

Information sheet- detailed

Disclosure of risk management contract information

This information sheet outlines in greater detail the key features of the disclosure of risk management contract information regime contained in section VI of part G of the Electricity Governance Rules 2003. For a brief overview of the regime please see the Information sheet-overview.

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Glossary¹

Board	The Electricity Commission Board.
CfD	Contracts for differences.
COMIT	Commodity Market Information Trading System. The internet based system that provides pricing and trading information for the New Zealand electricity market, also referred to as WITS.
Commission	Electricity Commission.
Fixed price physical supply contract (FPPS contract)	A risk management contract that provides for the physical supply of electricity at a fixed price.
Historic contract curve	Historic contract curves are the prices at which parties have agreed risk management contracts at a series of dates in the past.
Information System	The software system required by the Rules to transfer information between participants.
Non participant	A party who is not a participant .

¹ Terms in bold throughout this document are defined in the glossary.

Options	The right, but not the obligation, to buy or sell a risk management contract.
Participant	As defined in the Electricity Governance Regulations 2003: (a) means any of the following (within the meaning of section 2(1) of the Electricity Act 1992): (i) an electricity distributor: (ii) an electricity generator: (iii) an electricity retailer: (iv) a line owner (b) includes a person who uses electricity that is conveyed to the person directly from the grid: (c) includes a person who buys electricity from the clearing manager: (d) includes a service provider: (e) includes a metering equipment owner: (f) includes an ancillary service agent: (h) includes an approved test house: (i) does not include the Commission (even to the extent that the Commission is acting as a service provider after an appointment under regulation 35) : (j) does not include the Rulings Panel.
Risk management contract	Instrument used to change the risk position of the parties in relation to electricity prices.
Risk management market	The market for products used by parties to manage exposure to electricity spot price risks.
Rules	Electricity Governance Rules 2003.
WITS	Also referred to as COMIT, this is the electricity market wholesale information and trading platform used by electricity market participants to upload their bids and offers. WITS also delivers pricing, scheduling and other market data. The information within the current COMIT system is available to participants who trade in the electricity wholesale market, or by special arrangement with the Commission .

What is the disclosure of risk management contract information regime?

The disclosure of risk management contract information regime provides interested parties with a mechanism for comparing key **risk management contract** details. It is hoped that publishing key contract details will address the lack of information available for the formulation of **historic contract curves** and allow parties to assess the competitiveness of the **risk management market**. The deals are published

anonymously; that is, the identity of the parties involved in each contract is not revealed.

What can I use the information for?

The disclosed **risk management contract** information can be used by interested parties to create **historic contract curves**. The **historic contract curves** can be used for comparison with market offers and should allow **risk management market participants** to formulate their risk management strategies more efficiently.

Parties can search the system using the following criteria: location, date range and type of contract. They can use high level search criteria to omit/include EnergyHedge contracts, contracts with clauses (for example, adjustment clauses, Force Majeure clauses, suspension clauses) and contracts subject to long term disputes.² Parties can also view their own contracts using the “my contract” search criteria. Alternatively, parties can download all information for filtering or comparison with data in their own systems.

Parties can look at recent deals other parties have struck for comparison with their own deals, allowing parties to form an opinion on what is a “fair price” for the type of **risk management contract** they are looking to negotiate.

As stated above, the names of parties involved in each deal are kept anonymous. While the party uploading information to the system will disclose both its own name and the name of the counterparty, these details will not be displayed to parties who have no involvement in the contract.

Where can I find the disclosed contract information?

The **risk management contract** information disclosed by **participants** is published on the **Information System**.

The url is: www.electricitycontract.co.nz

How do I access the system/log on?

If you want to log on to the system, in order to upload or change contract information, you will need to contact **COMIT** admin at cadmin@m-co.co.nz or 0800 426 648 (0800 4 COMIT) to register for a user ID and password. You can view contract details and search the contract database without logging in, but you will not be able

² In this instance the term ‘dispute’ refers to a dispute concerning the disclosed information and not to any other dispute relating to the contract itself.

to verify contract information or upload new contract details unless you are a registered user who has logged on to the system.

Who submits contract details to the Information System?

Only **participants**, as defined in the Electricity Governance Rules 2003 (**Rules**), are required to submit contract details. If the seller of a **risk management contract** is a **participant**, the seller is required to submit contract details; if the buyer is a **participant** it must verify the submitted details are correct (if the buyer is not a **participant** verification is optional). If the buyer is a **participant**, and the seller is not, the buyer is required to submit information. If neither the seller nor the buyer is a **participant**, details of the **risk management contract** are not disclosed.

The table below outlines the disclosure requirements for **participants** and **non participants**.

	Participant seller	Non Participant seller
Participant buyer	Participant seller must submit information	Participant buyer must submit information
Non Participant buyer	Participant seller must submit information	No disclosure required

How long do I have to submit information?

A **participant** must submit disclosure data to the **Information System** no later than 5pm, 5 business days after the trade date for a **CfD** or **options** contract and 10 business days after the trade date for all other **risk management contracts**.

Do I have any obligations under the Rules?

Only **participants** are subject to the **Rules**. If you are a **non participant** you are not obliged to adhere to the rules surrounding the disclosure regime. You can choose to verify information **participants** submit and can view disclosed information, but you are not required to verify any information and will not be subject to the standard rule breach process should you chose not to verify.

What do I need to do if I receive an email from the Information System?

If you are a **participant** you are required to adhere to the rules concerning the disclosure regime contained in section VI of part G of the **Rules**. If you receive an email from the **Information System** asking you to verify information regarding a **CfD**

or an **options contract**, you must respond to the email within two business days by logging on to the system and either verifying or disputing the submitted contract information. Failure to comply will be considered a breach of the **Rules**.

If you are a **participant** and you do not verify (or dispute) the information regarding a **fixed price physical supply contract** within two business days, the **Information System** will indicate the information is “not disputed.”

If you are a **non participant** and you receive an email from the **Information System** asking you to verify information you have the right, but not the obligation to respond to the email. If you want to verify the submitted information you can click on the link to the **Information System** at the bottom of the email you receive and verify (or dispute) the disclosed information.

If I think the information regarding my risk management contract is incorrect what can I do?

If a party disagrees with the information a **participant** has submitted it should first contact the **participant** to query whether a mistake has been made. If the two parties are unable to reconcile, the verifying party can dispute the submitted information on the **Information System**, or can simply choose not to verify the contract. If the verifying party disputes the information, the **participant** will receive an email informing it the contract information has been disputed and the **participant** will be required under the **Rules** to make all reasonable endeavours to agree on the correct information. Once the **participant** has corrected the information, an email containing the corrected information and requesting verification will then be sent to the party who disputed the original information.

What happens if I disagree with the corrected information?

The **Information System** will show the contract information as “disputed” until such time as the dispute is resolved. If the dispute is not resolved within ten business days of the **participant** receiving notice the information was disputed, then the **Information System** will be updated to show the contract is subject to a long term dispute.

What happens if I verify a contract but later realise the information is incorrect?

If a contract’s status is showing as verified it cannot be amended using the edit function on the system. If you wish to amend a verified contract you will need to first contact the **participant** who submitted the information and ensure it agrees the information is incorrect. Once you have secured this agreement the **participant**

should contact the **WITS** administrator on 0800 426 648 (0800 4 COMIT) or cadmin@m-co.co.nz. The administrator will delete the incorrect contract. The **participant** should then resubmit the corrected contract information.

What about contracts traded on a trading platform?

The same rules apply regardless of whether a trade has been formed by bilateral negotiation between the parties or through a trading platform. However, the **Commission** has prepared guidance notes below covering futures trades on the Australian Securities Exchange (ASX) platform.

Guidance for disclosing futures trades on the Australian Securities Exchange (ASX)

In May 2009 the ASX announced it would list standardised NZ electricity futures products from Tuesday 14 July 2009. The **Commission** considers those contracts are “**contracts for differences**” under the definition contained in the **Rules**.

Futures trades on the ASX platform are permanently blind. The identity of the buyer is never revealed to the seller, and vice versa. Sydney Futures Exchange Clearing (SFE Clearing) stands between the trading parties and acts as a buyer to all sellers and a seller to all buyers.

A **participant** who is either a buyer or a seller of an ASX futures contract must disclose that contract. The **Commission** notes that, if both the seller and the buyer are **participants**, the **Information System** may receive information from two **participants** about what is essentially the same trade. While this double disclosure may not be ideal, the **Commission** does not consider it to be a substantial problem.

The disclosures should provide information as indicated in the following table:

Summary of requirement	Rule ³	Disclose the following
Nature of the contract	3.2.1	Contract for differences
Trade date	3.2.2	The date at which the futures contract was entered
Effective date	3.2.3	The date of the first trading period covered by the futures contract, which may be prior to the trade date. <i>Example:</i> A participant buys a December quarter futures contract on 10 November. The trade date is 10 November. The effective date is 1 October. The end date is 31 December.

³ The rules listed in this column are from section VI of part G of the Rules.

Summary of requirement	Rule ³	Disclose the following
End date	3.2.4	The date of the last trading period covered by the futures contract
Quantity	3.2.5	The MW quantity associated with the contract multiplied by the number of trading periods covered by the contract, divided by two
Applicability to all trading periods	3.2.6	The contract applies to all trading periods within the term of the contract
Adjustment clause	3.2.7	There is no adjustment clause
Force majeure	3.2.8	There is no force majeure clause
Suspension clause	3.2.9	There is no suspension clause
Other clauses	3.2.10	There are no other clauses providing for the pass-through of certain costs, levies or tax or some form of carbon-related cost
Special credit clause	3.3.1	There is no special credit clause
Volume flat or varying	3.3.2	Volume is flat
EnergyHedge	3.3.3	Contract is not traded on EnergyHedge
Standardised ISDA schedule	3.3.4	The contract does not use the standardised ISDA schedule
Contract price	3.4.1	The price at which the participant bought or sold the contract on the ASX platform
Grid Zone Area	3.4.2	For contracts based at Otahuhu use Grid Zone Area A. For contracts based at Benmore use Grid Zone Area E.
Each party's legal name	6.1.1	Give "ASX" as the name of the other party
Each party's e-mail address for notice	6.1.2	Use: ASX@electricitycommission.govt.nz

By giving "ASX" as the name of the other party, the **Information System** will recognise that the trade has been conducted on the ASX platform. Contracts will be listed on the **Information System** as "Unverified" until 2 working days have elapsed when the status will change to "Not disputed".

Status summary table

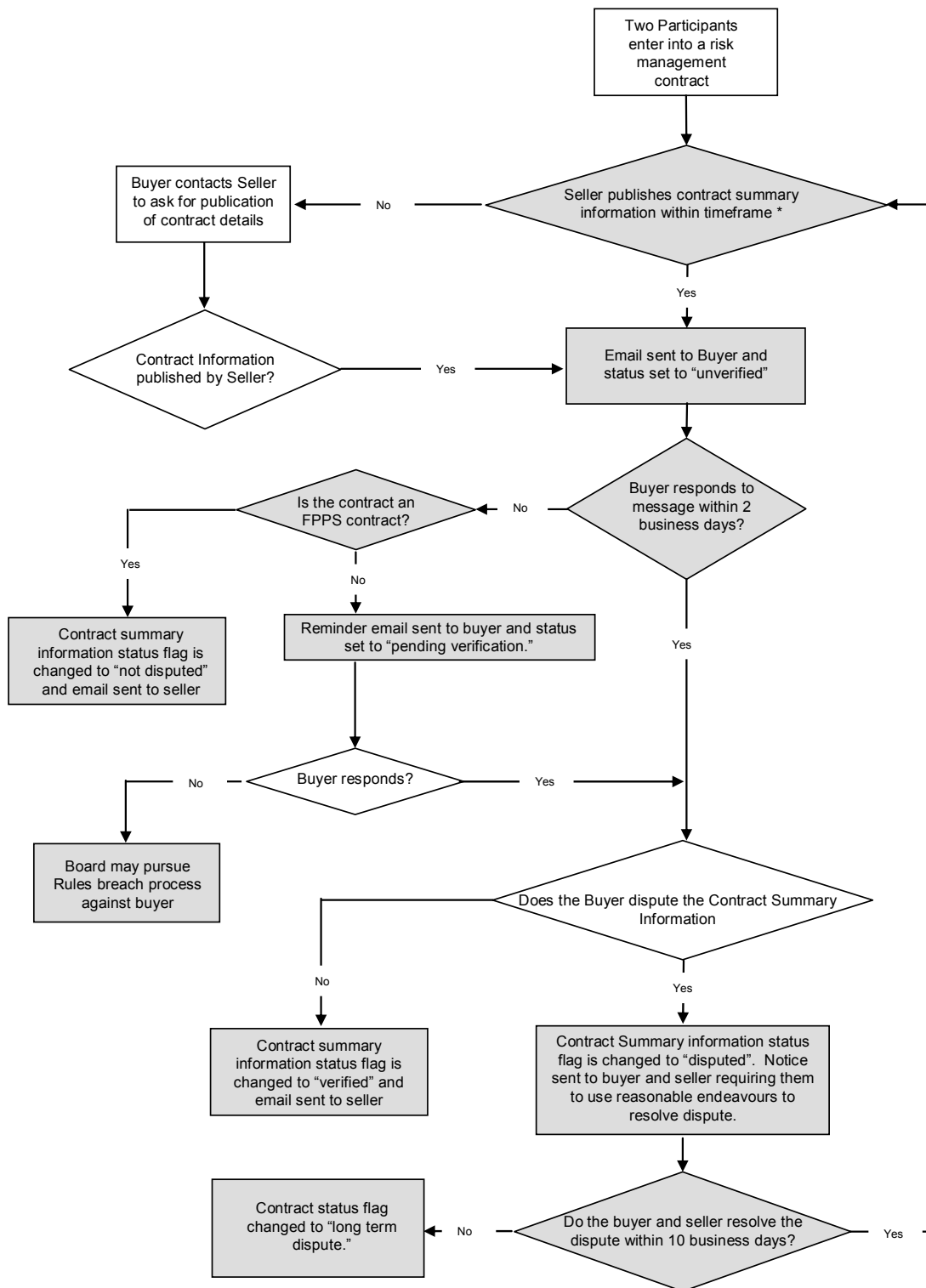
The table below summarises the different status types disclosed contract information can be given on the system. An explanation of when each status type is used is also given.

Status	Explanation
Unverified	Information had been disclosed and is awaiting verification. Email sent to the other party to the contract requesting verification.
Pending verification	Information has been disclosed about a risk management contract between two participants . It is awaiting verification and 2 business days have elapsed since the information was published. The Information System will send a reminder notice to the verifying party and the status will remain "Pending verification" until the verifying party responds.
Not disputed	Information has been disclosed but the other party to a CfD or an options contract is a non participant and does not submit a verification notice within 2 business days or the other party to a fixed price physical supply contract does not submit a verification notice within 2 business days.
Verified	The other party has submitted a verification notice to the Information System confirming the disclosed information is correct.
Disputed	The other party submits a verification notice stating that it believes the information which has been disclosed is incorrect.
Long term dispute	One party has disputed the correctness of the information disclosed and the parties have been unable to resolve the dispute; 10 business days have elapsed since the Information System sent an email to both parties giving notice of the dispute.


Contract verification flow diagram

The flow diagrams below outline the verification process to be followed.

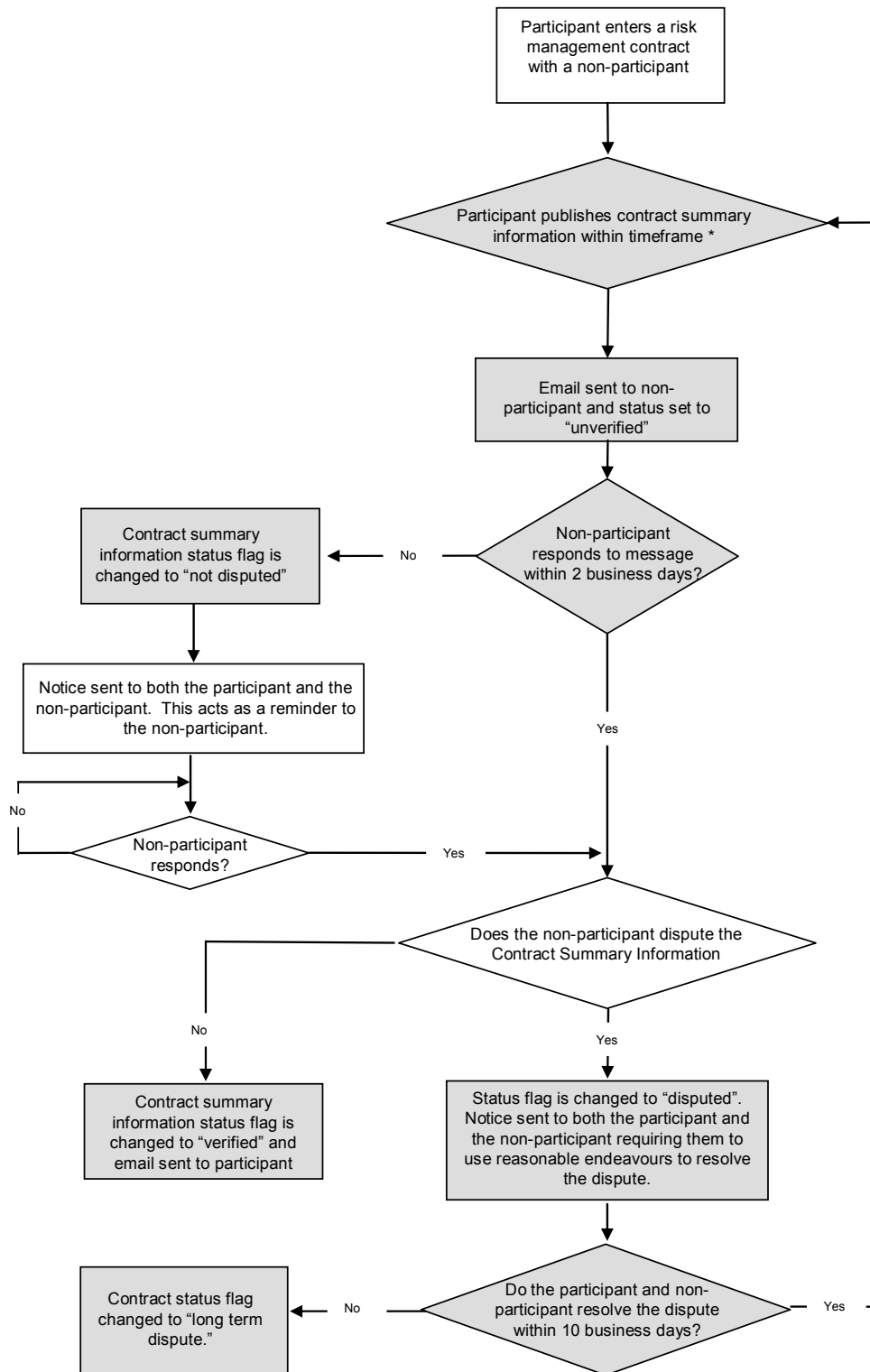
Trade between two participants



KEY

	Signifies items contained in the Rules. Failure to comply with the Rules will be considered a rule breach.
*	The timeframes for submission of contract details are as follows: <ul style="list-style-type: none"> • For FPPS contracts, 10 business days after the trade date. • For CfDs and option contracts, 5 business days after the trade date.

Trade between a participant and a non-participant



KEY

■	Signifies items contained in the Rules. Failure to comply with the Rules will be considered a rule breach.
*	The timeframes for submission of contract details are as follows: <ul style="list-style-type: none"> • For FPPS contracts, 10 business days after the trade date. • For CfDs and option contracts, 5 business days after the trade date.

What contract information do I need to disclose?

Different information is required to be submitted for each contract type. The table below illustrates what information is (✓) and is not (✗) required to be disclosed for **fixed-price physical supply contracts** (FPPS contracts), **options** and contracts-for-differences (**CfD**) contracts respectively.

Submitted information	FPPS contracts	Options contracts	CfD contracts
Party's legal name*	✓	✓	✓**
Party's email address*	✓	✓	✓**
Trade date	✓	✓	✓
Effective date	✓	✓	✓
End date	✓	✓	✓
Quantity	✓	✓	✓
Applies to all trading periods in term?	✓	✗	✓
Adjustment clause	✓	✗	✓
Force majeure clause	✓	✗	✓
Suspension clause	✓	✗	✓
Other clauses***	✓	✗	✓
Traded on EnergyHedge	✗	✗	✓
ISDA schedule used	✗	✗	✓
Special credit clause	✗	✗	✓
Flat or Variable volume	✗	✗	✓
Grid Zone Area****	✓	✗	✓
Contract price ****	✓	✗	✓

* In order to preserve anonymity party name and email address will NOT be published. Please note the term party is defined in the **Rules** as either the buyer or seller under a **risk management contract** or both the buyer and seller under a **risk management contract**, as the case may be.

** Note that for futures contracts traded on the ASX platform, participants should give the name of the other party as "ASX" and the e-mail address of the other party as "ASX@electricitycommission.govt.nz".

*** Other clauses include, for example, pass through of certain costs, levies or tax or some form of carbon-related cost.

**** Only for contracts with terms of less than ten years

Are there any contracts which are exempt from disclosure?

For contracts with a term of greater than ten years, full disclosure of all details is not required. The table below summarises information which must be disclosed for contracts of different terms.

Criteria	Term	Quantity	Price	Grid Zone Area (1-5)
Greater than or equal to ten years	Full disclosure	Full disclosure	No disclosure	No disclosure
Less than 10 years	Full disclosure	Full disclosure	Full disclosure with prices normalised to a node within the grid zone area	Full disclosure

In addition, a volume threshold exists for some contracts. If the expected volume of an **FPPS** contract (in its entirety across the contract's term) is less than 1MW, information regarding the contract does not need to be disclosed. For **CfDs** the volume threshold is 0.25MW (the threshold for derivatives contracts is lower in order to capture contracts traded on EnergyHedge).

The **Rules** are not applied retrospectively to contracts transacted prior to section VI of part G of the **Rules** coming into effect. Thus deals struck before 2 February 2009 (the go live date) are also exempt from disclosure.

What is a Grid Zone Area?

The purpose of the grid zone area is to protect parties' anonymity. There are currently five grid zone areas, three in the North Island and two in the South Island. Within each grid zone area there is a nominated node to which contracts are normalised.

The table below outlines the different aggregations of locations into Grid Zone areas and displays the normalisation node for each Grid Zone area.

Grid Zone area	Normalisation node
Zone A- Upper North Island	Otahuhu OTA2201
Zone B- Central North Island	Whakamaru WKM2201
Zone C- Lower North Island	Haywards Hay2201
Zone D- Upper South Island	Islington ISL2201
Zone E- Lower South Island	Benmore BEN2201

What is a location factor?

The **Commission Board (Board)** will publish annually on the **Information System** location factors for each nominated node. The location factor is the historic price ratio between the specific node and the relevant normalisation node for that area for the previous 12 months. This information will be published annually on both the **Commission’s** website and the **Information System** and will allow **participants** to make the necessary adjustment to their contract price calculation. The location factor spreadsheet can be found at: <http://www.electricitycontract.co.nz/page/downloads>.

Calculating the contract price

The contract price only needs to be disclosed for **fixed price physical supply contracts (FPPS)** and **CfD** contracts with terms of less than ten years.

Some contract prices are specified at a point of connection on the grid, while others are specified at a point “downstream” from the grid (e.g. at the electricity users premises). A **CfD** is normally referenced to a price assessed at a point of connection on the grid, while the prices associated with a **FPPS contract** are normally referenced to the electricity user’s premises (i.e. the prices are applied to volumes metered at the electricity user’s premises). In order to compare prices between contracts with these different reference points, a loss adjustment factor (LAF) is used in the calculation of the contract price to be disclosed. For prices referenced at a point of connection on the grid, a LAF of 1 must be used. For prices referenced at a point downstream of the grid, a LAF of 0.937 must be applied.

Contract prices must be disclosed as time-weighted averages. If a contract contains an adjustment clause, only the starting price needs to be disclosed.

The contract price is calculated using the following formula:

$$CP = \left\{ \frac{\sum_{i=1}^n P_i \times TP_i}{\sum_{i=1}^n TP_i} \right\} / LF \times LAF$$

Where:

CP means the **contract price**

n means the number of different prices within the contract

P_i means the price specified in the contract

TP_i means the number of **trading periods** during which each price in the contract applies

LF means the **location factor**, for the relevant **node** at which the price is set in the contract, as **published** by the **Board** in accordance with rule 5

LAF means a loss adjustment factor which is:

- (a) if the **contract price** for the contract is referenced to a **point of connection** on the **grid**, 1; or
- (b) for all other contracts, 0.937 (being the difference between 1 and the loss factor of 0.063).

The following straightforward examples illustrate how the contract price can be calculated for different scenarios:

1. A profiled **CfD** contract which is \$60/MW at peak for 32 trading periods and \$30/MW off peak for 16 trading periods. The load during peak periods is 4MW and during off peak periods is 2MW. The contract was struck at ALB0331 in Northland (Grid Zone area A) which has a mean location factor of 1.014. The normalisation node for this contract is Otahuhu, OTA2201. The LAF is 1. The contract price for this contract would be calculated as follows:

$$CP = \{(32 \text{ trading periods at } \$60 + 16 \text{ trading periods at } \$30) / 48 \text{ trading periods}\} / \text{a location factor of } 1.014 * \text{a LAF of } 1$$

$$CP = \$49.31$$

Note that the quantities (4MW during peak and 2MW during off peak) are not used in the calculations. The contract price is not quantity weighted.

2. An **FPPS** contract which is \$72/MW at peak for 32 trading periods and \$36/MW off peak for 16 trading periods. The contract was struck at WRK0331 in Edgecumbe (Grid Zone area B) which has a mean location factor of 0.998. The normalisation node for this contract is Whakamaru, WKM2201. The contract price for this contract would be calculated as follows:

$$CP = \{(32 \text{ trading periods at } \$72 + 16 \text{ trading periods at } \$36) / 48 \text{ trading periods}\} / \text{a location factor of } 0.998 * \text{ a LAF of } 0.937 \text{ for a physical contract}$$
$$CP = \$64.16$$

3. An **FPPS** contract which is \$56/MW at peak for 32 trading periods only. The contract was struck at ROX1101 in Southland (Grid Zone area E) which has a mean location factor of 1.017. The contract was struck at a point of connection on the grid, thus the LAF is 1. The normalisation node for this contract is Benmore, BEN2201. The contract price for this contract would be calculated as follows:

$$CP = \{(32 \text{ trading periods at } \$56) / 32 \text{ trading periods}\} / \text{a location factor of } 1.017 * \text{ a LAF of } 1$$
$$CP = \$55.06$$

More complicated examples of contract price calculations

The examples given above are for relatively simplistic contract scenarios, some **risk management contracts** are considerably more complex. For instance, contracts can involve multiple locations across multiple time periods.

If parties enter into a **CfD** or **fixed-price physical supply contract** that includes more than one contract price schedule a **participant** can submit information using one of the following methods:

1. It can combine the information relating to all contract price schedules within each grid zone area and submit the combined information as if there were one contract for each grid zone area; or

2. It can combine the information relating to all contract price schedules at each node and submit the combined information as if there were one contract for each node; or
3. If the party does not wish to combine the information it can submit information for each contract price schedule individually, as though each contract price schedule was a separate contract.

The following link will take you to a more complicated contract price calculation:

<http://www.electricitycommission.govt.nz/pdfs/opdev/wholesale/rskmgmnt/FPVVexample.xls>

The **Commission** recognises that the calculation of a contract price can be quite complex, especially when leap years and daylight saving time changes could affect the calculation. For this reason the **Commission** would like to stress the calculation of contract price will be on a reasonable endeavours basis.

If you require further details on the disclosure of risk management contract information regime please contact the **Commission** on 460 8860 or via info@electricitycommission.govt.nz.

Useful links

www.electricitycontract.co.nz

www.electricitycommission.govt.nz

<http://www.electricitycommission.govt.nz/opdev/wholesale/rskmgmnt/index.html#info sheet>