

20 November 2013

Gary Holden  
CEO  
Pulse Utilities  
PO Box 10044  
Dominion Road  
Auckland 1446

Dear Gary

### **Direct improvements to forward market liquidity**

Thank you for your letter dated 15 October 2013 regarding the New Zealand electricity hedge market and your views on how it could be improved. I very much appreciate your contribution and, like you, believe that further development of the electricity hedge market would bring greater competition in the retail market.

The Authority has been pursuing a range of initiatives to improve the hedge market, with a particular focus on establishing transparent and robust forward price curves for electricity. Significant progress has been made in this regard via more active trading of ASX New Zealand electricity futures and options, higher levels of uncovered open interest, and forward prices responding logically to new information about short term hydro conditions and prospects for longer term demand and supply conditions.

However, the Authority wants to build on this momentum, and to further develop the contribution the hedge market makes to competition in the wholesale and retail markets. As such the Wholesale Advisory Group (WAG) agreed in September to add a new project related to the hedge market to their work plan for 2013/14. The Authority has requested the WAG examine any barriers to further development of the hedge market and consider how they should be addressed. We have also requested the WAG establish measures and standards against which to assess future hedge market performance.

Your letter has provided some very thought-provoking ideas, and your views would be an extremely useful input into the WAG project. As a result the Authority intends to publish your letter (and this reply) on its website and make it available to the WAG. Please let me know of any parts of your letter you would like the Authority to consider as confidential.

The Chair of the WAG has also expressed an interest in having apposite parties present directly to the WAG on their views and experiences with regard to the hedge market. If you are interested in making a presentation to the WAG, I can arrange for the Chair to contact you in due course to test your availability.

My staff look forward to hearing from you on these matters. Please contact Tim Street, Manager Wholesale Markets, at [tim.street@ea.govt.nz](mailto:tim.street@ea.govt.nz) or 04 460 8851.

Yours sincerely

A handwritten signature in blue ink that reads "Carl Hansen". The signature is fluid and cursive, with the first letters of "Carl" and "Hansen" being capitalized and prominent.

Carl Hansen  
**Chief Executive**