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Submissions
The Electricity Authority
Level 7, Harbour Tower
2 Hunter Street
WELLINGTON

By email: wholesaleconsultation@ea.govt.nz

Levy consultation: Commercial Market Making Scheme

Genesis Energy Limited (**Genesis**) welcomes the opportunity to respond to the Electricity Authority's (**Authority**) *Levy consultation: Commercial Market Making Scheme* dated 25 May 2021.

We reiterate our support for a commercial incentive-based market-making scheme:

(a) That is designed based on competitive market feedback.

(b) Funded by the principal beneficiaries of market making services.[1]

Our responses to the consultation questions are set out below. We also comment on the proposed allocation of the levy across generators and retailers.

Response to Consultation Questions

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

As this has been informed by indicative pricing received from existing and prospective service providers, we do not have material concerns with the proposed appropriation amount. However, given the risks and potential exposure that market makers face for the service level required by the base case (or any of the other alternatives set out in the consultation paper), we ask that the Authority consider a contractual term longer than 12 months or alternatively, retaining the 12-month term but providing one right of renewal to the service provider (provided that it has met the requirements of the contract).

[1] Genesis submission dated 21 April 2020 on the Authority's *Hedge Market Enhancements – Market Making* consultation paper.

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

Our preferred volume is 1.6 MW per contract. With price discovery as a principal benefit of market making, we consider that five tranches of a smaller volume provide an equivalent price discovery level as five larger tranches.

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

Where there is no refresh requirement as per the current market making agreement, we prefer a wider spread i.e., 5%. If there is to be a refresh requirement, then we prefer a tighter spread as this would be less costly for market makers to provide liquidity particularly in stressed / volatile market conditions. Irrespective of the spread, however, we suggest that in addition to the $2 minimum which currently applies, there should be a $6 cap that applies at prices of $200 or higher. This would minimise the costs and risks of market making in volatile markets and therefore support liquidity and market making despite such conditions.

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.

	1.6MW (8MW total)	**2.0MW (10MW total)**	**2.4MW (12MW total)**	**2.8MW (14MW total)**	**3.2MW (14MW total)**
2%					
3%	3				
4%	2	5			
5%	1	4			

*This assumes that there is no refresh requirement as per the current scheme.

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.

As the Authority is aware, there have been occasions where exemptions have been validly used, resulting in there being only one or two market makers in a market making session. Increasing the number of market makers should improve resiliency compared to the status quo as it reduces the likelihood of sessions having a single market maker. Similarly, more market makers bring additional perspectives on price, which should improve price discovery. It is important, however, that the incentive scheme is structured appropriately to encourage competition, efficiency, and improved service levels.

Proposed Levy Allocation

We acknowledge that the allocation of the levy across generators and retailers reflects an option raised by the industry forum[2] in its letter to the Authority dated 27 May 2020.

We remain of the view that the costs should be imposed on retailers and purchasers of load. While there are different categories of beneficiaries who derive different benefits from market making, the Electricity Price Review Panel's recommendation concerning market making, and the key driver for the current review, was based on the perception that the current scheme was not reliable during times of market stress for retailers and others seeking to manage spot price risk, particularly in the near term. Indeed, the futures market as a key tool for retailers to manage price risk for themselves and their customers has been recognised by the Authority in this and prior consultations. Applying this lens, it is the risk management benefits that accrue to retailers and purchasers of load that a resilient market making scheme provides that is most valued in contrast to other benefits such as investment price signals.[3] The cost of the scheme should accordingly reside where the most benefit accrues. This approach is equitable in that it is aligned to the key benefits that critics of the current scheme seek, and it is transparent and simpler to administer.

Please contact me should you wish to discuss any of the matters in this response further.

Yours sincerely

Warwick Williams
Senior Regulatory Counsel and Group Insurance Manager

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[2] Comprising Genesis, Contact, Mercury, Meridian, Nova, Pioneer Energy and TrustPower.

[3] Investment decisions concerning generation tend to be based on a long term view of future wholesale electricity prices rather than near term ASX electricity futures prices.