



27 April 2021

Electricity Authority

By email to: uts@ea.govt.nz

Re: Consultation Submission - Proposed Actions to Correct Undesirable Trading Situation 2019

Dear Sir / Madam,

ASX welcomes the Electricity Authority's invitation to submit a response to its consultation paper on Proposed Actions to Correct Undesirable Trading Situation 2019 dated March 2021. We have focused our response on the impact of the proposed actions on the hedging market, and specifically on ASX derivatives.

ASX notes that the Electricity Authority has determined that an undesirable trading situation occurred between 3 and 27 December 2019 (2019 UTS), and that the Electricity Authority has certain obligations to take action to correct the 2019 UTS. Further, we note that one of the proposed actions being consulted upon is to retrospectively change the spot electricity price to that which is expected to have prevailed if the 2019 UTS had not arisen.

A retrospective change to the spot electricity price is likely to have significant and lasting undesirable impacts on the hedging market. Therefore our preferred approach is for the Electricity Authority to take action to address the 2019 UTS using an off market mechanism, such as the proposed off market wash up.

As noted in the Consultation Paper, if the Electricity Authority determines that it will make a retrospective change to the spot electricity price, ASX must act in accordance with its own regulatory obligations in determining whether it is permissible and desirable to make a change to the settlement price of ASX derivatives.

ASX has indicated to the Electricity Authority that, having regard to our regulatory obligations and the amount of time that has elapsed, our current assessment is that we would not change the settlement price of associated ASX derivatives if the Electricity Authority makes a retrospective change to the electricity spot price.

This raises the potential of spot electricity prices being adjusted without a consequential adjustment to associated hedge contracts. Given the complex interplay between spot prices, ancillary markets, and hedge contracts (OTC contracts, FTRs, as well as ASX futures and options), a change to spot electricity prices may not achieve the Authority's objective of correcting the impact of the UTS.

The electricity spot price is used in a complex ecosystem of financial contracts, including the ASX derivative contracts, that physical electricity market participants use to manage price risk through hedging. A retrospective change to the spot electricity price may impact the operation and effectiveness of these risk management arrangements. Market participants would need to carefully consider how to manage the new risk created by the divergence of adjusted spot prices and the associated derivatives relating to the 2019 UTS; there is a risk that this will drive broader change as the market seeks to manage the risk of similar price divergence resulting from any future UTS. This may result in decreased liquidity in these hedging contracts and therefore increased costs for electricity users.

Kind regards

A handwritten signature in blue ink, appearing to read 'Bradley Campbell', is positioned above a solid blue horizontal line.

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