

12 August 2024

## All Market Markers in the New Zealand Electricity Futures market

[Via email]

### Urgent changes to market making requirements

The forward market, traded on the ASX, is an essential part of risk management for electricity participants. An inability to access hedges/insurance in this market will increase costs and financial risks for participants and this will adversely affect consumers.

The forward market is currently experiencing stress due to underlying physical conditions impacting prices in the spot market. The Authority is aware that market makers are increasingly unable to fulfil their obligations to the standard specified under their contractual requirements and in the Electricity Industry Participation Code 2010 (Code). Financial conditions are such that it may be less costly to default on their obligations than to continue to market make. Defaulting on obligations will reduce or eliminate price discovery and liquidity in the market and create an inability for participants to access hedges. The immediate risks are likely to be mitigated by widening spreads and reduced lot size, at least in the short term, to reduce the impact of current conditions and to enable market makers to manage the costs of providing liquidity and price transparency.

Having regard to the considerations set out above, and in the public interest in ensuring reliable supply in and the efficient operation of the electricity industry for the long-term benefit of consumers, we have decided to use our discretion not to take enforcement action in relation to breaches of cl 13.236L of the Code by participants required to comply with the Subpart 5B of Part 13 of the Code between now and 23 August 2024 (or for such shorter or longer period advised by the Authority), conditional on those participants:

(a) *under cl 13.236L(1)a;*

- o *ensuring quotes is a minimum of 12 lots of buy orders and 12 lots of sell orders for each of Ōtāhuhu reference node and Benmore reference node for the current month and each of the five months following the current month;*

(b) *under cl 13.236L(1)b;*

- o *ensuring total quotes is a minimum of 12 lots of buys orders and 12 lots of sell orders for each of Ōtāhuhu reference node and Benmore reference node for each calendar quarter that is available for trade on an exchange;*

(c) *under cl 13.236L(2)*

- o *ensuring that quotes provided do not have a bid-ask spread that exceeds 15% or \$10;*

(d) *under cl 13.236L(3)a;*

- o *ensuring that initial orders at or after the start of the market-making period are minimum quotes of 6 buy quotes and 6 sell quotes;*

(e) *under cl 13.236L(3)b;*

- o *ensuring that if the initial buy or sell order is fully traded then participants must volume refresh the order with a minimum of  $X = 12$  quotes – total traded NZEF*

(f) otherwise complying with the requirements of the Code.

[REDACTED], is contacting relevant members of the trading teams of all market makers in the New Zealand Electricity Futures market to arrange a call to discuss how these new requirements will apply.

Note that this call will only discuss these new requirements and nothing else.

Nāku noa, nā,



Airihi Mahuika

cc Anna Kominik, Chair, Electricity Authority  
Sarah Gillies, CEO, Electricity Authority