

Levy consultation: Commercial Market-Making Scheme

Consultation paper

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Foreword

The Electricity Authority is the kaitiaki of electricity for New Zealand. We oversee the operation of the electricity system and markets, developing, setting and enforcing the rules the market must follow and holding industry to account by actively monitoring the markets' behaviour and performance.

This year we are seeing wholesale prices higher than both a normal and a stressed year. During times of volatility, it is more important than ever that market participants are well-hedged and have quality risk management tools to rely on.

The electricity futures market plays an important role in helping wholesale market participants manage their exposure to volatile spot market prices. One alternative to a well-functioning hedge market that allows for volatility of spot prices to be managed, would be for market participants to operate both in the purchaser and generator sides of the wholesale market. The Authority does not consider restricting participants to a specific business model to be in the best long-term interest of consumers.

We are looking to enhance the electricity futures market by introducing commercial market making providers, in addition to the existing four regulated market makers, who will offer to buy and sell electricity futures contracts daily in the New Zealand electricity futures market.

We consider the addition of commercial market-making service providers will help strengthen and support the operation of the hedge market, enhancing efficiency and improving trust and confidence in forward prices of electricity in the wholesale market. The commercial scheme will also allow participants to give robust feedback on their desired service-levels – helping the Authority to determine a level of market making services that is for the long-term benefit of consumers and strikes the appropriate balance between the costs and benefits of the services. The transition to a fully commercial scheme will be supported by the existing mandatory market making scheme. The Authority may choose to continue the mandatory scheme into the future.

Consumers benefit from market-making activity as it allows retailers to offer consumers deals on their electricity, helping to protect them from volatile spot prices. It also allows new retailers to manage their price risk, reducing barriers to entry and helping to increase competition in the retail market. Market-makers in the future should be incentivised to provide services, even during times of stress such as dry years, leading to a more robust future price curve, and greater opportunity for participants to access risk management products.

Currently the price of market-making is hidden, and the establishment of the commercial scheme will make the cost of market-making explicit and in time more efficient. The cost of the scheme will be recovered from retailers and generators, including existing market-makers, in proportion to their market share. This will mean an increase to the Electricity Authority Levy.

The Authority acknowledges that it is consulting on an increase to the levy during a volatile time, however, it is important to note that any changes will not come into effect until early-mid 2022. The first iteration of the commercial scheme is set to commence in 2022.

At this stage the Authority is seeking feedback on the preferred level of service from the commercial scheme and the impact this has on the levy on industry participants. Based on the stakeholder feedback received, the Authority will then make an informed decision about the design and procurement of the commercial scheme. The Authority encourages you to make a submission and contact us if you would like to discuss this proposal further.

James Stevenson-Wallace
Chief Executive

Executive summary

The exchange traded New Zealand electricity futures market performs two key functions: electricity market participants use it directly and indirectly to manage their spot price risk, and participants and other interested parties use the forward price curve the futures market creates to inform a wide range of investment and operational decisions. These market functions promote the long-term interests of consumers by enabling efficient decisions, and fostering competition and transparency.

In August 2020, the Electricity Authority Board decided on a long-term vision for market-making. Having implemented the first part of this vision by inserting mandatory market-making backstop provisions in the Electricity Industry Participation Code 2010 (Code), the next step in implementing the Authority's long-term vision is to establish a commercial market-making scheme.

The addition of commercial market-making service providers should strengthen and support the operation of the hedge market. Introducing commercial market-making providers should help improve the reliability and efficiency of the hedge market, while offering the opportunity to increase the diversity of participants. The commercial scheme will also allow participants to give robust feedback on their desired service-levels – helping the Authority to determine a level of market making services that is for the long-term benefit of consumers and strikes the appropriate balance between the costs and benefits of the services.

Introducing a commercial provider of market-making services will require payment. Consistent with Treasury's best practice policy guidelines, the Authority considers it fair and in the long-term benefit of consumers that the beneficiaries of these services fund their operation (to the extent that it is practicable). On this basis the Authority is intending to recover the costs of these market-making service through an increase to the levy.

To deliver the commercial scheme, the Authority proposes a maximum funding of \$14.4m for this appropriation in 2021/22. This appropriation is made up of the Authority's estimate of the highest likely bid for a commercial market-maker providing 2.4 MW of contracts at a base spread of 3%, an appropriation for administration and a contingency factor.

The Authority encourages feedback from levy payers and other interested parties on what level of market-making service they are interested in procuring, specifically the volume and bid-ask spread. The levy calculator available [here](#) can be used to understand what changes to volume and bid-ask spread mean for the cost of the scheme, and subsequently, participant's levy.

Following levy consultation, the Authority will submit an appropriations request to the Minister of Energy and Resources and if approved, progress with procuring a commercial market-maker. Any changes made to the levy to deliver the commercial scheme will not come into effect until the scheme is established, likely early-mid 2022.

The Authority would like to hear what you have to say and looks forward to your responses.

Contents

Foreword	ii
Executive summary	iii
1 What you need to know to make a submission	1
What this consultation paper is about	1
Why we're seeking your submissions	1
How to make a submission	1
Related documents	2
When to make a submission	2
2 Introduction	3
Our statutory objective	4
Establishing the commercial scheme is part of broader work on hedge market enhancements	5
3 The commercial scheme will be funded via the levy on industry participants	6
Scope of appropriation	6
Our functions under this appropriation	7
4 The Authority is seeking additional appropriation to support commercial market-making	7
What this appropriation will be spent on	8
Potential design decisions that will amend the cost of provision	8
Total volume of contracts offered	9
Level of bid-ask spread	9
How the levy to recover the cost of commercial market-making will be allocated	10
5 Next steps	10
Appendix A Consultation questions	11
Appendix B Legal basis for consultation	12
Appendix C Glossary of abbreviations and terms	13

1 What you need to know to make a submission

What this consultation paper is about

- 1.1 In August 2020, the Authority decided to pursue a long-term vision for market-making that enhanced the market-making arrangements at the time while improving efficiency and increasing trust and confidence in the market.¹ The long-term vision involves an initial combination of one or more commercial providers of market-making services, and a set of existing market-makers who face a mandatory backstop obligation.
- 1.2 Having progressed a Code change to include provisions for a permanent mandatory market-making backstop, the Authority is in the process of establishing a commercial market-making scheme (commercial scheme). These changes should improve trust and confidence in the New Zealand electricity futures market, which offers risk management tools to participants to insulate them from volatility in the wholesale market.
- 1.3 As the Authority signalled in its August 2020 decision, the costs of a commercial scheme will be recovered through a levy on participants who benefit from market-making services – 50% from purchasers and 50% from generators. Any potential levy change would not come into effect until the commercial scheme begins to operate, which is anticipated for early-mid 2022.
- 1.4 Section 129(1) of the Electricity Industry Act 2010 (Act) requires the Authority to consult on any proposed changes to the Electricity Authority Levy (the levy) (see Appendix A). The Authority seeks to understand what level of market-making services participants want, and at what price.

Why we're seeking your submissions

- 1.5 The submissions the Authority receives from you in response to this consultation paper will inform the development and finalisation of:
 - (a) an appropriation request to the Minister of Energy and Resources
 - (b) the next stage of the commercial market-making procurement process.

How to make a submission

- 1.6 The Authority prefers to receive submissions in electronic format (Microsoft Word) in the format shown in Appendix B. Submissions in electronic form should be emailed to WholesaleConsultation@ea.govt.nz with "Consultation Paper—Levy consultation: Commercial Market-Making Scheme" in the subject line.

Postal address

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

Physical address

Submissions
Electricity Authority
Level 7, Harbour Tower
2 Hunter Street
Wellington

¹ https://www.ea.govt.nz/assets/dms-assets/27/Hedge-Market-Enhancements_-enduring-market-making-approach-Decision-Paper1267526.6.pdf

- 1.7 If you cannot send your submission electronically, post one hard copy to either of the addresses below, or fax it to 04 460 8879.
- 1.8 Please note the Authority wants to publish all submissions it receives. If you consider that we should not publish any part of your submission, please:
- (a) indicate which part should not be published
 - (b) explain why you consider we should not publish that part
 - (c) provide a version of your submission that we can publish (if we agree not to publish your full submission).
- 1.9 If you indicate there is part of your submission that should not be published, we will discuss with you before deciding whether to not publish that part of your submission.
- 1.10 However, please note that all submissions we receive, including any parts that we do not publish, can be requested under the Official Information Act 1982. This means we would be required to release material that we did not publish unless good reason existed under the Official Information Act to withhold it. We would normally consult with you before releasing any material that you said should not be published.

Related documents

- 1.11 The following are related documents that may be of use in preparing your submission:
- (a) [Hedge market development project page](#), which provides an overview of the work underway
 - (b) [Hedge Market Enhancements: Enduring Market-Making approach](#) Decision Paper which provides background of the long-term vision for market-making.
 - (c) [Hedge Market Enhancements: Permanent Market-making Backstop](#) which provides information on the recent updates to the regulatory market-making scheme.
 - (d) [Guidelines for Setting Charges in the Public Sector](#) which provides background information on the principles used to inform the cost allocation.
 - (e) [Request for Information: Commercial Market-making Scheme](#) which outlines the key design choices in the commercial scheme.

When to make a submission

- 1.12 Please deliver your submissions by 5pm on Tuesday 22 June 2021.
- 1.13 We will acknowledge receipt of all submissions electronically. Please contact the Authority WholesaleConsultation@ea.govt.nz or 04 460 8860 if you do not receive electronic acknowledgement of your submission within two business days.

2 Introduction

- 2.1 The exchange traded New Zealand electricity futures market performs two key functions: electricity market participants use it directly and indirectly to manage their spot price risk, and participants and other interested parties use the forward price curve the futures market creates to inform a wide range of investment and operational decisions. These market functions promote the long-term interests of consumers by enabling efficient decisions, and fostering competition and transparency.
- 2.2 In August 2020, the Electricity Authority Board decided a long-term approach to market-making. This approach should enhance the existing market-making arrangements while improving efficiency and increasing trust and confidence in the market.² The approach will also allow participants to give robust feedback on their desired service-levels – helping the Authority to determine a level of market making services that is for the long-term benefit of consumers and strikes the appropriate balance between the costs and benefits of the services.
- 2.3 The enduring market-making approach will:
- (a) transition, over a period of years, to an incentivised market-making arrangement where all market-making services are performed by providers compensated on commercial terms. Commercial market-makers will be compensated by a levy paid by all New Zealand electricity market generators and purchasers. The transition will begin by tendering 20% of the market-making volume to one (or more) commercial provider(s), which could include an existing regulated market-maker in some small quantity.
 - (b) ensure the integrity of market-making services is maintained in the transition period through a combination of regulated market-makers and commercial providers. The volume allocated to commercial market-makers will increase over time to 100%, however, the transition period will likely take several years, and it is also possible that the Authority decides it is appropriate physical participants provide market-making services indefinitely.
- 2.4 Having implemented the mandatory market-making backstop provisions in the Code³, the next step in implementing the Authority’s decision to establish the commercial scheme.
- 2.5 The addition of commercial market-making service providers should strengthen and support the operation of the hedge market. Introducing commercial market-making providers should help improve the reliability and efficiency of the hedge market, while offering the opportunity to increase the diversity of participants.

² https://www.ea.govt.nz/assets/dms-assets/27/Hedge-Market-Enhancements_-enduring-market-making-approach-Decision-Paper1267526.6.pdf

³ <https://www.ea.govt.nz/assets/dms-assets/28/Decision-paper-on-permanent-mandatory-market-making-backstop.pdf>
<https://www.ea.govt.nz/assets/dms-assets/28/Certified-Amending-Instrument-EIPCA-Hedge-Market-Arrangements-2021.pdf>

- 2.6 Hedging is an important avenue for market participants to manage the risk of volatile wholesale prices, such as those being experienced currently. Participants who have used hedging products, such as those offered on the New Zealand electricity futures market, are insulated from the price changes and can continue to consume electricity (either themselves or through their customers in the case of a retailer) without being completely exposed to current high spot prices.
- 2.7 Introducing a commercial provider of market-making services will require payment. The Authority considers it fair and in the long-term benefit of consumers that the beneficiaries of these services fund their operation (to the extent that it is practicable). On this basis the Authority is intending to recover the costs of these market-making service through an increase to the levy.

Our statutory objective

- 2.8 Our statutory objective is to promote competition in, reliable supply by, and the efficient operation of, the New Zealand electricity industry for the long-term benefit of consumers.
- 2.9 We interpret our statutory objective as requiring us to exercise our functions in ways that, for the long-term benefit of consumers and New Zealand:
- (a) facilitate or encourage increased competition in the markets for electricity and electricity-related services
 - (b) encourage industry participants to efficiently develop and operate the electricity system to manage security and reliability
 - (c) increase the efficiency of the electricity industry.

The proposed changes support the statutory objective

- 2.10 Consumers benefit from market-making activity in a variety of ways.
- 2.11 New Zealand consumers indirectly benefit from market-making as these services allow retailers to manage future price risk through hedging. Without these services, electricity consumers would likely face higher prices as retailers would face less efficient methods of managing the price risk.
- 2.12 Hedging contributes to retailers offering consumers fixed prices for their electricity, which protects consumers from volatile spot prices. While the futures market gives all participants the ability to manage risk, it is particularly important for smaller or new entrant participants.
- 2.13 The futures market allows smaller and less diversified businesses without generation or a retail presence to manage their price risk, which reduces barriers to entry, helping to increase competition in both the generation and retail markets.
- 2.14 The forward price curve produced as a result of activity in the futures market provides significant benefit to all interested parties – even those who do not trade futures or are not industry participants. Decisions which may rely on this information include:
- (a) whether or not to make an investment in generation, demand response or distributed energy resources (DER), or in some other sector where electricity is used as an input to production
 - (b) whether or not to operate generation plant, undertake demand response or operate DER, or run an industrial plant or process for which electricity is used as an input

- (c) the value a generator places on its ability to store fuel
 - (d) what price to offer to sell electricity to retail customers.
- 2.15 The forward price curve embodies information about expectations of future prices because if expected future spot prices rise, then the futures price rises and vice versa. The width of the bid-ask spread indicates, among other things, the level of uncertainty about future spot prices. If uncertainty increases the bid-ask spread will widen (in the absence of other factors). The bid-ask spread is a component of the risk premium associated with securing a fixed price for future electricity purchases or sales in the face of that uncertainty.
- 2.16 The forward price curve, produced by the New Zealand electricity futures market, is a public good, as it is both non-excludable and non-rivalrous. It is non-rivalrous because its use by one party does not exclude others from using it. It is also non-excludable because it is freely available to all parties. Given it is a public good, the Authority considers it necessary to intervene to correct the market failure that has become apparent. If the Authority did not intervene a less than optimal forward price curve would be produced.
- 2.17 A greater diversity in market-makers would see new entities providing market-making services. In practice, this would mean firms who are not currently physical market participants (as defined in the Code), such as banks, trading houses or other financial service providers, could also offer market-making services alongside existing market-makers.
- 2.18 Accessing a wider pool of market-makers will introduce more information to the forward price curve, as well as potentially introducing more efficient providers of market-making services, contributing to greater reliability and greater confidence in the forward price curve. More diverse market-makers may also address the concern from some participants that market-makers with a physical presence in the market are biased in the prices they offer. The Authority's discussions with stakeholders saw widespread support for the proposition that introducing a more diverse set of market-makers would increase confidence in futures prices.

Establishing the commercial scheme is part of broader work on hedge market enhancements

- 2.19 Market-making has been an important part of the market for exchange traded electricity contracts since the market was initiated on the Australian Securities Exchange (ASX) in 2010. Trading ASX contracts produces the most useful and widely used forward price curve – the current price at which electricity can be bought and sold for future time periods. The presence of market-making services contributes to the production of the forward price curve and the management of price risk.
- 2.20 The existing four market-makers (Contact, Meridian, Genesis, and Mercury) each have an agreement with the ASX to provide market-making services. As the regulator of the electricity industry and electricity markets, the Authority has always had an interest in the performance of these market-making services.

- 2.21 In Spring 2018 there was an unscheduled outage at Pohokura gas field, which caused price volatility and large increases in near-term electricity futures contract prices. Spreads in the ASX futures market widened significantly and trading volumes reduced. Following the events of spring 2018, market-making activities took significant time to restart following the period of high volatility.
- 2.22 To correct the market failure that became apparent during 2018, the Authority needed to ensure that market-making services are provided and can be sustained into the future to provide long-term benefits to consumers.
- 2.23 In response to this period of poor market-making performance, the Authority reinstated the hedge market enhancement project in mid-2019. Concurrently, the Electricity Price Review Panel (Panel) released its recommendations report and described market marking under the voluntary scheme as ‘fragile and unpredictable’. The Panel recommended introducing mandatory market-making obligations unless the sector developed an effective incentive-based scheme.
- 2.24 The Authority has worked with market-makers to improve the performance of the market and in April 2021 amended the Code to include provisions for a mandatory market-making backstop. The next step in enhancing the performance of the hedge market is to establish a commercial scheme, where commercial market-makers receive payment for services provided.

3 The commercial scheme will be funded via the levy on industry participants

- 3.1 The Crown funds the Authority through appropriations of public money. The Crown recovers the cost of this funding, up to the level of actual expenditure incurred, through a levy on industry participants.
- 3.2 Each year we prepare an appropriations request for the Minister, outlining the costs of performing our functions and exercising our powers and duties under the Act. The appropriations request covers the three appropriations available to the Authority:
- (a) Electricity industry governance and market operations appropriation
 - (b) Managing the security of New Zealand’s electricity supply appropriation
 - (c) Litigation fund appropriation.
- 3.3 To secure the funding necessary to engage a commercial market-maker by April 2022, the Authority is carrying out this out-of-cycle consultation and a subsequent appropriations request. However, going forward, funding for the commercial scheme will form part of the Authority’s annual levy consultation process.
- 3.4 Both the scope of the appropriation being sought and the proposed allocation of the levy on market participants are outlined below.

Scope of appropriation

- 3.5 The commercial scheme will be funded from the *Electricity industry governance and market operations appropriation*. This appropriation is limited to formulating, monitoring and enforcing compliance with the regulations and Code governing the electricity industry and other outputs in accordance with the statutory functions under the Electricity Industry Act; and delivery of core electricity system and market operation functions, carried out under service provider contracts.

Our functions under this appropriation

3.6 This appropriation funds our operations, and the operation of the electricity system and market, enabling us to exercise our four main functions:

- (a) **Promote market development:** we promote development of the electricity markets by making amendments to the Code and through market facilitation measures
- (b) **Monitor, inform and educate:** we monitor market behaviour, make data, information and tools available, and educate consumers and participants
- (c) **Operate the electricity system and markets:** we are responsible for the day-to-day operation of the electricity system and markets, delivered through contracts with service providers
- (d) **Enforce compliance:** we monitor, investigate and enforce compliance with the Act, relevant regulations, and the Code.

4 The Authority is seeking additional appropriation to support commercial market-making

4.1 To deliver the commercial scheme, the Authority proposes a maximum additional funding of \$14.4m for this appropriation in 2021/22. This appropriation is made up of the Authority's estimate of the highest likely bid for a commercial market-maker providing 2.4 MW of contracts at a base spread of 3%, an appropriation for administration, and a contingency factor.

4.2 In determining the required appropriation, the Authority assessed the proposed prices from prospective bidders and estimated the highest likely bid based on the Authority's current view of the likely scheme design.

4.3 The Authority notes that the prices received were indicative and were provided in early March. There remains a residual risk that the prices may change between the indications received at the RFI and those binding prices at the final selection. The Authority has applied a contingency to the received prices to cover this residual risk.

4.4 The Authority has received indicative prices from both existing market-makers, and potential new suppliers. The difference in the median price from the existing market-maker and the potential new suppliers is approximately \$3.6m per annum (including contingency). The Authority wishes to understand the value ascribed by market participants in expanding the pool of market-makers from that of the existing market-makers.

4.5 If the Authority has overestimated the required appropriation, any excess will not be collected from levy payers. Alternatively, if the Authority has underestimated the required appropriation, the Authority retains the right during the procurement process to pause or halt procurement to ensure that any market-making scheme remains in the long-run benefit of consumers.

Q1. What is your view on the Authority's proposed 2021/22 commercial market-making appropriation amount of \$14.4m?

What this appropriation will be spent on

- 4.6 The money raised through this appropriation will be used to pay the commercial market-maker(s) a daily service fee for each day they provide market-making services to the standard required in their contract. A small portion of this appropriation will be used to cover associated costs, such as legal, administrative, and monitoring.
- 4.7 Key aspects of the current service levels provided by the existing market-makers are:
- (a) a maximum bid-ask spread (3%)
 - (b) a set of contracts (front six-monthly baseload contracts, and all quarterly baseload contracts)
 - (c) a set volume (120 futures contracts of 0.1MW available to buy and to sell made up of four market-makers providing bids and offers for 30 contracts each for each contract market made)
 - (d) service availability (each market-maker must contribute its share of the volume daily, with up to five exemptions available to each market-maker each calendar month).
- 4.8 There is an opportunity to adjust the total volume of the scheme and/or spread service levels based on the feedback received through this levy consultation. These changes would apply to both regulated and commercial market-makers, for example reduced volume of services provided under the commercial scheme would mean an equivalent reduced volume for the regulated scheme.

Potential design decisions that will alter the cost of provision

- 4.9 In January 2021, the Authority released a Request for Information (RFI) that sought feedback from potential market-makers on the design of the scheme and associated costs. As the procurement process progresses, the Authority has key design decisions to make in terms of the level of service and associated cost of provision.
- 4.10 Having received robust commercially determined evidence of the cost of different service levels from respondents to the RFI, the Authority now wants to understand levy payer's appetite for different service levels and their associated costs.
- 4.11 At the service level of 12MW at 3% bid-ask spread, the impact on an average residential consumer (8,000 kWh) is approximately \$1.50 per annum through the change to the purchaser portion of the levy change.
- 4.12 The levy calculator available [here](#) can be used to help respondents understand how different service levels will impact their annual levy.
- 4.13 The final amount levied will be contingent on the design on the scheme and the subsequent procurement process. Responses to this consultation will help inform the design of the scheme, however the Authority will decide the services to procure in the interests of consumers.
- 4.14 There are two main variables that have a material impact on the cost of services provided:
- (a) Volume – the number of contracts provided by market-makers and therefore the availability of risk management products to the NZ electricity futures market

- (b) Level of bid-ask spread - the performance standard set by the Authority in terms of maximum difference between the price of bids and asks offered by the market-maker.

Total volume of contracts offered

4.15 The Authority’s base case is a commercial scheme where 20% of the total volume of 12 MW is provided by one or more commercial providers at a 3% bid-offer spread. The Authority invites feedback on alternative levels of total service, where the commercial market-maker continues to provide 20% of the total volume. The table below indicates the total cost of provision for each level of volume of contracts.

Volume provided by commercial scheme	1.6 MW	2.0 MW	2.4 MW	2.8 MW	3.2 MW
Total volume	8 MW	10 MW	12 MW	14 MW	16 MW
Annual cost	\$11.5m	\$12.9m	\$14.4m	\$19.1m	\$22.1m

Level of bid-ask spread

4.16 The Authority’s base case is 12MW provided at a maximum difference between the price of bids and the price of offers for market made contracts of 3%. The Authority invites feedback on the level of the maximum spread. The table below indicates the total cost of provision for each level of spread:

Bid-ask spread	2%	3%	4%	5%
Annual cost	\$28.3m	\$14.4m	\$13.7m	\$13.0m

Q2. What is your preferred volume of market-making services in MW per contract? Please provide quantitative and qualitative reasoning.

Q3. What is your preferred level of bid-ask spread – 2% 3%, 4% or 5%? Please provide quantitative and qualitative reasoning.

Q4. What is your preferred combination of volume and spread? Please indicate in the table below your top five preferences, where 1 is most preferred combination and 5 is least preferred.

	1.6 MW (8MW total)	2.0 MW (10MW total)	2.4 MW (12MW total)	2.8 MW (14MW total)	3.2 MW (16MW total)
2%					
3%					
4%					
5%					

Q5. What value do you see in increasing the number of market-makers beyond the existing pool of regulated market-makers? Please provide quantitative and qualitative reasoning.

How the levy to recover the cost of commercial market-making will be allocated

- 4.17 The Authority takes a pragmatic view that the primary beneficiaries of the forward curve are very likely to be either current market participants, or market participants in the future. Recovering the costs of market-making services through the levy will allow beneficiaries to inform the level of service through the annual levy consultation process.
- 4.18 Different cost categories receive different cost allocations within the levy. The Authority considers market operations, specifically trading arrangements, as the most appropriate cost allocation category. Market operations allocates costs 50% to generators and 50% to purchasers, where generator and purchaser costs are related to the total quantity of electricity. Under the Electricity industry governance and market operations appropriation the Authority will apply the cost of market-making in the proportion of 50% to generators and 50% to purchasers.

5 Next steps

- 5.1 Following levy consultation and having taken into account any feedback on desired service levels, the Authority will submit an appropriations request to the Minister of Energy and Resources.
- 5.2 The Authority will also develop and publish a Registration of Interest around the middle of the year, the next stage in the procurement process of the commercial market-maker(s).
- 5.3 Once the request is approved, the Authority will procure the desired level of services ahead of the commencement of commercial market-making in early-mid 2022.

Appendix A Consultation questions

Question

Q1. What is your view on the Authority's proposed 2021/22 commercial market-making appropriation amount of \$14.4m?

Q2. What is your preferred volume of market-making services in MW per contract? Please provide quantitative and qualitative reasoning.

Q3. What is your preferred level of bid-ask spread – 2% 3%, 4% or 5%? Please provide quantitative and qualitative reasoning.

Q4. What is your preferred combination of volume and spread? Please indicate in the table provided your top five preferences, where 1 is most preferred combination and 5 is least preferred.

Q5. What value do you see in increasing the number of market-makers beyond the existing pool of regulated market-makers? Please provide quantitative and qualitative reasoning.

Appendix B Legal basis for consultation

B.1 Section 129 of the Act requires the Authority to consult on its appropriations:

129 Authority consultation about request for appropriation

- 1) The Authority must, before submitting a request to the Minister seeking an appropriation of public money for the following year, or any change to an appropriation for the current year, that relates to costs that are intended to be recovered by way of levies under section 128, consult about that request with—
 - a) those industry participants who are liable to pay a levy under that section; and
 - b) any other representatives of persons whom the Authority believes to be significantly affected by a levy.
- 2) The Authority must, at the time when the request is submitted, report to the Minister on the outcome of that consultation.
- 3) The Ministry must consult in a like manner in respect of a levy to recover costs referred to in section 128(3)(g).
- 4) This section applies to requests in respect of the financial year beginning 1 July 2011 and later financial years.

Appendix C Glossary of abbreviations and terms

Abbreviation/Term	Meaning
Act	Electricity Industry Act 2010
ASX	Australian Securities Exchange
Authority	Electricity Authority
Code	Electricity Industry Participation Code 2010
DER	Distributed energy resource
Levy	Electricity Authority Levy
Minister	Minister of Energy and Resources
RFI	Request for Information