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Submissions
Electricity Authority
Level 7, Harbour Tower
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By email: WholesaleConsultation@ea.govt.nz

Consultation – Commercial Market-Making Scheme Code Amendment

Genesis Energy Limited (**Genesis**) welcomes the opportunity to provide feedback on the Electricity Authority's (**Authority**) consultation paper: *Hedge Market Enhancements: Commercial market-making scheme – Code Amendment* dated February 2022.

Genesis has been consistent in its support for a commercial market making scheme, the design and cost of which is informed by the industry, and commercial providers of market making services.

We strongly agree with the Authority's view that, while transitioning to a scheme provided solely by commercial market makers, the obligations, incentives and service levels between the commercial market makers and regulated market makers should be aligned.

Genesis supports the Authority's proposed changes but suggests some enhancements to the proposed rolling trading day exemption scheme and the refresh obligation. These are set out in the Schedule to this letter.

Finally, as discussed with the Authority, we would support a transition/testing period for the new scheme to identify early any improvements that may be required and to minimise the risk of unintended consequences.

Please contact me should you wish to discuss our response further.

Yours sincerely

Warwick Williams
Senior Regulatory Counsel and Group Insurance Manager

SCHEDULE

Consultation Question	Response
Q1. Do you have any feedback on the Authority's proposal to align regulated market-making obligations with commercial market-making obligations?	It is critical that obligations, incentives and service levels are aligned and, therefore, we support the Authority's approach.
Q2. Do you agree that the total volume should remain at 12 MW per contract, if not why?	Yes.
Q3. Do you agree that the spread between bid and offer prices should remain at a maximum of 3% if not why?	Yes – but please see our response to question 6 below.
Q4. Do you agree that changing to a rolling 20 trading days exemption scheme will benefit the New Zealand electricity futures market if not why?	Genesis supports a rolling exemption regime but suggests a regime of five exemptions per 15 days. This is because: (a) Exemptions provide amongst other things, a means of mitigating the costs of market making. Under the current exemption regime, market makers provide liquidity for approximately 75% of trading days on average. (b) Using all of its exemptions at any one time under the proposed rolling window regime would leave a market maker exposed to days where unforeseen technical/systems issues prevent market making. This exposure adds to the risks and costs of market making. (c) In practice, market makers leave one or two exemptions available to manage this risk. Meaning that in a 20-day rolling period, as proposed, only approximately 3 days will be used, increasing the cost of providing market making services. We ask that the Authority consider instead five exemptions per 15 days as this will mean that three are used per 15 days. This would help

	keep costs low, while maintaining the current levels of liquidity. This can be reviewed after a period of time to assess if changes are necessary.
Q5. Do you propose an alternative solution to maintaining market-making services through a calendar month?	Please see our response above.
Q6. Do you agree that introducing a refresh obligation will benefit the New Zealand electricity futures market if not why?	While we support a refresh obligation, we are not certain whether the proposed form will improve liquidity or price discovery because significant trading will likely still be concentrated into the first few seconds when the orders are placed. To address this, we ask that the Authority consider mandating a period over which the minimum spread narrows to the 3% minimum. For example, 6% for three minutes and then 3% for 24 minutes. This is far more likely to be conducive to price discovery and liquidity because: (a) Market prices can often move multiples of the bid offer spread in a day causing market making curves to intersect when they are placed in market. This materially reduces the availability of liquidity to other participants in market beyond the first few seconds of market making activity. (b) Allowing a wider spread for a few minutes before narrowing to the current 3% spread will allow better price discovery, maximising the availability of liquidity for the window and maximising the benefits of the scheme to the wider market. (c) These bids/offers would be tradable and count towards compliance so there is no risk of spoofing. We support no additional time being available for the refresh. This will allow for innovation and when combined with the softer entry spread

	above it will provide some separation to the time initial curves are placed into the market.
Q7. Do you have any feedback on the Authority's cost-benefit analysis set out in Appendix A?	No.
Q8. Do you have any feedback on the Regulatory statement in Appendix B?	No.
Q9. Do you have any feedback on the Code amendment set out in Appendix C?	We suggest that the period of the rolling exemption provisions in the ASX market making agreement (once settled) be mirrored in clause 13.236N(1)(b). Consequential amendments would also be required to reflect the proposed changes discussed in Question 6 above.