

Electric Kiwi Limited
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14 July 2015

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

Consultation – Hedge Market Development: Enhancing trading of hedge products

Dear Sir/Madam,

Electric Kiwi welcomes the opportunity to provide feedback to the Electricity Authority on the issues raised and initiatives proposed in the Hedge Market Development – Enhancing trading of hedge products consultation paper.

For any questions related to this submission, please contact:

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Appendix A: Submission

Submitter: Electric Kiwi Limited

	Question	Response
Q1	Do you consider more authoritative market making arrangements to be necessary?	Yes. The benefit to consumers of greater competition in the retail market is being held back by the inability of independent retailers to procure hedges for retail volume profiles. There is a lack of appropriate hedge products such as peak load futures and caps in the market, meaning that independent retailers cannot appropriately hedge their position using exchange traded products, and that other market participants are not willing to offer over-the-counter hedges to independent retailers due to their inability to manage their own profile risk.
Q2	What are your views on the need for improved transparency around market making performance?	Improved transparency would enhance confidence in the electricity futures market as a whole, encouraging further market participation to increase existing product liquidity and increase the type of products offered.
Q3	What market making metrics would be of most value to participants?	Bid-ask spreads are of most value in providing a measure of market liquidity.
Q4	Do you agree the Authority should investigate improvements to the market making arrangements for the baseload futures products?	Yes. We do not consider that baseload futures liquidity has reached a point where the market is self-sustaining without market making.
Q5	Specifically, do you agree that it should investigate tighter bid-offer spreads, greater volumes, and an extension of the monthly futures product by three to nine months?	Yes.

Q6	Do you agree that introducing a cap product would support the Authority's statutory objective?	Yes. Liquid cap products will assist independent retailers with risk management and allow for innovative products to be offered to consumers who are willing to assume limited upside price risk. Used widely throughout the market, they will also reduce the risk of trader default.
Q7	What price making arrangements do you consider to be appropriate and/or necessary to support cap products?	We believe that market making needs to occur with a minimum bid-offer spread as for baseload products. We strongly oppose one-sided market making as there would be no competitive tension to force offers being at a fair price.
Q8	Do you agree that the Authority should not further investigate market making arrangements for the peak futures product?	No. A peak futures product is one of the key hedging tools which could be used by independent retailers promoting competition in the retail market.
Q9	Do you agree that liquidity in the option product is best supported by improving liquidity in baseload futures products?	Liquidity needs to be improved in both futures and option products – the improvement in baseload futures liquidity in recent years has not led to any meaningful increase in the availability of options, so this alone will not support option market development.
Q10	Are there other products or price making arrangements that the Authority should investigate further?	The Authority should strongly consider price making arrangements for peakload futures products.
Q11	What is your view on these approaches, and the extent to which they could be employed by the Electricity Authority, either alone, or as part of a mixed strategy?	It is our view that the Authority should proceed with a mandatory approach to enhance confidence and participation in the market. We believe the high level of vertical integration in the NZ market is the primary obstacle to a liquid hedge market developing without regulation. This has costs for consumers. The level of vertical integration should either be reduced, or the vertically integrated utilities should bear the costs of market making to provide liquid wholesale access across a range of products to non-vertically integrated participants.