

Information sheet-overview

Disclosure of risk management contract information

This information sheet outlines 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, and how interested parties can make use of the system. The Commission has also produced a more detailed information sheet which provides additional information on the finer points of the disclosure of risk management contract information regime.

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Glossary¹

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.

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

Non participant	A party who is not a participant .
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 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.

How does the disclosure regime affect me?

If you are a **participant** (see earlier definition in the glossary above) who buys and sells **risk management contracts** you must adhere to the Electricity Governance Rules (**Rules**) pertaining to **risk management contract** information disclosure.

If you are a **non participant**, your involvement in the regime is optional. The **Commission** is encouraging **non participants** to access the system and view contract information pertaining to both contracts they are involved in and other relevant contracts. The **Commission** hopes **non participants** will use contract information disclosed on the **Information System** to increase their knowledge of the **risk management market**, thereby aiding any future **risk management contract** negotiations they may undertake.

Who submits contract details to the Information System?

Only **participants**, as defined in the **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** cannot be disclosed.

The table below illustrates each party's obligations with respect to disclosure of contract information.

	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

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. Clicking on the link at the bottom of the email will take you to the relevant contract details on the **Information System**; you can then verify (or dispute) the 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.”

A **non participant** can, if it chooses to, verify the disclosure information a **participant** has submitted to the **Information System**. The **non participant** will receive an email informing them a **participant** has submitted information on a contract it is party to. Should the **non participant** wish to verify the contract it can click on the link at the bottom of the email which will take it to the relevant contract on the **Information System**. Please note the contract price disclosed will most likely differ from the contract price contained in the original contract. This is because the original contract price has been adjusted to allow comparison with other contract prices (see the detailed information sheet for further information on how the contract price is calculated).

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 to not 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, 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

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

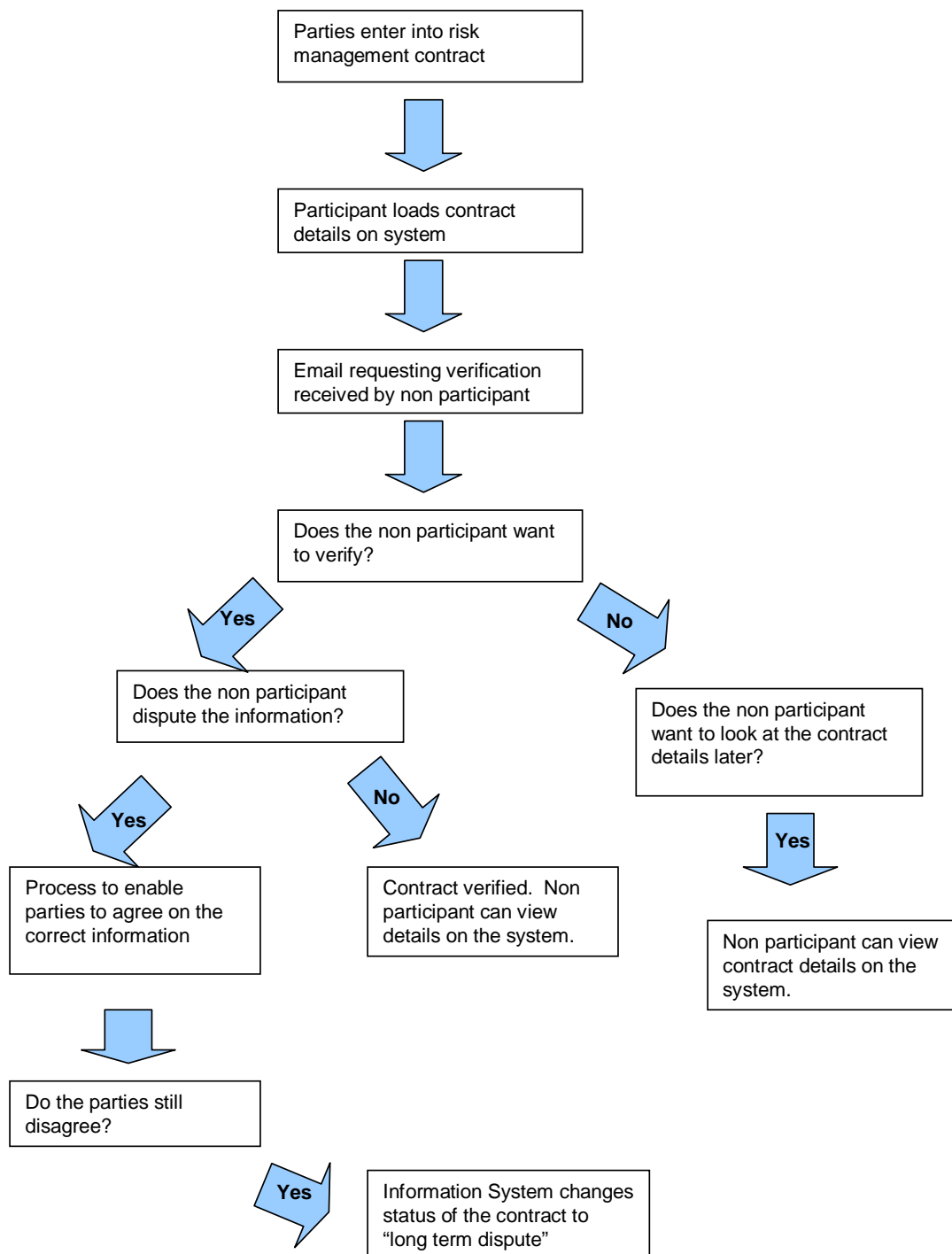
Summary of requirement	Rule ³	Disclose the following
Effective date	3.2.3	The date of the first trading period covered by the futures contract, which may be prior to the trade date. <i>Example:</i> A participant buys a December quarter futures contract on 10 November. The trade date is 10 November. The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

Contract verification flow diagram

The flow diagram below outlines a simple verification process for **non participants**. In this scenario only one of the parties to the contract is a **participant**. The **participant** is responsible under the **Rules** for submitting information to the disclosure regime. The other party to the contract (the **non participant**) is not required to verify any contract information, but can do so if it chooses to. The flow diagram for the scenario where both parties are **participants** can be found in the detailed information sheet.

Verification process for a contract between a non participant and a participant



What contract information can I view?

Different information is displayed for each contract type. The table below illustrates what information is (✓) and is not (✗) displayed 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 ****	✓	✗	✓

* If you are party to a contract you will be able to see the counterparty's name and email address. If you are not party to a contract you will not be able to see who the parties to the contract are, or any of their contact details.

** 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

More detail on risk management types

What is a CfD?

A **CfD** is an obligation to pay or receive money depending on the difference between the actual price (spot market price) and the fixed price (or strike price). A **CfD** contract is designed to minimise both parties exposure to the spot market by fixing a notional volume and a fixed price. If the spot market price exceeds the fixed price the **CfD** seller pays the **CfD** buyer the difference in price. If the spot market price is less than the fixed price the **CfD** buyer pays the **CfD** seller the difference in price.

What are FPPS contracts?

Fixed price physical supply contracts are contracts that provide for the physical supply of electricity at a fixed price. Parties to the contract agree on the contract's price (that is they fix it), while the volume of the contract can be either fixed at the time the contract is negotiated, or it can vary.

What is an option contract?

An **option** contract is the right, but not the obligation, to buy or sell a **risk management contract**. The traded volumes of various option type contracts are typically low. **Options** contracts present an added complexity when considering disclosure because of the additional components that are included, such as the premium and the array of types of options that could be contained in a single deal.

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 **Commission** will publish annually on the **Information System** location factors for each nominated node.

The table below outlines the different Grid Zone areas and 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

There are a number of more complicated ways that deals can be combined under the same contract. For example, it is fairly common for a party to negotiate **fixed price physical supply contracts** across a number of different sites or locations. The disclosure regime allows for these deals to be combined into one contract to minimise the number of contracts a party has to disclose. An explanation of how contract details can be combined is contained in the detailed information sheet.

If you require further detail on the disclosure of risk management contract information regime please see the detailed information sheet, or contact the **Commission** on 460 8860 or info@electricitycommission.govt.nz.

Useful links

www.electricitycontract.co.nz

www.electricitycommission.govt.nz

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