

29 September 2020

Electricity Authority
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Submission on the Revocation of Schedule 14.3 – FTR LCE calculation

1. This is Vector Limited's (Vector) submission on the Electricity Authority's (the Authority) consultation paper, *Removing requirement for FTR manager to calculate the amount of LCE to be applied to FTRs*, dated 1 September 2020.
2. While Vector supports the Authority's objective of reducing the cost and complexity of the FTR market we wish to note the following concerns.
3. We note that the Authority has not considered charging the cost of operating the FTR market to the participants in that market. This is inconsistent with other derivative or generally traded markets such as the ASX for electricity derivatives and other exchanges more generally. While the Authority may consider that the benefits may accrue generally across the market and consumers, and so no specific charges are required for FTR traders, the application of this logic would fail if extended more generally in the economy.
4. The Authority's analysis indicates that its preferred option has the highest benefits (due to reduced costs) and with the current approach to cost recovery this is indirectly of benefit to consumers and wholesale market participants.
5. As not all FTR participants are wholesale market participants (sellers or buyers of physical electricity) the removal of revenue adequacy risk to FTR participants does not accrue necessarily to consumers (directly or indirectly) while the cost of any reduced LCE payments will accrue directly or indirectly to consumers. The Authority does not appear to have considered this.
6. The Authority has assumed away the potential wealth transfer from transmission customers to FTR participants. By the Authority's own (limited and simple) assessment this amounted to a transfer of \$1.3m in a 20-month period, where the revenue adequacy risk materialised in one month (November 2018).
7. Revenue adequacy risk is always likely to happen in discreet periods due to the nature of the FTR product. Taking a simple approach similar to the Authority's, the \$1.3m is an annual equivalent of \$0.8m which is larger than the assumed NPV of the FTR changes (and the NPV would be multiples of the assumed benefit). Absent more substantive analysis this suggests the wealth transfer from transmission customers significantly exceeds the benefits of the proposal and does not support the Authority's statement that it does not materially affect the cost benefit analysis and therefore does not support the Authority's preferred outcome.
8. No part of this submission is confidential, and we are happy for the Authority to publish it.



9. Please contact me at Neil.Williams@vector.co.nz or 09 978 7633 if you have any questions or require further information.

Yours sincerely
For and on behalf of Vector Limited

Neil Williams
GM Market Regulation