notional volume be disclosed but the consultation paper does not provide a methodology for calculation. Should a standard methodology be developed to calculate this notional volume?

A flexible methodology will allow sellers of FPVV contracts to take account of situations where customer load is expected to change or when the FPVV contract is provided to a new customer. There may be limited value in publishing a standardised methodology.

- Should the voltage associated with the FPVV contract be disclosed?

Providing more detail in relation to voltage should be balanced against the summarised nature of the other disclosed information.